

**Accounting Standard**

**AASB 1049**  
November 2007

# **Whole of Government and General Government Sector Financial Reporting**

Draft AASB 1049 "*Whole of Government and General Government Sector Financial Reporting*" will be considered by the Board at its meeting on 4 October 2007. Please note that the Draft AASB does not reflect settled positions by the AASB and may change or be modified by the AASB. This draft is not an authoritative pronouncement of the AASB. Decisions become final only after completion of the format processes required to issue an Accounting Standard. No responsibility is taken for the results of actions or omission to act taken on the basis of any information in this draft or for any errors or omissions.



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Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting* is set out in paragraphs 1-7074 and Appendix A. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in this Standard are in *italics* the first time they appear in the Standard. AASB 1049 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

## PREFACE

### Reasons for Issuing AASB 1049

The issue of AASB 1049 *Whole of Government and General Government Sector Financial Reporting* is part of the Australian Accounting Standards Board's (~~AASB's~~) implementation of a Financial Reporting Council (FRC) broad strategic direction:

“The Board should pursue as an urgent priority the harmonisation of Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) reporting. The objective should be to achieve an Australian accounting standard for a single set of Government reports which are auditable, comparable between jurisdictions, and in which the outcome statements are directly comparable with the relevant budget statements” (FRC Bulletin 2002/5 18 December 2002, as modified by FRC Bulletin 2003/1 11 April 2003).

The ~~AASB Board~~ is implementing the FRC's broad strategic direction in two phases:

- (a) Phase 1 relates to financial reporting by the Australian Government and the State and Territory governments and the sectors therein [General Government Sector (GGS), Public Non-Financial Corporations (PNFC) sector and Public Financial Corporations (PFC) sector]; and
- (b) Phase 2 relates to financial reporting by entities within the GGS, comprising financial reporting by government departments, statutory bodies, and other entities within the GGS.

AASB 1049 *Financial Reporting of General Government Sectors by Governments* was issued in September 2006 and only addressed GAAP/GFS harmonisation requirements for financial reporting by GGSs. The scope of AASB 1049 has now been expanded to include GAAP/GFS harmonisation requirements for financial reporting by whole of governments and the sectors therein, and thereby completes Phase 1.

This Standard does not have broader implications beyond whole of government and GGS financial reporting. The Board will consider in due course the extent to which its decisions on whole of government and GGS financial reporting should be applied to Phase 2.

The Board decided that it is not necessary to consider GAAP/GFS harmonisation issues for other public sector entities, including entities within

the PNFC sector and PFC sector, local governments and entities that GFS classifies as multi-jurisdictional such as universities.

At its 18 December 2006 meeting, the FRC agreed that, with the completion of Phase 1 and Phase 2, the requirements of the public sector strategic direction would be met (FRC Bulletin 2006/9 18 December 2006).

## Main Features of this Standard

### Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 July 2008. Early adoption is permitted.

### Main Requirements

This Standard requires:

- (a) a whole of government financial report and a GGS financial report to be prepared in accordance with the requirements of this Standard;
- (b) the requirements in other applicable Australian Accounting Standards to be applied, unless otherwise specified;
- (c) the GGS financial report to not be made available prior to the whole of government financial report being made available;
- (d) the GGS financial report, unlike the whole of government financial report, ~~to not consolidate government controlled entities that are classified by GFS into the PNFC sector and the PFC sector.~~ The GGS financial report is to only consolidate entities that are classified within the GGS, as defined in the Australian Bureau of Statistics (ABS) Manual *Australian System of Government Finance Statistics: Concepts, Sources and Methods*, available on the ABS website ([the ABS GFS Manual](#));
- (e) the GGS's interests in the government's controlled entities in other sectors to be accounted for by measuring the GGS asset 'investments in other sector entities':
  - (i) in the GGS financial report:
    - A at fair value, where fair value is reliably measurable;

- B at the government's proportional share of net assets, where fair value is not reliably measurable and net assets are not less than zero; and
  - C at zero, where fair value is not reliably measurable and net assets are less than zero; and
- (ii) in the GGS information disclosed in the whole of government financial report (see ~~(k)(ii)~~ below), at the government's proportional share of net assets.

Net assets are determined before consolidation eliminations. Changes in the carrying amount of the GGS 'investments in other sector entities' are accounted for in a manner consistent with the carrying amount being fair value and therefore subject to the requirements in AASB 139 *Financial Instruments: Recognition and Measurement*;

- (f) where Australian Accounting Standards allow for optional treatments, only those treatments aligned with the ABS GFS Manual be applied;
- (g) where GFS information is included in the financial report because it is required by this Standard or provided at the discretion of the government, only the principles and rules in the ABS GFS Manual for determining that information be applied;
- (h) the whole of government financial statements and GGS financial statements to include, on their face, information that is required by other Australian Accounting Standards, together with key fiscal aggregates, determined in a manner consistent with the other amounts recognised on the face and, in addition:
  - (i) the operating statements to present, as well as the operating result, the comprehensive result (comprising all non-owner movements in equity – in contrast to the requirements in AASB 101 *Presentation of Financial Statements* [as made on 15 July 2004 and amended to 8 September 2005]). Income and expenses are to be classified between transactions and other economic flows;
  - (ii) the cash flow statements to present cash flows relating to investing in financial assets for policy purposes and for liquidity management purposes separately, determined in a manner consistent with the ABS GFS Manual; and
  - (iii) where specified key fiscal aggregates on the face of the financial statements differ from the corresponding key fiscal aggregates measured under the ABS GFS Manual, the ABS GFS Manual

measure to be disclosed in the notes together with a reconciliation of the two measures and an explanation of the differences.

Illustrative Examples A and B include examples of acceptable whole of government financial statements, GGS financial statements and reconciliation note formats;

- (i) specified disclosures to be included in the summary of significant accounting policies note and other explanatory notes;
- (j) disclosure of a description of each broad function of the whole of government and GGS as specified in the ABS GFS Manual, and the assets, and expenses (excluding losses) included in operating result, that are reliably attributable to those functions. This information is to be aggregated. The aggregate of expenses (excluding losses) included in operating result is to be reconciled to the aggregate amount of expenses from transactions recognised in the operating statement;
- (k) in relation to whole of government sector information, the whole of government financial report:
  - (i) to disclose a description of each sector (the GGS, PNFC sector and PFC sector) as defined in the ABS GFS Manual;
  - (ii) to disclose financial statements and GAAP/GFS reconciliation notes for each sector that are consistent with the whole of government financial statements and reconciliation notes. This sector information is to be determined before consolidation eliminations; and
  - (iii) where a government chooses to provide information about additional sectors, such as the total non-financial public sector (comprising the GGS and PNFC sector), this be presented on a comparable basis;
- (l) where budgeted financial statements are presented to parliament, disclosure of the original budgeted financial statements, restated if necessary to align with the basis of the financial statements prepared in accordance with this Standard. It also requires disclosure of explanations of major variances between amounts in the original budget financial statements presented to parliament and actual amounts; and
- (m) in relation to transition:

- (i) when adopting this Standard for the first time, a whole of government to change the elections it previously made under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* where necessary to change accounting treatments to comply with the ABS GFS Manual. Otherwise, the first whole of government financial report prepared in accordance with this Standard is to be prepared in accordance with requirements relating to changes in accounting policies in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*; and
- (ii) the first GGS financial report prepared in accordance with this Standard to be prepared in accordance with the principles underlying AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, with the exception of:
  - A the requirement to disclose a reconciliation of previous GAAP to new GAAP; and
  - B the use of the transition date used in the whole of government financial report, rather than a transition date when the GGS first applies this Standard.

Comparative period information, prepared as if this Standard had applied, is required to be presented in the first whole of government financial report and GGS financial report.

As a result of potential amendments to the requirements in Australian Accounting Standards and the ABS GFS Manual or the interpretation of those requirements, differences between GAAP and GFS not contemplated in this Standard may eventuate. Unless the Board considers a potential difference and amends this or another Australian Accounting Standard to avoid the difference, a difference is included in the reconciliations and/or explanations of differences required by paragraphs 41(a)(i)B and 52(b)(ii)B of the Standard. As issues emerge in the future, the Board will have regard to the implications for whole of government financial reporting and GGS financial reporting in deciding whether to amend this or another Standard to either avoid or confirm the existence of a difference.

## **GFS and its Relationship to GAAP Financial Reporting**

For GFS purposes a government is regarded as comprising three sectors: the GGS, the PNFC sector and the PFC sector. Given its non-market nature and its important role as the vehicle by which a government implements its fiscal

policy, it is useful to distinguish the GGS from the other, more market-oriented, government sectors. The GGS consists of all government units and non-profit institutions controlled and mainly financed by government. Government units are legal entities established by political processes that have legislative, judicial, or executive authority over other units and which provide goods and services to the community or to individuals on a non-market basis; and redistribute income and wealth by means of taxes and other compulsory transfers. Non-profit institutions are created for the purpose of producing or distributing goods and services but are not permitted to be a source of income, profit or other financial gain for the government. The PNFC sector and PFC sector comprise government controlled entities that produce goods and services for the market and may be a source of profit or other financial gain to the government. They typically transact with outside consumers, frequently at arm's length in contestable markets.

GFS provides statistics for the assessment of the macro-economic impact of a government and each of the government's sectors. Chapter 2 of the ABS GFS Manual identifies a number of core analytical measures that this Standard requires to be disclosed in the whole of government financial report and the GGS financial report. They include:

- (a) GFS net operating balance, which equals GFS revenue minus GFS expenses. GFS revenue and GFS expenses only arise from transactions, defined as interactions between two units by mutual agreement or actions within a unit that are analytically useful to treat as transactions. GFS distinguishes transactions from other economic flows, defined as changes in the volume or value of an asset or liability that do not result from transactions;
- (b) GFS net lending/(borrowing), which equals the GFS net operating balance minus the net acquisition of GFS non-financial assets. It also equals transactions in GFS financial assets minus transactions in GFS liabilities;
- (c) GFS net worth, which equals GFS assets minus GFS liabilities (which include issued shares and other contributed capital of corporations); and
- (d) GFS cash surplus/(deficit), which equals GFS net cash flows from operating activities minus the net cash outflow from acquisitions and disposals of GFS non-financial assets and GFS assets acquired under finance leases and similar arrangements.

Although accrual accounting principles are applied under GFS for a government and each of the government's sectors, some of the definition, recognition, measurement, classification, consolidation and presentation principles and rules differ from GAAP. This Standard specifies the manner

in which the differences between GAAP and GFS shall be treated in whole of government financial reports and GFS financial reports. In limited cases, the Standard specifies GAAP that better aligns with GFS. In other cases, it requires or allows GFS information to be presented in addition to GAAP information, together with reconciliations between the two frameworks and explanations of the differences.

## COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

### **AASB 1049 and International Public Sector Accounting Standards (IPSASs)**

The International Public Sector Accounting Standards (IPSASs) are issued by the International Public Sector Accounting Standards Board (IPSASB).

At the date of issue, this Standard has no corresponding IPSAS relating specifically to whole of government financial reports and General Government Sector (GGS) financial reports. However, many of the issues addressed in this Standard are addressed in IPSASs. To the extent this Standard incorporates by cross-reference other Australian Accounting Standards, those Standards provide a comparison of this Standard with IPSASs. In addition, in some significant respects, this Standard amends the requirements of other Australian Accounting Standards for the purposes of whole of government financial reports and GGS financial reports and thereby differs from the requirements in IPSASs. In relation to both whole of government financial reports and GGS financial reports, differences relate to the presentation of the financial statements, especially the operating statements, and notes. In relation to GGS financial reports, a difference relates to the specification of the entities to be consolidated, and the consequential accounting for investments in controlled entities in other sectors that are not consolidated.

*IPSAS 22 Disclosure of Financial Information About the General Government Sector* specifies requirements where a government elects to disclose financial information about the GGS in its whole of government financial reports. It differs from AASB 1049 in some significant respects because it does not accommodate Government Finance Statistics (GFS) principles to the same extent as AASB 1049. For example, it does not contemplate a comprehensive operating statement classifying items as transactions or other economic flows and presenting GFS key fiscal aggregates on the face of the financial statements. Nor does it require the separate presentation of Public Non-Financial Corporations (PNFC) sector and Public Financial Corporations (PFC) sector information, nor a reconciliation to GFS measures of key fiscal aggregates.

*IPSAS 24 Presentation of Budget Information in Financial Statements* identifies disclosures to be made by public sector entities that are held publicly accountable for their compliance with, and performance against, approved budgets whether or not the budget and the financial statements are prepared and presented on the same basis (see paragraph IN3 of IPSAS 24). It differs from AASB 1049 requirements relating to budgetary information in

some significant respects. Of particular note is that IPSAS 24 prohibits presentation of the budget on the accounting basis if the budget basis differs from the accounting basis, and requires disclosure of the final budget and a comparison of the final budget with the original budget.

### **AASB 1049 and International Financial Reporting Standards (IFRSs)**

There is no specific standard issued by the IASB dealing with whole of government financial reports and GGS financial reports.

Many of the issues addressed in this Standard are addressed in International Financial Reporting Standards (IFRSs)~~IASB Standards~~. To the extent this Standard incorporates by cross-reference other Australian Accounting Standards, those Standards provide a comparison of this Standard with ~~IASB Standards~~IFRSs. In addition, in some significant respects, this Standard amends the requirements of other Australian Accounting Standards for the purposes of whole of government financial reports and GGS financial reports and thereby differs from the requirements in ~~IASB Standards~~IFRSs. In relation to whole of government financial reports and GGS financial reports, differences relate to the presentation of the financial statements, especially the operating statements, and notes. In relation to GGS financial reports, a difference relates to the specification of the entities to be consolidated, and the consequential accounting for investments in controlled entities in other sectors that are not consolidated.

## ACCOUNTING STANDARD AASB 1049

The Australian Accounting Standards Board makes Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

D.  
Dated x November 2007

G. Boymal  
Chair – AASB

## ACCOUNTING STANDARD AASB 1049

### ***WHOLE OF GOVERNMENT AND GENERAL GOVERNMENT SECTOR FINANCIAL REPORTING***

#### **Objective**

- 1 The objective of this Standard is to specify requirements for *whole of government financial reports* and *General Government Sector (GGS)* financial reports of each *government*. This Standard requires compliance with other applicable Australian Accounting Standards except as specified in this Standard. It also requires disclosure of additional information such as reconciliations to *key fiscal aggregates* determined in accordance with the *ABS GFS Manual* and, for the whole of government, sector (GGS, *Public Non-Financial Corporations (PNFC) sector* and *Public Financial Corporations (PFC) sector*) information. Whole of government financial reports and GGS financial reports prepared in accordance with this Standard provide users with:
  - (a) information about the stewardship ~~of~~by each government and accountability for the resources entrusted to it;
  - (b) information about the financial position, performance and cash flows of each government and its sectors; and
  - (c) information that facilitates assessments of the macro-economic impact of each government and its sectors.

#### **Application**

- 2 **This Standard applies to each government's whole of government general purpose financial reports and GGS financial reports.**

- 3 This Standard applies to annual reporting periods beginning on or after 1 July 2008.
- 4 This Standard may be applied to annual reporting periods beginning before 1 July 2008.
- 5 The requirements specified in this Standard apply to whole of government financial reports and GGS financial reports where information resulting from their application is material in accordance with AASB 1031 *Materiality*.
- 6 When applicable, this Standard supersedes AASB 1049 *Financial Reporting of General Government Sectors by Governments* (September 2006) and AAS 31 *Financial Reporting by Governments* (November 1996), as amended by ~~AAS 31A *Amendments to the Transitional Provisions in AAS 31* (December 1999)~~, as amended by ~~AASB 1045 *Land Under Roads: Amendments to AAS 27A, AAS 29A and AAS 31A* (October 2002)~~, as amended by ~~AASB 2006-3 *Amendments to Accounting Standards* (October 2006)~~.

## Financial Reports to be Prepared

- 7 A government shall prepare a whole of government financial report and a GGS financial report in accordance with the requirements of this Standard.
- 8 A government shall not make its GGS financial report available prior to its whole of government financial report being made available.

## Compliance with Australian Accounting Standards

- 9 Unless otherwise specified in this Standard, the whole of government financial report and the GGS financial report shall **adopt the same accounting policies and be prepared in a manner consistent with other applicable Australian Accounting Standards.**
- 10 With limited significant exceptions, this Standard requires the definition, recognition, measurement, classification, consolidation, presentation and disclosure requirements specified in other applicable Australian Accounting Standards to be adopted in the whole of government financial report and the GGS financial report. This Standard only requires a different treatment from another applicable Australian Accounting Standard when the requirements of this Standard directly conflict with the requirements of that other Standard. In particular:

Staff note re para 9: the phrase "adopt the same accounting policies" is added, for consistency with para 68(c).

- (a) in relation to both the whole of government financial report and the GGS financial report, in conflict with AASB 101 *Presentation of Financial Statements*<sup>1</sup>, paragraphs 25 and 29 prescribe operating statements that include all recognised income and expenses on their face and do not require separate statements of changes in equity; and
- (b) in relation to the GGS financial report, in conflict with AASB 127 *Consolidated and Separate Financial Statements*, paragraph 19 prohibits the consolidation of controlled entities in other sectors.

11 Where an Australian Accounting Standard:

- (a) explicitly excludes from its scope not-for-profit entities, such as AASB 114 *Segment Reporting* (and AASB 8 *Operating Segments*); or
- (b) explicitly excludes from its scope not-for-profit public sector entities, such as AASB 124 *Related Party Disclosures*; or
- (c) only applies to certain entities, such as listed companies, that are required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act, such as AASB 133 *Earnings per Share*;

the whole of government financial report and the GGS financial report are not required to adopt the requirements of that Standard.

12 Paragraph Aus13.4 of AASB 101 applies to the whole of government financial report. It does not apply to the GGS financial report. Accordingly, the GGS financial report is not required to disclose that the financial report is a general purpose financial report or a special purpose financial report.

**13 In satisfying paragraph 9 of this Standard, subject to paragraph 1(a)(i) where compliance with the ABS GFS Manual would not conflict with Australian Accounting Standards, the principles and rules in the ABS GFS Manual shall be applied. In particular, certain Australian Accounting Standards allow optional treatments within their scope. Those optional treatments in Australian Accounting Standards aligned with the principles or rules in the ABS GFS Manual shall be applied.**

<sup>1</sup> References in this Standard to AASB 101 are to that Standard as made on 15 July 2004 and amended to 8 September 2005.

Para 13: An issue that has been highlighted during our consideration of ED 156 is the implications of this paragraph on the option in GAAP to not recognise land under roads. In principle GFS would recognise land under roads at current value, but in practice it only recognises newly acquired land under roads, and measures it at cost. See the issues paper in agenda paper 2.3. As indicated in that paper, staff believe that para 13 should be retained unamended. If the Board decides to provide an exception to para 13 because of land under roads, that should be done in the context of the topic-based land under roads standard (see agenda item 3).

14 Examples of particular optional treatments in Australian Accounting Standards that paragraph 13 of this Standard has the effect of limiting, include:

- (a) assets within the scopes of AASB 116 *Property, Plant and Equipment*, AASB 138 *Intangible Assets* ~~and or~~ AASB 140 *Investment Property* that may be measured at cost or at fair value. Those assets that are assets under the ABS GFS Manual that are within the scope of those Standards are required to be measured at fair value because the ABS GFS Manual requires those assets to be measured at market value.

However, the fair value options allowed under AASB 116, AASB 138 and AASB 140 are not amended by paragraph 13 of this Standard. If the fair value of an asset cannot be reliably measured in accordance with an Australian Accounting Standard that allows a choice between fair value and cost, then that asset is to be measured at cost. Where historical cost is adopted because fair value cannot be measured reliably, historical cost is ~~unlikely to be equal to~~ not characterised as fair value. ~~Where historical cost is not fair value, it should not be characterised as fair value.~~ Also, for example, the requirement for the fair value of an intangible asset to be determined by reference to an active market under AASB 138 continues to apply;

- (b) certain financial instruments that may be measured at fair value or on another basis under AASB 139 *Financial Instruments: Recognition and Measurement*. Where financial instruments meet the criteria for measurement at fair value under AASB 139, they are required to be measured at fair value where the ABS GFS Manual requires market value as the measurement basis.

Although fair value measurement in the balance sheet may be mandated through paragraph 13 of this Standard, the accounting for changes in fair value in the operating statement is not mandated by paragraph 13. Rather, changes in fair value are classified in the operating statement in accordance with AASB 139. AASB 139 anticipates certain financial assets being classified as either:

- (i) 'fair value through profit or loss', with changes in fair value included in operating result; or
- (ii) 'available-for-sale', with changes in fair value included in the other non-owner movements in equity section of the operating statement; ~~and~~

- (c) actuarial gains and losses relating to defined benefit superannuation plans that may be recognised in full through operating result, recognised in full directly in accumulated results, or partially deferred using a ‘corridor approach’ under AASB 119 *Employee Benefits*. For the purpose of this Standard, the option to partially defer using a ‘corridor approach’ is not available because it is not acceptable under the ABS GFS Manual. The other two options are available.

However, the effect of paragraph 29 of this Standard is that the full amount is recognised on the face of the operating statement and included in either:

- (i) the calculation of operating result; or
- (ii) the other non-owner movements in equity section of the operating statement (as illustrated in Illustrative Example A);
- (d) investments in jointly controlled entities that may be accounted for using the equity method of accounting or proportionate consolidation under AASB 131 *Interests in Joint Ventures* (as amended by AASB 2007-4 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments*). Because proportionate consolidation is inconsistent with the ABS GFS Manual’s principles and rules, paragraph 13 of this Standard has the effect of not allowing proportionate consolidation to be adopted;

- (e) borrowing costs that may be expensed or capitalised under AASB 123 *Borrowing Costs* (as issued in July 2004). Because expensing all borrowing costs is consistent with the ABS GFS Manual’s principles and rules, paragraph 13 of this Standard has the effect of requiring all borrowing costs to be expensed until revised AASB 123 (issued July 2007) becomes mandatory.

- ~~(e)~~(f) cash flows from operating activities that may be reported using either the direct method or the indirect method in the cash flow statement under AASB 107 *Cash Flow Statements* (as amended by AASB 2007-4). Because the direct method is consistent with the format of the cash flow statement under the ABS GFS Manual, paragraph 13 of this Standard has the effect of requiring the direct method to be adopted;

- ~~(f)~~(g) dividends paid by entities within the PNFC sector and PFC sector that may be classified by those sectors as a financing cash flow or as a component of cash flows from operating activities

Para 14(e): staff interpreted the Board’s September 2007 decision as to include this para here, despite the July 2007 version of AASB 123 becoming mandatory shortly. On balance, staff would prefer to be silent on the issue and therefore would prefer to delete para 14(e).

We consider that the Board’s decision to deal separately with ongoing concerns about requiring public sector entities having to capitalise borrowing costs is supported by recent correspondence from HoTARAC – see agenda paper 5.4 of the AASB-only October 2007 meeting.

under AASB 107 *Cash Flows Statements* (as amended by AASB 2007-4). Because classification as a financing cash flow is consistent with the format of the cash flow statement under the ABS GFS Manual, paragraph 13 of this Standard has the effect of requiring classification of dividends paid as a financing cash flow; and

~~(e)~~(h) government grants accounted for by entities within the PNFC sector and PFC sector in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* (as amended by AASB 2007-4). In accordance with paragraphs 52(b)(i) and 56 of this Standard, information about the PNFC sector and PFC sector disclosed in the whole of government financial report is prepared in a manner consistent with the accounting policies adopted in the whole of government financial statements. Therefore, the options in AASB 120 are not adopted and instead the principles in AASB 1004 *Contributions* are applied.

- 15 ~~Certain Australian Accounting Standards do not specify particular rules prescribe specific treatments for an all items or an and issues~~ within their scope. An example is AASB 101, which specifies only the minimum line items to be presented on the face of the balance sheet and requires additional line items, headings and subtotals to be presented on the face when such presentation is relevant to an understanding of the entity's financial position. The ABS GFS Manual specifies principles and rules for the presentation of a balance sheet prepared for GFS purposes. The ABS GFS Manual principles and rules are required to be applied in the presentation of the whole of government balance sheet and the GGS balance sheet to the extent that they do not conflict with AASB 101.
- 16 **Subject to paragraphs 41(a)(i)A and 52(b)(ii)A of this Standard, key fiscal aggregates that are included in the whole of government financial report or the GGS financial report, either because they are required by this Standard or a government elects to provide additional information, shall be measured in a manner that is consistent with amounts recognised on the face of the financial statements.**
- 17 This Standard requires certain information that is relevant to an assessment of the macro-economic impact of:
- (a) a whole of government and GGS to be included on the face of the financial statements (see paragraphs 28, 32 and 37); and

- (b) a government's sectors to be included in the sector financial statements required to be disclosed in the whole of government financial report by paragraph 52(b)(i).

This Standard requires the information to be determined in a manner consistent with other amounts recognised on the face of the financial statements. Corresponding amounts, determined in accordance with the ABS GFS Manual, are required to be disclosed in the notes where they differ from the amounts presented on the face of the financial statements (see paragraphs 41(a)(i)A and 52(b)(ii)A).

- 18 A government may elect to disclose key fiscal aggregates or other information in accordance with the ABS GFS Manual that are additional to the requirements of this Standard. If a government elects to make additional disclosures, they are made in a way that does not detract from the information prescribed in this Standard. Examples of additional disclosures that may be made voluntarily include the classification of *other economic flows* consistent with Table 7.4 of the ABS GFS Manual and additional key fiscal aggregates such as change in *net worth* due to revaluations and change in net worth due to other changes in the volume of assets. Consistent with the requirements in paragraph 16 of this Standard, additional key fiscal aggregates are measured in a manner consistent with recognised amounts. Consistent with paragraphs 41(a)(i) and 52(b)(ii) of this Standard, where they differ, corresponding key fiscal aggregates measured in accordance with the ABS GFS Manual are disclosed, together with a reconciliation of the two measures of each key fiscal aggregate. Measures of key fiscal aggregates that are not in accordance with this Standard or the ABS GFS Manual are not disclosed as key fiscal aggregates.

## **Presentation and Scope of GGS Financial Statements**

- 19 In relation to a GGS financial report, a government shall present GGS financial statements in which it consolidates only entities that are within the GGS, using the consolidation procedures specified in AASB 127.**

### **GGS Investment in PNFC Sector and PFC Sector Entities**

- 20 A GGS equity investment in a government controlled entity that is within the PNFC sector and PFC sector shall be recognised as an asset in the balance sheet included in the GGS financial report. It shall be measured:**
- (a) at fair value, where fair value is reliably measurable; or

- (b) at the government's proportional share of the net asset value of the PNFC sector or PFC sector entity before consolidation eliminations, where fair value is not reliably measurable and net assets before consolidation eliminations are not less than zero; or
- (c) at zero, where fair value is not reliably measurable and net assets of the PNFC sector or PFC sector entity before consolidation eliminations are less than zero.

**Any change in the carrying amount of the investment from period to period shall be accounted for as if the change in carrying amount is a change in fair value and accounted for in a manner consistent with the requirements in AASB 139.**

- 21 If the net asset value of a PNFC sector or PFC sector entity is less than zero, a liability may need to be recognised by the GGS to the extent ~~that a legal or constructive present obligation arises~~exists.
- 22 Income from GGS investments in controlled entities in the PNFC sector and PFC sector is accounted for in accordance with AASB 118 *Revenue* and AASB 139. Dividends are classified as revenue consistent with AASB 118. A change in the carrying amount of the investment over the reporting period that does not arise from the government acquiring or disposing of an interest or undistributed dividends is classified as a gain or loss. The gain or loss is included in the operating result or other movements in equity, depending on whether the investment is classified in the same manner as 'fair value through profit or loss' investments or in the same manner as 'available-for-sale' investments consistent with the principles in AASB 139.
- 23 For the purposes of determining the net assets of entities within the PNFC sector and PFC sector recognised and measured in accordance with paragraph 20(b):
  - (a) each PNFC sector and PFC sector entity's accounting policies are adjusted to align with the accounting policies adopted in the whole of government financial report for the same period;
  - (b) intersector balances between the GGS and entities within the PNFC sector and PFC sector are not eliminated; and
  - (c) individual amounts for each PNFC sector and PFC sector entity are aggregated and presented on a net basis.

**GGS Investment in Jointly Controlled Entities and Associates**

- 24 Investments in jointly controlled entities and associates shall be measured using the equity method of accounting, unless the investment is classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, in which case AASB 5 is applied.

**Components of a Whole of Government Financial Report and a GGS Financial Report**

- 25 The whole of government financial report and the GGS financial report shall comprise:
- (a) a balance sheet;
  - (b) an operating statement;
  - (c) a cash flow statement; and
  - (d) notes, comprising a summary of significant accounting policies and other explanatory notes.

**A separate statement of changes in equity is not required.**

- 26 As specified in paragraph 29 of this Standard, the whole of government operating statement and the GGS operating statement prescribed in this Standard incorporate into single statements the information that would otherwise be required by AASB 101 to be presented in two separate statements – the income statement and the statement of changes in equity. Information about movements in reserves is disclosed in the notes, on the face of the operating statement or in a separate statement. Where they arise, amounts of transactions with owners as owners are disclosed in the notes or a separate statement rather than on the face of the operating statement. Such transactions do not arise in a GGS context because there is no ownership group identified for the GGS. They may arise in a whole of government context in relation to partly owned subsidiaries. They may also arise between PNFC/PFC sector entities and their owner, the GGS.

## Balance Sheet

- 27** The face of the whole of government balance sheet and the GGS balance sheet, and notes thereto, shall be presented in a manner consistent with the requirements in AASB 101.
- 28** Net worth shall be presented on the face of the whole of government balance sheet and GGS balance sheet, measured in a manner consistent with other amounts recognised on the faces of the respective balance sheets.
- ~~29~~ An example of an acceptable whole of government balance sheet format and GGS balance sheet format that are in accordance with this Standard is provided in Illustrative Examples A and B respectively.

## Operating Statement

- ~~30~~**29** The whole of government operating statement and GGS operating statement shall include all items of income and expense recognised in a period. The face of the operating statements, and notes thereto, shall be presented in a manner consistent with the requirements for the income statement and statement of changes in equity in AASB 101.
- ~~31~~**30** All amounts relating to an item included in the determination of comprehensive result (total change in net worth [before transactions with owners as owners]) shall be classified as *transactions* or other economic flows in a manner that is consistent with the principles in the ABS GFS Manual.
- ~~32~~**31** The following examples illustrate how the approach in paragraph 30 applies to particular items:
- (a) in both a whole of government and GGS financial reporting context:
    - (i) net profit/(loss) from associates potentially comprises two components under GFS classification – dividends from associates and the remainder. Accordingly, dividends are classified as transactions and the remainder is classified as other economic flows. Such dividends are not included in the line item that includes dividends from entities other than associates;
    - (ii) changes in the fair value of financial instruments measured at fair value, that do not arise from undistributed

interest or dividends, are classified as other economic flows, irrespective of whether the instruments are classified as 'fair value through profit or loss' or 'available-for-sale';

- (iii) actuarial gains and losses relating to defined benefit superannuation plans are classified as other economic flows, irrespective of whether they are included in the calculation of operating result or the other non-owner movements in equity section of the operating statement;
  - (iv) changes in the fair value of investment property potentially comprise two components under GFS classification – consumption of capital and price changes. Accordingly, the consumption of capital is classified as transactions and the price changes are classified as other economic flows. Although the consumption of capital may be considered to be similar in nature to depreciation, it is not included in the line item that includes depreciation;
  - (v) depreciation of defence weapons platforms is classified as a transaction, by analogy with the GFS classification of depreciation of other plant and equipment;
  - (vi) doubtful debts are classified as other economic flows, by analogy with the GFS classification of revaluation of other assets; and
  - (vii) bad debts are classified as transactions to the extent they are mutually agreed, otherwise they are classified as other economic flows; and
- (b) in a GGS financial reporting context, dividends from PNFC sector and PFC sector entities are classified as transactions to the extent that the ABS GFS Manual accounts for them as dividends and otherwise as other economic flows.

In some cases the approach in paragraph 30 facilitates the reduction of differences between GAAP and GFS, particularly at the key fiscal aggregate level. Illustrative Examples A and B illustrate the classification between transactions and other economic flows for some of the items listed above and other possible circumstances where items recognised in the whole of government operating statement and the GGS operating statement do not have GFS equivalents.

**3332 The following shall be presented on the face of the whole of government operating statement and the GGS operating statement:**

- (a) net operating balance;**
- (b) total change in net worth (before transactions with owners as owners, where they exist); and**
- (c) net lending/(borrowing) and its derivation from net operating balance;**

**measured in a manner consistent with other amounts recognised on the face of the respective operating statements.**

3433 Although AASB 101 requires certain income and expenses to be included in the statement of changes in equity rather than the income statement, this Standard requires all recognised income and expenses to be included in a single statement that presents the comprehensive result (total change in net worth [before transactions with owners as owners, where they exist]). At least the same level of information required in the income statement and the statement of changes in equity relating to income and expenses recognised for the period is required to be presented on the face of the operating statement or in the notes, consistent with the requirements in AASB 101. For example, consistent with paragraph 96(d) of AASB 101, an entity presents on the face of the whole of government operating statement and the GGS operating statement, for each component of equity, the effects of changes in accounting policies and corrections of errors recognised in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

3534 As noted in paragraph 14(c), actuarial gains and losses relating to defined benefit superannuation plans may be recognised in full either through operating result or directly in other (non-owner) movements in equity. If the latter option is adopted, consistent with paragraph 93B of AASB 119, the opening and closing balances of accumulated results and the changes during the period referred to in paragraph 97(b) of AASB 101 are not included on the face of the operating statement.

36~~An example of an acceptable whole of government operating statement format and a GGS operating statement format that are in accordance with this Standard is provided in Illustrative Examples A and B respectively.~~

## Cash Flow Statement

**3735** The face of the whole of government cash flow statement and the GGS cash flow statement, and notes thereto, shall be presented in a manner consistent with the requirements in AASB 107.

**3836** Cash flows relating to investing in financial assets for policy purposes and for liquidity management purposes shall be presented separately, determined in a manner consistent with the ABS GFS Manual, on the face of the whole of government cash flow statement and the GGS cash flow statement.

**3937** The face of the whole of government cash flow statement and the GGS cash flow statement shall also include *cash surplus/(deficit)* and its derivation, measured in a manner consistent with other amounts recognised on the face of the respective cash flow statements, without the deduction of the value of assets acquired under finance leases and similar arrangements.

## Illustrative Examples

**4038** An example of an acceptable whole of government balance sheet, operating statement and cash flow statement format and GGS balance sheet, operating statement and cash flow statement format that are in accordance with this Standard is provided in Illustrative Examples A and B respectively.

## Notes

### Summary of Significant Accounting Policies

**4139** In addition to the disclosures required by other Australian Accounting Standards in the note containing the summary of significant accounting policies, the following disclosures shall be made prominently in that note:

- (a) in the whole of government financial report and the GGS financial report:
  - (i) a statement that the financial report is prepared in accordance with this Standard; and
  - (ii) a reference to the ABS GFS Manual as being the basis for GFS information that is included in the financial report; and

- (b) **in the GGS financial report only:**
  - (i) **a statement of the purpose for which the GGS financial report is prepared;**
  - (ii) **a description of the GGS;**
  - (iii) **a description of how the GGS financial report differs from the whole of government financial report in terms of the treatment of the government's investments in PNFC sector and PFC sector entities; and**
  - (iv) **where the GGS financial report is presented separately from the whole of government financial report, a cross-reference to the whole of government financial report that has been prepared for the same period and made available at the same time as the GGS financial report.**

4240 An example of the information to be included in the summary of significant accounting policies disclosed in the GGS financial report in accordance with paragraph 39 is provided in Illustrative Example C.

#### **Other Explanatory Notes**

4341 **In addition to the disclosures required to be made in other explanatory notes in accordance with other applicable Australian Accounting Standards, the following disclosures shall be made:**

- (a) **in the whole of government financial report and the GGS financial report:**
  - (i) **where the key fiscal aggregates measured in accordance with the ABS GFS Manual differ from the key fiscal aggregates provided pursuant to paragraph 16 of this Standard:**
    - A the key fiscal aggregates measured in accordance with the ABS GFS Manual; and**
    - B a reconciliation of the two measures of key fiscal aggregates and an explanation of the differences.**

**Other measures of the key fiscal aggregates shall not be included in the financial report;**

- (ii) where the key fiscal aggregates measured in accordance with the ABS GFS Manual do not differ from the key fiscal aggregates provided pursuant to paragraph 16, a statement of that fact;
  - (iii) information that corresponds to the information required to be disclosed in the notes by AASB 101, irrespective of the fact that, in relation to the operating statement, AASB 101 prescribes the preparation of two separate statements – an income statement and a statement of changes in equity; and
  - (iv) explanations of key technical terms used in the financial report; and
- (b) in the GGS financial report:
- (i) a list of entities within the GGS, and any changes to that list that have occurred since the previous reporting date and the reasons for those changes;
  - (ii) a list of significant investments in PNFC sector and PFC sector entities, including:
    - A the name;
    - B proportion of ownership interest and, if different, proportion of voting power held; and
    - C the measurement basis adopted for the amount recognised in accordance with paragraph 20; and
  - (iii) the aggregate amount of dividends and other distributions to owners as owners from PNFC sector and PFC sector entities to the GGS and the aggregate amount of the comprehensive result attributable to the GGS of the PNFC sector and PFC sector entities disclosed in the whole of government operating statement for the reporting period.

4442 In relation to the requirements in paragraph 41(a)(i), differences in the key fiscal aggregates determined under the ABS GFS Manual and pursuant to paragraph 16 of this Standard arise from differences in definition, recognition, measurement and certain classification requirements. Each difference gives rise to the need for disclosure of a

reconciliation and an explanation of the difference. Examples of such differences include:

- (a) in a whole of government and GGS context:
  - (i) doubtful debts – although the ABS GFS Manual recognises bad debts written off, it does not recognise write-downs of accounts receivable in relation to doubtful debts;
  - (ii) provisions recognised as liabilities – in the absence of a counter-party recognising a related financial asset, the ABS GFS Manual does not recognise a liability arising from a constructive obligation;
  - (iii) inventories – under the ABS GFS Manual, inventories are measured at current prices, whereas under AASB 102 *Inventories* (as amended by AASB 2007-5 *Amendments to Australian Accounting Standard – Inventories Held for Distribution by Not-for-Profit Entities*), depending on their nature, inventories are measured at the lower of cost and net realisable value or at cost adjusted when applicable for any loss of service potential;
  - (iv) investments in associates – under the ABS GFS Manual those assets are measured at current prices where current prices exist whereas under AASB 127 the equity method of accounting generally applies; and
  - ~~(v) borrowing costs – expensing all borrowing costs is consistent with the ABS GFS Manual's principles and rules whereas AASB 123 *Borrowing Costs* (revised June 2007) requires borrowing costs to be capitalised in certain circumstances. To avoid a situation where borrowing costs would need to be expensed (in accordance with the July 2004 version of AASB 123) for a short period of time, the June 2007 version of AASB 123 is required to be adopted early; and~~
- (b) in a whole of government context only:
  - (i) minority interest in controlled entities – under the ABS GFS Manual minority interest is classified as a liability and measured at current prices whereas under AASB 127 minority interest that is classified as equity is not remeasured; and

- (ii) outgoing dividends – under the ABS GFS Manual, outgoing dividends are classified as an expense whereas under AASB 101 a dividend is treated as a distribution to owners.

Illustrative Examples A and B illustrate some of these and other possible circumstances where differences arise and the manner in which they are reflected in reconciliation notes.

4543 In relation to whole of government financial reports, for the purpose of paragraph 41(a)(i)A, the ABS GFS Manual key fiscal aggregate that corresponds to the requirement in paragraph 32(b) to present ‘total change in net worth before transactions with owners as owners’ is ‘total change in net worth’ (after transactions with owners as owners). Accordingly, the reconciliation required to be disclosed in the whole of government financial report by paragraph 41(a)(i)B is from ‘total change in net worth before transactions with owners as owners’ as presented in accordance with paragraph 32(b) to ‘total change in net worth’ measured in accordance with the ABS GFS Manual. As noted in paragraph 26, transactions with owners as owners do not arise in a GGS context.

4644 Some differences between GAAP and GFS requirements relate to differences in classification or differences in consolidation eliminations that do not cause a difference in measurements of key fiscal aggregates and therefore do not need to be included in the reconciliation notes. However, they do give rise to the need for explanations of the differences to be disclosed in the financial report. Examples of such differences include:

- (a) for both whole of government and GGS financial reports:
  - (i) AASB 132 *Financial Instruments: Presentation* classifies certain prepaid expenses as a non-financial asset that the ABS GFS Manual classifies as a financial asset;
  - (ii) AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* may classify an amount within provisions that the ABS GFS Manual classifies as accounts payable;
  - (iii) paragraph 31(a)(iv) of this Standard notes that consumption of capital of investment property is classified separately from depreciation whereas the ABS GFS Manual classifies it as depreciation; and

- (iv) AASB 107 classifies cash used to purchase defence weapons platforms that are capitalised as cash flows from investing activities that the ABS GFS Manual classifies as cash flows from operating activities; and
  - (b) for whole of government financial reports, consolidation eliminations. Under the ABS GFS Manual, certain transactions between the GGS and entities within the PNFC sector and PFC sector are not eliminated on whole of government consolidation whereas under AASB 127 intragroup transactions that are not, in substance, transactions with external parties are eliminated in full. The GFS treatment has the effect of ‘grossing up’ both GFS revenue and GFS expenses by equal amounts and though the key fiscal aggregates remain the same, the differences in GAAP and GFS revenues and expenses should be disclosed. For example, a GGS may compensate a PNFC sector entity for a community service obligation, imposed by the GGS, that requires the PNFC sector entity to provide free services to a cohort of private individuals. The compensation provided by the GGS to the PNFC sector entity is not eliminated for whole of government reporting under the ABS GFS Manual (instead it is ‘rerouted’ through the household sector of the economy and therefore treated as an expense of the GGS to the household sector, and an expense of the household sector to the PNFC sector entity, and therefore revenue of the PNFC sector entity).
- 45 The GGS financial report is not subject to the disclosures required in separate financial statements by paragraphs 40, Aus40.1, 42 and Aus42.1 of AASB 127 relating to investments in subsidiaries, jointly controlled entities and associates. The requirements in those paragraphs are either addressed elsewhere in this Standard or are not significant for GGS financial reporting.
- 4846 In relation to the requirement in paragraph 41(a)(iv) to disclose explanations of key technical terms, key technical terms include:
- (a) transactions;
  - (b) other economic flows;
  - (c) net operating balance;
  - (d) net lending/(borrowing);
  - (e) financial assets;
  - (f) non-financial assets;

- (g) net worth;
- (h) cash surplus/(deficit);
- (i) operating result;
- (j) comprehensive result (total change in net worth [before transactions with owners as owners]);
- (k) total change in net worth; and
- (l) net debt.

An example of the disclosures required by paragraph 41(a)(iv) is provided in Illustrative Example D.

4947 Paragraph 103 of AASB 101 requires additional information to be provided in notes that is not presented on the face of the financial statements but is relevant to an understanding of them. Consistent with this, the components of aggregate numbers presented on the face of the financial statements, including key fiscal aggregates, are disclosed in the notes where relevant.

*Functional Information*

**5048 In respect of each broad function identified in Table 2.6 “Government Purpose Classification: Major Groups” of the ABS GFS Manual, the whole of government financial report and GGS financial report shall disclose by way of note:**

- (a) a description of that function;
- (b) the carrying amount of assets recognised in the respective balance sheets that are reliably attributable to that function; and
- (c) expenses, excluding losses, included in operating result in the respective operating statements for the reporting period that are reliably attributable to that function.

**5149 The information provided by way of note in accordance with paragraph 48 shall be aggregated. A reconciliation of the aggregate amount of expenses, excluding losses, included in operating result to the aggregate of expenses from transactions recognised in the operating statement shall be disclosed.**

~~5250~~ Paragraph 48 requires disclosure of information about the recognised expenses, excluding losses, included in operating result and assets that are reliably attributable to broad functions determined to at least the ABS GFS Manual two-digit level of classification shown in Table 2.6. Disclosure of this information assists users in identifying the resources committed to particular functions and the costs of service delivery that are reliably attributable to those functions. Functional classification of financial information, where it can be determined reliably, will also assist users in assessing the significance of financial or non-financial performance indicators reported by the government.

~~5351~~ AASB 114 (AASB 8)<sup>2</sup> does not apply to whole of government financial reports or GGS financial reports. The bases used in the ABS GFS Manual for identifying functions do not necessarily accord with the criteria for identifying segments contained in AASB 114 (AASB 8). However, preparers of financial reports may find ~~the guidance contained in~~ AASB 114 (AASB 8) is useful in identifying the expenses, excluding losses, included in operating result and assets that are reliably attributable to each function. An example of the disclosures required by paragraphs 48(b) and 48(c) in respect of each function of the whole of government and the GGS is provided in Illustrative Examples A and B respectively.

#### *Whole of Government Sector Information*

**~~5452~~ The whole of government financial report shall disclose by way of note, in respect of the GGS, PNFC sector and PFC sector as defined in the ABS GFS Manual:**

- (a) a description of each sector;
- (b) for each sector:
  - (i) a balance sheet, operating statement and cash flow statement that are consistent with the whole of government's financial statements prepared in accordance with this Standard;
  - (ii) where the key fiscal aggregates measured in accordance with the ABS GFS Manual differ from the key fiscal aggregates determined in a manner consistent with paragraph 16 of this Standard:

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<sup>2</sup> AASB 8 (February 2007) is operative on or after 1 January 2009, with early adoption allowed. When applicable, AASB 8 supersedes AASB 114.

**A the key fiscal aggregates measured in accordance with the ABS GFS Manual; and**

**B a reconciliation of the two measures of key fiscal aggregates and an explanation of the differences.**

**Other measures of the key fiscal aggregates shall not be included in the financial report; and**

**(iii) where the key fiscal aggregates measured in accordance with the ABS GFS Manual do not differ from the key fiscal aggregates determined in a manner consistent with paragraph 16, a statement of that fact; and**

**(c) a reconciliation between the information disclosed for the sectors in total and the corresponding information in the whole of government's financial statements (see, for example, Illustrative Example A).**

553 Sector information prepared in accordance with paragraph 52(b) is determined before consolidation eliminations. Accordingly, GGS investments in PNFC sector and PFC sector entities are included in the GGS information that is disclosed in the whole of government financial report. They are measured at the amount of net assets disclosed in the whole of government financial report for the PNFC sector and PFC sector.

564 Notes to the sector financial statements, other than those required by paragraph 52, are not required to be disclosed.

575 In relation to the requirements in paragraph 52(b)(ii), differences in the key fiscal aggregates determined under the ABS GFS Manual and consistent with paragraph 16 of this Standard arise from differences in definition, recognition, measurement and certain classification requirements. Each difference gives rise to the need for disclosure of a reconciliation and an explanation of the difference. Examples of such differences for the PNFC sector and the PFC sector include those identified in paragraph 42 of this Standard, as well as:

(a) ownership interest in PNFC sector and PFC sector entities – under the ABS GFS Manual, the carrying amount of ownership interest in PNFC sector and PFC sector entities is deducted in the determination of net worth of those sectors. For example, where it is reliably measurable, the market value of ownership interest in PNFC sector and PFC sector entities is deducted in determining net worth of those sectors. Accordingly, negative GFS net worth

arises if the market value exceeds recognised net assets. Under AASB 127, the market value of ownership interest is not recognised. Where ownership interest in PNFC sector and PFC sector entities is measured at net assets, GFS net worth is nil; and

- (b) deferred tax assets and deferred tax liabilities of PNFC sector and PFC sector entities – the ABS GFS Manual does not recognise deferred tax assets and deferred tax liabilities that are recognised by PNFC sector and PFC sector entities in accordance with AASB 112 *Income Taxes*. Consistent with the principle in paragraph 30 and the examples in paragraph 31, a related deferred tax revenue or expense recognised in accordance with AASB 112 is classified in the operating statement as a transaction in the operating statement or an other economic flow consistent with the underlying event giving rise to the deferred tax revenue or expense to the extent it arises from an item that itself is classified as a transaction. Otherwise, a deferred tax revenue or expense is classified as an other economic flow. For example, when a deferred tax liability arises from the revaluation of an asset, the related deferred tax expense is classified as an other economic flow because the asset revaluation itself is ~~not recognised as a transaction (it is recognised as an other economic flow).~~

~~5856~~ For the purpose of paragraph 52(b)(ii)A, the ABS GFS Manual key fiscal aggregate that corresponds to the requirement implicit in paragraph 52(b)(i) to present ‘total change in net worth before transactions with owners as owners’ for the PNFC sector and PFC sector is ‘total change in net worth’ (after transactions with owners as owners). Accordingly, the reconciliation required to be disclosed by paragraph 52(b)(ii)B is from ‘total change in net worth before transactions with owners as owners’ as presented in accordance with paragraph 52(b)(i) to ‘total change in net worth’ measured in accordance with the ABS GFS Manual.

~~5957~~ A government may choose to disclose sectors in addition to the GGS, PNFC sector and PFC sector. For example, a government may disclose information about the total non-financial public sector, comprising the GGS and PNFC sector. Where that is the case, the additional sectors are disclosed on a comparable basis to the information disclosed for the GGS, PNFC sector and PFC sector.

~~6058~~ The sector financial statements could be presented in a single schedule that includes an adjustments column to facilitate reconciliation to the whole of government financial statements in accordance with paragraph 52(c). Alternatively, the sector financial statements may be presented in columns, with or without an adjustments column, on the face of the whole of government financial statements. Where an

adjustments column is not provided on the face, the reconciliation required by paragraph 52(c) is provided in the notes. Disclosure of the individual eliminations between the sectors is not required.

## Budgetary Information

**~~6159~~ Where whole of government budgeted financial statements or GGS budgeted financial statements are presented to parliament, the whole of government financial report or GGS financial report, respectively, shall disclose for the period of the financial report:**

- (a) the original budgeted financial statements, presented on a basis that is consistent with the basis prescribed for the financial statements by this Standard; and**
- (b) explanations of major variances between the actual amounts presented on the face of the financial statements and corresponding original budget amounts.**

**~~6260~~ Comparative budgetary information in respect of the previous period need not be disclosed.**

~~6361~~ The original budget is the first budget presented to parliament in respect of the reporting period. Amendments made to the budget by the executive are not reflected in the budgetary information that is required to be disclosed under paragraph 59.

~~6462~~ Any revised budget that is presented to parliament during the reporting period may be disclosed in addition to the original budget.

~~6563~~ For the purpose of this Standard, governments are required to report the financial information required by paragraph 59 about their original budgets for the reporting period that are presented to parliament. This facilitates users of financial reports (including taxpayers) making and evaluating decisions about the allocation of scarce resources and for assessing the discharge of a government's accountability. The budget information is disclosed on the same basis, which includes in the same format, for the same scope and with the same content, as the accounting basis to facilitate a comparison of actuals against the budget.

~~6664~~ The face of the whole of government financial statements and GGS financial statements includes information about the government determined in accordance with this Standard, being that required by other Australian Accounting Standards, as modified by this Standard. To the extent the first budget presented to parliament is not consistent

with the information in the financial statements, the budget presented to parliament is restated for budget disclosure purposes to align with the accounting basis specified in this Standard. As the budget basis to be disclosed is consistent with the accounting basis, budget information may be presented on the face of the financial statements.

~~67~~<sup>65</sup> The explanations of major variances required to be disclosed by paragraph 59(b) are those relevant to an assessment of the discharge of accountability and to an analysis of performance of government. They include high-level explanations of the causes of major variances rather than merely the nature of the variances.

## Transitional Requirements

### Whole of Government

**66** When adopting this Standard for the first time, a whole of government shall change the elections it previously made under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* only to the extent it is necessary to change accounting treatments to comply with the ABS GFS Manual. The changes to those elections shall be made as if they had been made at the whole of government's original AASB 1 transition date. In other circumstances, the first whole of government financial report prepared in accordance with this Standard shall be prepared in accordance with requirements relating to changes in accounting policies in AASB 108. The requirements relating to changes in accounting policies in AASB 108 apply to the first whole of government financial report prepared in accordance with this Standard.

### GGS

~~67~~ In ~~the~~ first GGS financial report prepared in accordance with this Standard shall apply AASB 1, *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* shall be applied with the exception of the requirements in paragraphs 38 to 46 relating to the explanation of transition to Australian equivalents to IFRSs and reconciliation from previous GAAP, having regard to the limitations on the elections under AASB 1, as imposed by paragraphs 13, 68(c) and 69 of this Standard.

**68** For the purpose of this Standard:

Staff note to Board re para 67: we have kept the term 'Australian equivalents to IFRSs' for consistency with AASB 1. The implications of decisions the Board has made in relation to revised AASB 101 for that term and other related issues will be considered in due course, processed through a separate Standard that would amend this Standard.

- (a) Australian equivalents to IFRSs referred to in AASB 1 are those Australian Accounting Standards incorporated by cross-reference into this Standard as amended by this Standard; and
- (b) the date of transition of the GGS is the date of transition used in the whole of government financial report; and
- (c) elections made under AASB 1 for the GGS shall be aligned with the elections made for the whole of government, including those elections made in accordance with paragraph 66 of this Standard.

~~7069~~ The optional relief provided in AASB 1 is not fully available to GGSs and whole of governments due to the effect of paragraph 13 of this Standard. For example, AASB 1 provides an optional exemption relating to fair value or revaluation as deemed cost of property, plant and equipment, intangible assets and investment property. To the extent the ABS GFS Manual requires fair value, this option in AASB 1 is not available.

Staff comment on transitional requirements: Staff circulated an earlier draft of the transitional requirements to Board members for out-of-session comment. One comment made was a suggestion to simplify the drafting. Another comment made was to include an example. The only example we can think of (raised by HoTARAC) would require an interpretation of AASB 139 that may not be appropriate. The example we contemplated, that could be inserted after paragraph 69, is along the lines of:

“The following example illustrates how paragraphs 66 and 68(c) apply in particular circumstances. When first applying AASB 1, a whole of government may have elected to designate a financial instrument as ‘held-to-maturity’, which is to be measured at amortised cost in accordance with AASB 139. Under the principles in this Standard, the instrument would subsequently need to be reclassified as ‘available-for-sale’ or ‘at fair value through profit and loss’, for consistency with the ABS GFS Manual measurement principles. AASB 139 prohibits reclassification into the ‘at fair value through profit and loss’ category (paragraph 50 of AASB 139) and limits the circumstances under which reclassification can be made to the ‘available-for-sale’ category (paragraph 51 of AASB 139). If the instrument cannot be reclassified to ‘available-for-sale’ under AASB 139, paragraph 66 of this Standard requires the designation election under AASB 1 to be changed to facilitate alignment with GFS. The instrument could therefore be designated as either ‘available-for-sale’ or ‘at fair value through profit and loss’. Paragraph 68(c) requires the GGS to make the same election and designation. To the extent the instrument can be reclassified to the ‘available-for-sale’ category under AASB 139, paragraph 66 does not allow the election made under AASB 1 to be changed.”

There is a concern that an example would involve interpreting IFRS requirements such as those relating to the measurement of available-for-sale financial instruments under AASB 139. We do not believe that the above example is an accurate interpretation of AASB 139 because we think that AASB 139 allows uninhibited reclassification from ‘held-to-maturity’ to ‘available-for-sale’ (albeit with a potential consequential tainting of the ‘held-to-maturity’ category).

On balance, we believe that the simplified draft para 66 should be retained (rather than revert to the original proposal in ED 155) given that it is conceivable that recourse to AASB 1 elections would be needed to facilitate GAAP/GFS harmonisation and consistency between WoG and GGS, but that an example not be provided.

~~70~~The transitional approach in this Standard ~~also~~ results in comparative period information being presented in the first GGS financial report and the first whole of government financial report prepared in accordance with this Standard.

~~7270 Paragraph 67 provides relief from the requirements in paragraphs 38 to 46 of AASB 1 relating to explaining transition to Australian equivalents to IFRSs and disclosure of a reconciliation from previous GAAP to Australian equivalents to IFRSs in the GGS's first report prepared in accordance with this Standard.~~

Staff note re deleted para: we think it can be deleted as its content is now incorporated into para 67.

## APPENDIX A

### DEFINED TERMS

*This appendix is an integral part of AASB 1049.*

<b>ABS GFS Manual</b>	The Australian Bureau of Statistics (ABS) publication <i>Australian System of Government Finance Statistics: Concepts, Sources and Methods</i> as updated from time to time.
<b>cash surplus/(deficit)</b>	Net cash flows from operating activities plus net cash flows from acquisition and disposal of non-financial assets less distributions paid less value of assets acquired under finance leases and similar arrangements. Defined in the ABS GFS Manual (paragraph 2.124).
<b>General Government Sector (GGS)</b>	Institutional sector comprising all <i>government units</i> and <i>non-profit institutions</i> controlled and mainly financed by government. Defined in the ABS GFS Manual (Glossary, <a href="#">page- 256</a> ).
<b>government</b>	The Australian Government, the Government of the Australian Capital Territory, New South Wales, the Northern Territory, Queensland, South Australia, Tasmania, Victoria or Western Australia.
<b>government units</b>	Unique kinds of legal entities established by political processes which have legislative, judicial or executive authority over other <i>institutional units</i> within a given area and which: (i) provide goods and services to the community and/or individuals free of charge or at prices that are not economically significant; and (ii) redistribute income and wealth by means of taxes and other compulsory transfers. Defined in the ABS GFS Manual (Glossary, <a href="#">page- 257</a> ).
<b>institutional unit</b>	An economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities. Defined in the ABS GFS Manual (Glossary, <a href="#">page- 257</a> ).

<b>key fiscal aggregates</b>	Referred to as analytical balances in the ABS GFS Manual, are data identified in the ABS GFS Manual as useful for macro-economic analysis purposes, including assessing the impact of a government and its sectors on the economy. They are: opening net worth, net operating balance, net lending/(borrowing), change in net worth due to revaluations, change in net worth due to other changes in the volume of assets, total change in net worth, closing net worth and cash surplus/(deficit).
<b>net lending/(borrowing)</b>	The financing requirement of government, calculated as the net operating balance less the net acquisition of non-financial assets. A positive result reflects a net lending position and a negative result reflects a net borrowing position. Based on the definition in the ABS GFS Manual (Glossary, <a href="#">page- 259</a> ).
<b>net operating balance</b>	This is calculated as income from transactions minus expenses from transactions. Based on the definition in the ABS GFS Manual (Glossary, <a href="#">page- 259</a> ).
<b>net worth</b>	Assets less liabilities and shares/contributed capital. For the GGS, net worth is assets less liabilities since shares and contributed capital is zero. It is an economic measure of wealth and reflects the contribution of governments to the wealth of Australia. Defined in the ABS GFS Manual (Glossary, <a href="#">page- 259</a> ).
<b>non-profit institution</b>	A legal or social entity that is created for the purpose of producing or distributing goods and services but is not permitted to be a source of income, profit or other financial gain for the units that establish, control or finance it. Defined in the ABS GFS Manual (Glossary, <a href="#">page- 260</a> ).

<b>other economic flows</b>	Changes in the volume or value of an asset or liability that do not result from transactions (i.e. revaluations and other changes in the volume of assets). Defined in the ABS GFS Manual (Glossary, <u>page</u> - 260).
<b>Public Financial Corporations (PFC) sector</b>	Institutional sector comprising resident government controlled corporations and <i>quasi-corporations</i> mainly engaged in financial intermediation or provision of auxiliary financial services. Based on the definition in the ABS GFS Manual (Glossary, <u>page</u> - 261).
<b>Public Non-Financial Corporations (PNFC) sector</b>	Institutional sector comprising resident government controlled corporations and quasi-corporations mainly engaged in the production of market goods and/or non-financial services. Based on the definition in the ABS GFS Manual (Glossary, <u>page</u> - 261).
<b>quasi-corporation</b>	An unincorporated enterprise that functions as if it were a corporation, has the same relationship with its owner as a corporation, and keeps a separate set of accounts. Defined in the ABS GFS Manual (Glossary, <u>page</u> - 261).
<b>transactions</b>	Interactions between two institutional units by mutual agreement or actions within a unit that it is analytically useful to treat as transactions. Defined in the ABS GFS Manual (Glossary, <u>page</u> - 263).
<b>whole of government financial report</b>	A financial report prepared by a government that is prepared in accordance with Australian Accounting Standards, including AASB 127 <i>Consolidated and Separate Financial Statements</i> , and thereby separately recognises assets, liabilities, income, expenses and cash flows of all entities under the control of the government on a line-by-line basis.

## **BASIS FOR CONCLUSIONS ON AASB 1049**

### ***WHOLE OF GOVERNMENT AND GENERAL GOVERNMENT SECTOR FINANCIAL REPORTING***

*This Basis for Conclusions accompanies, but is not part of, AASB 1049.*

#### **Introduction**

- BC1 The Preface to this Standard outlines the broad strategic direction issued to the Australian Accounting Standards Board (AASB) by the Financial Reporting Council (FRC) that gave rise to AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. This Basis for Conclusions summarises the Board's considerations in developing the Standard. It focuses on the issues that the Board considers to be of greatest significance.
- BC2 In developing the Standard, the Board first considered GAAP/GFS harmonisation issues from a General Government Sector (GGS) perspective. This resulted in the issue of AASB 1049 *Financial Reporting of General Government Sectors by Governments* in September 2006. It included a requirement that a government not make its GGS financial report available prior to its whole of government financial report being made available. The Board became aware that no jurisdiction intended to early adopt AASB 1049 (September 2006) because of this requirement, combined with concern that the whole of government accounting basis (then specified in AAS 31 *Financial Reporting by Governments*) was, at the time, different from the GGS accounting basis (specified in AASB 1049).
- BC3 In addressing this concern, the Board considered the extent to which the principles in AASB 1049 (September 2006) should apply to whole of governments financial reporting. The Board concluded that the requirements for GAAP/GFS harmonised whole of government financial reports, incorporating requirements for information about the GGS, the Public Non-Financial Corporations (PNFC) sector and the Public Financial Corporations (PFC) sector, should be based on the principles in AASB 1049 (September 2006). This reflects the relationship between the GGS of a government, the other sectors of a government and the whole of government and is a response to an assessment of user needs. Given the relationship between the GGS and whole of government, an alternative approach that would result in fundamentally different accounting bases for GGS financial reports

and whole of government financial reports has the potential to confuse some users.

BC4 The Board ~~decided to~~ developed a separate Exposure Draft (ED 155 *Financial Reporting by Whole of Governments*) for the purpose of exposing its proposals for GAAP/GFS harmonisation requirements for whole of governments financial reporting, rather than present the proposals integrated with the requirements in AASB 1049 (September 2006). However, the Board indicated its intention in ED 155 that the Standard to be developed would be an amended AASB 1049 that specifies, in an integrated way, the GAAP/GFS harmonised requirements for GGS financial reports and whole of government financial reports. The Board concluded that a single integrated Standard is justified on the basis that:

- (a) ~~it imposes a greater discipline on the AASB to ensure that the requirements are expressed in the same way for GGS and whole of government, and only differ where intended;~~ it more effectively acknowledges the strong relationship between whole of government financial reports and GGS financial reports. An integrated Standard is consistent with the requirement that GGS financial reports not be made available prior to the release of whole of government financial reports (see paragraphs BC18-BC20);
- (b) ~~it more effectively acknowledges the strong relationship between whole of government financial reports and GGS financial reports. An integrated Standard is consistent with the requirement that GGS financial reports not be made available prior to the release of whole of government financial reports (see paragraphs BC18-BC20);~~ it is more consistent with a topic-based approach to setting Standards; and
- (c) ~~it is more consistent with a topic-based approach to setting Standards;~~ it imposes a greater discipline on the Board to ensure that the requirements are expressed in the same way for GGS and whole of government, and only differ where intended.

## **Significant Issues Specific to GGS Financial Reports**

### **Preparation of GGS Financial Reports [Paragraphs 2 and 7]**

#### **The nature of a GGS financial report**

- BC5 Due to the unique circumstances related to the GGS, its relationship to the whole of government (see paragraphs BC18-BC20) and its macro-economic significance, the Board concluded that a Standard should ~~specify~~ require the preparation of financial reports of a federal, state or territory government's GGS. The Board also supported the GGS presenting a financial report on the basis that whole of government financial reports are to be ~~made~~ available at the same time as the GGS financial report (see paragraph BC18).
- BC6 The Board concluded that it is not necessary to specify whether the GGS is a reporting entity and whether the GGS financial report prepared in accordance with the Standard is a general purpose financial report (GPFR) because the Standard itself prescribes the particular requirements for the scope of the GGS and the form and content of the GGS financial report.

#### **GGS financial report prepared on a partial consolidation basis**

- BC7 It is inherent in the definition of a GGS that government controlled entities within the PNFC sector and PFC sector are not consolidated in the GGS financial report (see paragraphs BC11-BC13). Only government controlled entities that fall within the boundary of a GGS are consolidated. Accordingly, the Board concluded that a government should produce a GGS financial report on a partial consolidation basis (see paragraph 19).
- BC8 This focus on the GGS and consequently the partial consolidation approach is consistent with, to some extent, the 'through the eyes of management' approach adopted in AASB 8 *Operating Segments*. The information used to manage a government includes GGS information prepared on a partial consolidated basis because, essentially, the GGS equates to the budget sector of Australian governments, and reporting of budget outcomes is a major focus.
- BC9 The Board's decisions reflect that:
- (a) the GGS is a significant sector of a government that warrants prominence in financial reporting;

- (b) GGS financial information is relevant to users and is widely distributed;
- (c) GGS financial information should be made available to the public in a manner that meets the key characteristics of comparability, understandability, relevance, reliability and timeliness set out in *AASB Framework for the Preparation and Presentation of Financial Statements*; and
- (d) GGS financial information is necessary to provide a link to GGS budgets, which are a means by which governments outline their taxing policies and resource allocation decisions (see paragraphs BC57-BC62).

BC10 An alternative view considered by the Board is that, because a GGS is a sector of the whole of government, GGS financial information prepared on a partial consolidation basis should only be included in the whole of government GPFR (see also paragraph BC20). When that GGS financial information is presented in a financial report that is separate from the whole of government GPFR, it should be characterised as a special purpose financial report. However, as explained in paragraph BC6, the Board decided that, because the Standard prescribes the form and content of the GGS financial report, it is not necessary to take such an approach.

**Accounting for GGS Investments in PNFC Sector and PFC Sector Entities in GGS Financial Reports [Paragraphs 19 and 20]**

- BC11 The issue of the accounting for GGS investments in PNFC sector and PFC sector entities in the GGS financial report is closely related to the basis on which the GGS financial report is prepared and to the issue of partial consolidation (see paragraphs BC7-BC10).
- BC12 The Board decided that, consistent with GFS principles and rules, entities that are controlled by a government, but are not part of the GGS of the government, should be recognised in the GGS financial report as investments.
- BC13 Furthermore, the Board concluded that GGS controlling investments in PNFC sector and PFC sector entities should be measured at, depending on circumstances, fair value, the government's proportional share of net assets (as a surrogate for fair value) or zero. Measurement at fair value, or at the government's proportional share of net assets where fair value is not reliably measurable, is consistent with GFS. Not allowing investments to be measured below zero is consistent with the principles elsewhere in GAAP (for example,

AASB 128 *Investments in Associates*, ~~which prevents~~ does not allow negative investment values when using the equity method).

- BC14 When a GGS's controlling investment in a PNFC sector or PFC sector entity is measured at the government's proportional share of net assets, for consistency with GFS principles, it should be accounted for as a financial asset consistent with AASB 139 *Financial Instruments: Recognition and Measurement*, rather than as if it were an investment in an associate accounted for using the equity method of accounting.

**Accounting for GGS Investments in Jointly Controlled Entities and Associates in GGS Financial Reports [Paragraph 24]**

- BC15 The Board concluded that investments in jointly controlled entities and associates should be measured using the equity method of accounting, except when the investment is classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*. This is on the basis that, consistent with paragraph 19 of AASB 1049 that prescribes the use of the consolidation procedures in AASB 127 *Consolidated and Separate Financial Statements*, the GGS financial report is treated as if it is a consolidated financial report rather than as 'separate financial statements', as ~~that term is~~ defined in AASB 127.

**Disclosures about the GGS in Accounting Policy Note [Paragraph 39(b)]**

- BC16 The Board concluded that additional disclosures relating to the nature of the GGS and its relationship to the whole of government financial report should be made as part of the note in the GGS financial report containing the summary of significant accounting policies. These disclosures are intended to help overcome concerns that users might perceive the GGS financial report as being a substitute for the whole of government financial report. Furthermore, ~~they~~ disclosures are intended to help users understand the nature of the GGS and its financial reports to provide a greater link to the budget outcome reports, to the extent they focus solely on the GGS.

**Other Disclosures Specific to the GGS [Paragraph 41(b)]**

- BC17 Given this Standard encompasses GFS ~~GGS~~ concepts and definitions for the GGS, the Board considered it appropriate to require additional disclosures to be included in the GGS financial report. The additional disclosures include:
- (a) a list of entities within the GGS and any changes to that list since the previous reporting date and reasons for the changes

(paragraph 41(b)(i)). This disclosure informs users of the controlled entities that have been consolidated into the GGS financial report; and, for the purposes of year to year comparisons, the changes to the list of entities. The reasons for changes should be capable of being traced back to the ABS GFS Manual definition of the GGS and should reflect a fundamental change to the nature of an entity's functions and purpose;

- (b) a list of significant investments in PNFC sector and PFC sector entities (paragraph 41(b)(ii)). This disclosure informs users of the controlled entities that have not been consolidated into the GGS financial report and the effect of GGS management decisions to retain or divest these investments and their effect on the balance sheet of the GGS; and
- (c) the aggregate amount of dividends and other distributions to owners as owners from PNFC sector and PFC sector entities to the GGS and the aggregate amount of the comprehensive result ~~attributable to the GGS~~ of the PNFC sector and PFC sector entities that is attributable to the GGS for the reporting period (paragraph 41(b)(iii)). This disclosure provides further information about the relationship between the GGS and PNFC sector and PFC sector entities.

***Relationship between GGS Financial Reports and Whole of Government Financial Reports [Paragraphs 8 and 39(b)(iv)]***

BC18 As noted in paragraph BC2, the Board concluded that, because of the relationship between the GGS (partially consolidated) financial report and the whole of government (fully consolidated) financial report, the GGS financial report should not be made available prior to the whole of government financial report being made available. Furthermore, the GGS financial report should include a cross-reference to the whole of government financial report (see paragraph 39(b)(iv)). This approach ensures that GGS financial reports are given due prominence within an appropriate context. That context is the whole of government financial reports that provide information about all the resources controlled by the government.

BC19 Board consultations indicated that most jurisdictions would be able to meet the requirement to make the whole of government financial report available at the same time as the GGS financial report is prepared in the short term. One jurisdiction faced a number of impediments, including legislative provisions, to achieving completion of the whole of government financial report at the same time as a GGS financial report could be prepared. The Board

therefore decided to specify a mandatory operative date for the Standard of the year beginning 1 July 2008, and to allow early adoption (see paragraphs 3 and 4). The Board's decision not to permit the preparation and presentation of GGS financial reports at an earlier date than for the whole of government financial report is consistent, by analogy, with the requirements in AASB 127 that parent entity financial reports cannot be prepared and presented unless consolidated financial statements are available.

- BC20 Prior to this Standard, Australian Accounting Standards only anticipated that sectors of ~~the~~ a whole of government (including the GGS) might be disclosed in the whole of government financial report in the form of disaggregated information. That is, separate financial reporting of a GGS was not contemplated. The Board considered whether, consistent with this disaggregated information approach, the proposals in International Public Sector Accounting Standards Board (IPSASB) Exposure Draft ED 28 *Disclosure of Financial Information about the General Government Sector*, since reflected in IPSAS 22 *Disclosure of Financial Information About the General Government Sector*, should be adopted in Australia. ~~IPSAS 22 requires that~~ ~~When a government elects to disclose information about its GGS in its whole of government financial reports, IPSAS 22 requires the that~~ information ~~would~~ conform with the accounting policies of the whole of government financial report, (which are not GAAP/GFS harmonised); except for consolidation requirements and the accounting for investments in controlled PNFC sector and PFC sector entities. The Board concluded that such an approach would not adequately facilitate the presentation of GGS information and GFS information with appropriate prominence.

## **Significant Issues Specific to Whole of Government Financial Reports**

### **Specification of Requirements for Whole of Government Financial Reports**

- BC21 AAS 31 was first issued in 1996 and specified requirements for general purpose financial reporting by governments. Since then, AAS 31 had only been subject to limited reviews, the most recent in June 1998.<sup>3</sup> The Board considered it timely to undertake a

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<sup>3</sup> Although AAS 31A *Amendments to the Transitional Provisions in AAS 31* was issued in December 1999 and AASB 1045 *Land Under Roads: Amendments to AAS 27A, AAS 29 & AAS 31* was issued in October 2002, they only had the effect of extending the transitional provisions for land under roads.

comprehensive review of the requirements in AAS 31 through two concurrent and interrelated AASB projects:

- (a) the GAAP/GFS Harmonisation project; and
- (b) the Short-term Review of the Requirements in AASs 27, 29 & 31.

- BC22 This Standard, which is a result of the GAAP/GFS Harmonisation project, together with the new, amending and revised Standards developed from the Short-term Review of the Requirements in AASs 27, 29 & 31, supersedes AAS 31.
- BC23 This Standard requires governments to prepare general purpose financial reports that adopt applicable Australian Accounting Standards, except when otherwise specified (see paragraph 9 of this Standard). The Short-term Review of the Requirements in AASs 27, 29 & 31 retains or amends the AAS 31 requirements by amending, where appropriate, the Australian Accounting Standards that this Standard requires to be adopted by governments. The Bases for Conclusions accompanying Exposure Draft ED 156 *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31* and accompanying the resulting new, amending or revised Standards, contain the Board's rationale for its treatment of the requirements in AAS 31. This Basis for Conclusions provides the Board's rationale for adopting GAAP/GFS harmonisation principles for whole of governments.
- BC24 The Board concluded that adopting the GAAP/GFS harmonisation principles in this Standard would help ensure that the multiple needs of users for both GAAP and GFS based information prepared under a harmonised framework at a whole of government level (incorporating sector information) are satisfied.

### **Preparation of Whole of Government Financial Reports [Paragraphs 2 and 7]**

- BC25 Due to the nature of governments, the Board concluded that a Standard should continue to specify requirements for the preparation of whole of government general purpose financial reports of the federal and each state and territory government.

### **Consolidation of non-resident entities**

- BC26 Generally, the controlled entities that are not consolidated within the GGS would be consolidated under both GAAP and GFS in whole of

government financial reports, and therefore one of the more controversial aspects dealt with in the context of GGS financial reporting (see paragraphs BC5-BC13) does not arise in the context of whole of government. However, a different kind of non-consolidation issue conceivably arises. Under GAAP, irrespective of residency, all controlled entities are consolidated. Under GFS, controlled non-residents are not consolidated. For example, an off-shore subsidiary of a PNFC sector entity or PFC sector entity is not consolidated under GFS because it is not part of the Australian economic territory. Instead GFS records the parent PNFC sector or PFC sector entity as having an equity investment in the non-resident subsidiary and deriving dividend income from it. The non-resident subsidiary is an institutional unit in the economic territory of the other economy that would be part of that other economy's private sector.

- BC27 The Board concluded that, consistent with AASB 127, all controlled entities should be consolidated on a line-by-line basis in whole of government financial reports. If material, the GFS non-consolidation of non-resident subsidiaries would be shown as a reconciling difference (see paragraphs BC40(c) and BC52). The Board noted that Australian jurisdictions either do not have non-resident subsidiaries or have immaterial non-resident subsidiaries. Given that the issue is not significant in practice, the Board concluded that it is not necessary for the Standard to explicitly refer to the issue.

#### **Consolidation of PNFC sector and PFC sector entities**

- BC28 The Board noted that under AASB 1049 (September 2006), and carried over with some clarification into the latest version of AASB 1049, the GGS recognises its investment in PNFC sector and PFC sector entities at, depending on circumstances, fair value, proportional share of net assets (as a surrogate for fair value) or zero (see paragraph BC13).
- BC29 The Board considered the whole of government consolidation implications of GGS investments in PNFC sector and PFC sector entities potentially being measured at fair value in GGS financial reports. The Board noted that if the whole of government financial report were to consolidate PNFC sector and PFC sector entities at fair value, this would result in the recognition of, among other things, internally generated goodwill. The Board concluded that it is not appropriate for a government to recognise internally generated goodwill, noting that internally generated goodwill is also not recognised under GFS. Accordingly, the Board concluded that PNFC sector and PFC sector entities should be consolidated at their net

assets on a line-by-line basis, determined in a manner consistent with GAAP/GFS harmonisation principles.

- BC30 The Board noted that no PNFC sector and PFC sector entities in any Australian jurisdiction currently have traded shares and therefore the principle in AASB 1049 would be expected to result in the investments being measured at net assets, which is consistent with GFS in these circumstances. Therefore, the question of consolidating PNFC sector and PFC sector entities at fair value is not expected to arise frequently in practice.

### **Disclosure of Whole of Government Sector Information [Paragraph 52]**

#### **PNFC sector and PFC sector information as note disclosure in whole of government financial reports**

- BC31 The Board concluded that financial statements for the GGS, PNFC sector and PFC sector and reconciliations between GFS and GAAP measures of key fiscal aggregates for each sector should be disclosed in the whole of government financial report. The Board concluded that such information, together with related ~~proposed~~ information, is sufficient to satisfy user needs in a general purpose financial reporting context and therefore it is not necessary to require the preparation of separate PNFC sector and PFC sector financial reports. To facilitate a presentation format that provides sufficient prominence to the various sectors relative to each other and the whole of government, the Board concluded that the sector financial statements could be presented ~~in the form of~~:

- (a) as a table in the notes to the whole of government financial statements comprising all sectors, an adjustments column and the whole of government; or
- (b) ~~presented~~ on the face of the government's financial statements.

- BC32 The Board considered whether to make the sector information disclosure requirements less onerous by only requiring disclosure of sector financial statements prepared on a GFS basis. The Board noted that this would in some respects broadly align with the 'through the eyes of management' principles in AASB 8. However, the Board concluded that this approach should not be adopted because:

- (a) sectors are different in nature from operating segments;

- (b) such an approach would not be consistent with the approach to GAAP/GFS harmonisation adopted for the GGS financial report; and
- (c) there would be a potential for user confusion if GGS financial reports adopt an accounting basis fundamentally different from that used for the GGS financial information presented in the whole of government financial report.

BC33 The Board also considered whether to not require disclosure of reconciliations of GAAP and GFS measures of key fiscal aggregates for the PNFC sector and PFC sector (see paragraphs BC52), noting a view expressed by some that the provision of such information is onerous. The Board concluded that such information is useful for a significant group of users and therefore should be included in the whole of government financial report.

BC33BC34 The Board noted that a government may choose to present information about additional sectors, such as the total non-financial public sector (comprising the GGS and PNFC sector). The Board concluded that it is not necessary to prescribe the disclosure of additional sectors, because as the GGS, PNFC sector and PFC sector comprise a comprehensive disaggregation of the whole of government. However, where a government elects to disclose information about additional sectors, this should be made on a comparable basis. This ensures that information contained in the financial report is consistent.

#### **GGs investment in PNFC sector and PFC sector entities**

BC34BC35 The Board addressed the question of whether the GGS information disclosed in the whole of government financial report should be consistent with the GGS financial report or the whole of government consolidated amounts. It therefore considered whether GGS investments in PNFC sector and PFC sector entities should be disclosed, and how they should be measured (fair value or net assets). The Board noted that if a GGS investment in PNFC sector and PFC sector entities were to be measured at fair value in the whole of government financial report's sector information disclosures~~note~~, there would be a disconnect between that amount and the amount of net assets disclosed for the PNFC sector and PFC sector.

BC35BC36 The Board concluded that GGS investments in PNFC sector and PFC sector entities should be included in the sector information disclosures, and be measured at the amount of net assets disclosed for the PNFC sector and PFC sector in the whole of government financial report. The Board notes that it is conceivable,

although unlikely in practice, that information about the GGS investment in PNFC and PFC sectors in the GGS financial report might differ from the GGS financial information disclosed in the whole of government financial report. This is appropriate given the different contexts in which the two sets of GGS information are presented. GGS financial reports treat the GGS as akin to a separate reporting entity whereas the GGS information disclosed in whole of government financial reports treats the GGS as a sector of a reporting entity.

## **Significant Issues Pertinent Common to Both Whole of Government Financial Reports and GGS Financial Reports**

### **GAAP or GFS [Paragraph 9]**

BC36BC37 The Board considered whether GAAP or GFS principles should prevail for financial reporting purposes. The Board concluded that GAAP definition, recognition and measurement principles should be applied in accordance with other Australian Accounting Standards, unless otherwise specified, to accommodate GFS principles. In particular, in the interests of GAAP/GFS harmonisation, the Board concluded that GAAP presentation principles should be modified to accommodate GFS principles. Although this issue was considered in a GGS context, the Board concluded that there is no reason to adopt a different approach in a whole of government context.

BC37BC38 An alternative approach to adopting GAAP with limited exceptions would have been to decide, for the purposes of preparing financial reports, that the GFS framework should apply. Making that declaration in a Standard would mean that GFS would become part of GAAP. However, the Board formed the view that its objective of promulgating an Australian Accounting Standard that provides useful information in a financial reporting context could be achieved without overriding entirely the GAAP framework. Accordingly, the Board's starting point was the principles and framework of GAAP, and the Board concluded that to simply adopt GFS in the Standard would be an inappropriate approach. To have adopted the GFS framework and principles as the starting point for the development of a Standard within the GAAP context, would have required the Board to become closely involved with all elements of the GFS framework. This would include any ongoing changes to the GFS framework, over which the Board has no control.

BC38BC39 The Board's decision to adopt GAAP with limited exceptions was made on the basis that the accounting prescribed under Australian Accounting Standards is appropriate for events that occur within the not-for-profit sector, including the government. The Board noted that, in developing those Australian Accounting Standards, where the International Financial Reporting Standards (IFRSs) upon which the Standards are based do not sufficiently deal with not-for-profit circumstances, Aus paragraphs have been or will be inserted by the Board or separate Standards have been or will be issued to deal with those circumstances.

BC39BC40 The Board's conclusion facilitates GAAP/GFS harmonisation for whole of government financial reports and GGS financial reports by:

- (a) amending presentation requirements to encompass a comprehensive operating statement (paragraphs 29; and 52(b)(i)) that retains the GAAP classification system but overlays it with a transactions/other economic flows classification system based on GFS (paragraphs 30; and 52(b)(i));
- (b) expanding disclosure requirements to accommodate, on the face of the statements, key fiscal aggregates ~~required by under~~ GFS (paragraphs 28, 32, 37 and 52(b)(i)) and the distinction between cash flows relating to investing in financial assets for policy purposes and for liquidity management purposes adopted by GFS (paragraphs 36 and 52(b)(i)); and
- (c) specifying supplementary disclosure requirements, including GFS measures of key fiscal aggregates, reconciliations between GAAP and GFS measures of key fiscal aggregates and explanations of differences between GAAP and GFS (paragraphs 41 and 52(b)(ii)) – (see paragraphs BC48-BC52).

BC40BC41 The Board decided to utilise the GFS principles related to the distinction between transactions and other economic flows for presentation purposes in the operating statement as it facilitates GAAP/GFS harmonisation in a number of areas – especially at the key fiscal aggregates level. The Board formed the view that applying the GFS principles in this way is possible without breaching the principles of GAAP because the GAAP classification system has been retained but overlaid with the GFS classification system. Furthermore, GAAP disclosure requirements have been retained.

BC41BC42 In a whole of government context, including the disclosure of information about the PNFC sector and PFC sector, the Board

considered the manner in which transactions with owners as owners should be treated. It concluded that, because they are different in nature from amounts recognised on the face of the operating statement, such transactions should be disclosed in the notes or a separate statement. However, consistent with AASB 1049 (September 2006) and paragraph 97(b) and (c) of AASB 101 *Presentation of Financial Statements*, and subject to paragraph 97B of AASB 119 *Employee Benefits*, movements in reserves should be disclosed in notes, on the face of the operating statement or in a separate statement.

### **Limitation of GAAP Options [Paragraph 13]**

BC42BC43 The Board concluded that, where other Australian Accounting Standards allow optional treatments, ~~with limited exceptions~~, only those treatments that align with GFS should be applied. The Board concluded that this is appropriate because it results in the selection of the accounting policies that advance the objective of GAAP/GFS harmonisation. The Board noted that this would in turn improve consistency and comparability between jurisdictions. Although this issue was considered in a GGS context, the Board concluded that there is no reason to adopt a different approach in a whole of government context.

BC43BC44 This approach, which results in mandating a particular accounting policy or limiting an otherwise broader choice of policies, is a crucial element of GAAP/GFS harmonisation as it facilitates the adoption of GFS treatments within the GAAP framework.

BC44BC45 A contrary view considered by the Board is that all Australian Accounting Standards should apply, without exception, including the full range of optional treatments in those Standards. Under this view, any optional treatments available under GAAP would be available even where they do not align with GFS. It was also suggested that mandating particular optional treatments undermines the transaction neutrality principle. The Board rejected this view as not supporting the objective of GAAP/GFS harmonisation.

BC45 ~~The limited exception referred to in paragraph BC42 relates to borrowing costs. As noted in paragraph 44(a)(v), the Board decided that the optional treatments in AASB 123 *Borrowing Costs* that is available until reporting periods beginning on or after 1 January 2009 should not be allowed, to relieve entities from short term changes to accounting requirements.~~

### Adoption of ABS GFS [Paragraph 13]

BC46 The Board concluded that AASB 1049 should cross-reference to the GFS Manual published by the ABS as amended from time to time, rather than the International Monetary Fund's *Government Finance Statistics Manual 2001* (IMF GFSM 2001). It did so, notwithstanding the context of international harmonisation, on the basis that:

- (a) the ABS has a similar role to the role that the Board plays for GAAP. That is, the ABS GFS Manual refines the generic requirements of IMF GFSM 2001 into more specific and relevant requirements for the Australian context, and the Board refines the requirements of IFRSs in issuing Australian Accounting Standards equivalents to IFRSs in relation to not-for-profit entities. [Chapter 7 of the ABS GFS Manual includes a section on the relationship of the ABS GFS Manual to IMF GFSM 2001];
- (b) there is no compelling reason for preferring IMF GFSM 2001 over the ABS GFS Manual. Both the IMF and the ABS are independent authorities; and
- (c) Australia remains ahead of international developments in the field of GAAP/GFS harmonisation.

Although this issue was considered in a GGS context, the Board concluded that there is no reason to adopt a different approach in a whole of government context.

BC47 The reference to the ABS GFS Manual is an ambulatory reference, rather than a static one. This means that the ABS GFS Manual referred to is that which may be amended from time to time rather than necessarily the 2005 version. In the absence of an ambulatory reference, it may be necessary for the Board to revise its Standard more frequently than would otherwise be the case each time the ABS GFS Manual is amended.

### Presentation of Key Fiscal Aggregates [Paragraphs 16, 28, 32, 37, 41(a)(i) and 52(b)(ii)]

BC48 The Board concluded that, as well as requiring presentation of the usual GAAP aggregates, the Standard should require or allow certain GFS named key fiscal aggregates to be presented on the face of the financial statements. Although this issue was considered in a GGS context, the Board concluded that there is no reason to adopt a

Para BC47: staff suspect that even under an ambulatory reference to the ABS GFS Manual, it will be necessary to periodically revise the Standard, given the extent to which specific examples are included in the Standard. For example, the ABS currently has open for comment proposals for amending GFS in the light of the IMF review of the System of National Accounts 1993 (SNA93). If adopted, some of the proposals will change the examples in the Accounting Standard. For example, the proposals relating to R&D will change the nature of the convergence difference and the proposals relating to defence weapons will remove a convergence difference. Staff would anticipate the need for an amending Standard no more frequently than annually to give effect to the changes to the ABS GFS Manual. We would not anticipate any need to go through an Exposure Draft process given that the changes are consequential and do not change the principles in the Standard.

different approach in a whole of government context. These aggregates reflect some of the reporting features of the GFS system by including indicators of the macro-economic impact of a particular government's policy decisions on the economy as a whole, and its overall financing impact on capital markets. These GFS aggregates are important to understand a GGS and a whole of government (including its sectors) and therefore it is appropriate that they are should be displayed with an appropriate level of prominence prominently in the financial statements reports.

- BC49 The Board concluded that the key fiscal aggregates should be measured in a manner consistent with other amounts recognised on the face of the financial statements. The Board was mindful of the potential distortion of what might be regarded by some as 'pure GFS' measures of key fiscal aggregates. Nevertheless, the Board considered that the approach adopted increases understanding as to the manner in which the key fiscal aggregates are derived and interconnected with the existing GAAP concepts.
- BC50 Depending on the jurisdiction concerned, it is possible that the measurement differences will not be of great significance, and the Board expects that, over time, several of the measurement differences will be resolved. In any event, measurement differences are included in reconciliations and explanations that are required by paragraphs 41(a)(i)B and 52(b)(ii)B (see paragraph BC52).
- BC51 The Board also noted some concerns about the GFS nomenclature being used to describe the key fiscal aggregates. Despite these concerns, the same GFS nomenclature has been retained on the basis that to do otherwise would require the introduction of further definitions and terminology that could add to users' cause confusion for users. This approach is consistent with the Board's expectation that, over time, several of the differences will be resolved. The Board further noted that GAAP and GFS already share other terminology, such as assets and depreciation, despite being subject to different definition, recognition and measurement requirements.
- BC52 ~~Given the manner in which~~ Following the Board's decision to require ~~concluded that~~ the presentation of the key fiscal aggregates ~~should be dealt with~~ on the face of the financial statements, the Board also concluded that it is appropriate to stipulate certain disclosure requirements. Where the key fiscal aggregates presented on the face of the financial statements differ from those measured in accordance with the ABS GFS Manual, a reconciliation of the two measures and/or an explanation of the differences is required to be disclosed so that users are informed about the relationship between GAAP and GFS.

BC53 The level of prominence of those disclosures is not prescribed in the Standard. ~~Therefore, in determining their prominence in the financial report, regard can be had to an assessment of users' need for the information.~~

### **Disclosure of Functional Information [Paragraphs 48 and 49]**

BC54 The Board concluded that disaggregated/functional information disclosure requirements should be limited to expenses (excluding losses) recognised in operating result and assets. It noted that this disaggregation provides information that is useful in understanding the disbursement of the overall resources of a government. Although this issue was considered in a GGS context, the Board concluded that there is no reason to adopt a different approach in a whole of government context.

BC55 In drawing this conclusion, the Board took into account that AASB 114 *Segment Reporting* (and AASB 8) does not apply to not-for-profit entities. The Board is monitoring the implementation of the IASB and the IPSASB Standards on segment reporting, and this may lead to an amendment to the requirements for not-for-profit entities more generally.

BC56 The Board noted that governments are already providing comparable disaggregated information of GFS expenses and net acquisitions of GFS non-financial assets as part of their GFS reporting requirements and it does not appear to be unduly onerous. The Standard makes it clear that disaggregation should only occur where it can be reliably attributable to a function.

### **Budgetary Information [Paragraph 59]**

BC57 The FRC's broad strategic direction makes specific mention of budgetary information. The direction is, among other things, to achieve an Australian Accounting Standard "... in which the outcome statements are directly comparable with the relevant budget statements".

BC58 The Board concluded that the Standard should require disclosure of budgetary information where it is presented to parliament, including the original budgeted financial statements. The Board also concluded that explanations of major variances between the actual amounts presented on the face of the financial statements and corresponding budget amounts should be disclosed. Although this issue was considered in a GGS context, the Board concluded that there is no

reason to adopt a different approach in a whole of government context. In doing so, the Board noted that Australian Accounting Standards, including this Standard, do not prescribe the preparation of a budget. The Board also noted that governments typically budget on a GGS basis rather than on a whole of government basis.

- BC59 The Board concluded that the ‘presented’ budget is more relevant to users than the ‘adopted’ budget. The presented budget is the one most widely publicised and, accordingly, is the primary reference point for any assessment of the reliability of budgeting, identification of major variances and assessment of the quality of stewardship in relation to the period. Therefore, the Standard mandates inclusion of the first budget presented to parliament. The Standard also allows for revised budgeted financial statements to be disclosed, acknowledging that revised budgets may occur late in the financial period and their disclosure can play a role in demonstrating an aspect of stewardship.
- BC60 The Board concluded that the requirement for disclosure of explanations of major variances should be a key feature within the Standard. It did so on the basis that the information is useful and relevant to users and that merely recording the amount of the variance is not sufficient to meet accountability needs. An explanation of major variances is critical if users are to find comparisons between actual and budget valuable input to their analysis of the performance of government. A similar requirement exists within NZ IAS 1 *Presentation of Financial Statements* (paragraphs NZ41.1 and NZ41.2) – see also paragraph 70 of FRS-42 *Prospective Financial Statements*.
- BC61 This is not an area in which the IASB has developed an IFRS. The AASB considered IPSAS 24 *Presentation of Budget Information in Financial Statements* and concluded that it does not provide an appropriate basis for budgetary reporting in the Australian environment, particularly because it gives primacy to the budget basis over the accounting basis and contemplates explanations of variances being disclosed outside the financial report.
- BC62 The Board also noted that, as part of the Uniform Presentation Framework, typically Australian jurisdictions publish GGS budget information together with budget information relating to the PNFC sector (and the Non-Financial Public Sector, comprising the GGS and PNFC sector) but not the PFC sector. The Board considered whether sector-based budgetary information should be required to be disclosed in the whole of government financial report. The Board concluded that because the PNFC sector and PFC sector are not required by Australian Accounting Standards to prepare separate financial reports, a requirement to disclose budget information for the

PNFC sector and PFC sector in whole of government financial reports would be onerous and of limited use to users even if that budget information is presented to parliament. The Board also noted that GGS budgetary information is required to be disclosed in GGS financial reports in accordance with AASB 1049. Accordingly, the Board concluded that sector-based budgetary information should not be required to be disclosed in whole of government financial reports.

### Performance Indicators

- BC63 The proposals in Exposure Draft ED 142 *Financial Reporting of General Government Sectors by Governments* (issued July 2005) relating to performance indicators were modelled on the requirements that were contained within AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 at that time. Most respondents to ED 142 supported the principles but seemed to interpret the proposals as potentially mandating disclosure of performance indicators in the GGS financial reports. Many claimed it would be premature to mandate disclosure of performance indicators.
- BC64 The Board decided to not retain the proposed requirements and guidance for either whole of government financial reports or GGS financial reports. It intends to consider issues relating to performance indicators more comprehensively in a separate project in due course.

### Transitional Requirements [Paragraphs 66-68]

#### Whole of Government [Paragraph 66]

- BC65 The Board noted that jurisdictions adopted Australian equivalents to IFRSs for their whole of government financial reports for annual reporting periods ending on 30 June 2006 (under AAS 31 and AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*) and AASB 1049 requires the date of transition of the GGS to be the date of transition used in the whole of government financial reports. The Board also noted that all jurisdictions intended deferring adopting AASB 1049 (September 2006) until a whole of government harmonised Standard is in place (see paragraph BC2). Accordingly, the Board concluded that it is ~~not only~~ necessary to provide specific transitional requirements in a whole of government GAAP/GFS harmonised Standard to the extent necessary to facilitate consistency between GGS and whole of government financial reporting and between GAAP and GFS. Consequently, in all other circumstances, and that

AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* should apply.

**GGs [Paragraph 67]**

- BC66 The Board concluded that AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* should be applied by GGSs in their first financial report prepared in accordance with this Standard, with certain exceptions.
- BC67 As noted in paragraph BC65, the Board concluded that, in relation to the GGS, the date of transition of the GGS should be the date of transition used in the whole of government financial report and that the whole of government elections under AASB 1 that align with GFS should be adopted by the GGS. This is on the basis that the GGS is part of the whole of government. The Board noted that to do otherwise would ~~also inappropriately~~ give rise to potential differences between the amounts in the GGS financial report and the whole of government financial report ~~merely because of differences in dates of transition because some of the treatments in AASB 1 depend on the date of transition.~~
- BC68 The Board concluded that GGSs should be relieved from the disclosure requirements on transition, including the reconciliation from previous GAAP to Australian equivalents to IFRSs, in paragraphs 38 to 46 of AASB 1. The Board considers that the disclosures would not be relevant given that the date of transition of the GGS is the same as the date of transition used in the whole of government financial report, which is likely to be two or three years earlier than the first time the GGS applies this Standard.
- BC69 The Board also concluded that GGSs and whole of governments should be subject to the other aspects of AASB 1 to enable governments to avail themselves of the various forms of optional relief provided under AASB 1 to facilitate GAAP/GFS harmonisation. The extent to which that relief is available is limited to some extent by the operation of paragraphs 13, 66 and 68(c) of the Standard, ~~which requires GGSs to apply GFS treatments when they are available under GAAP.~~

## ILLUSTRATIVE EXAMPLES

*The following examples accompany, but are not part of, the Standard.*

	<i>Page</i>
<b>A Whole of Government Financial Statements and Selected Notes</b>	<b>62</b>
<b>B General Government Sector Financial Statements and Selected Notes</b>	<b>78</b>
<b>C Extract from the Note Containing the Summary of Significant Accounting Policies of a General Government Sector</b>	<b>99</b>
<b>D Key Technical Terms used in the Financial Reports</b>	<b>101</b>

*The following examples accompany, but are not part of, the Standard.*

Illustrative Examples A and B provide illustrations of acceptable formats for whole of government and GGS financial statements, respectively, that are consistent with the requirements of the Standard and the assumptions made for the purpose of the illustrations. They also illustrate an acceptable style and format for reconciliation notes and functional information. Furthermore, sector information is illustrated for the whole of government in Illustrative Example A.

The styles and formats illustrated are not mandatory. Other styles and formats may be equally appropriate if they meet the requirements of the Standard.

To assist an understanding of the illustrations, particularly in relation to differences between GAAP and GFS, explanatory notes are provided at the end of Illustrative Example B and relate to both illustrations. They do not form part of the illustrative financial statements or notes.

~~Illustrations~~ Illustrative Examples A and B do not purport to identify all possible differences between GAAP and GFS, nor to present on the face of the financial statements all the line items as might be required by a different set of assumptions. Additionally, they do not illustrate the disclosure of comparative period information, and notes required by AASB 1049 paragraphs 41<sup>4</sup>, 43 (except the relevant reconciliation notes)<sup>5</sup>, 54(a) and the explanation of differences required by 54(b)(ii)B. They also do not illustrate the disclosure requirements of budgetary information (paragraphs 61-67 of AASB 1049), nor all the disclosures required by other Australian Accounting Standards.

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4 Illustrative Example C provides an example of the information to be included in the summary of significant accounting policies of the GGS in accordance with paragraph 41(b).

5 Illustrative Example D provides an example of the information to be included in the other explanatory notes of the whole of government and GGS regarding explanations of key technical terms in accordance with paragraph 43(a)(iv).

The numbers used are based on assumptions made for illustrative purposes only.



## ILLUSTRATIVE EXAMPLE A

### Whole of Government Financial Statements and Selected Notes

#### Operating Statement for the Whole of Government of the ABC Government for the Year Ended 30 June 20XX

	Notes	\$	m
<b>Revenue from Transactions</b>			
Taxation revenue			209,178
Other revenue			
Interest, other than swap interest	3,		298
Dividends from associates (part of share of net profit/(loss) from associates)			3
Sales of goods and services	12,		862
Other current revenues	2,		792
	228,		133
<b>Expenses from Transactions</b>			
Employee expenses			
Wages, salaries and supplements	(		20,866)
Superannuation	(		2,477)
Use of goods and services	(		40,710)
Depreciation	(		3,823)
Interest, other than swap interest and superannuation interest expenses			(4,841)
Subsidy expenses	(		5,253)
Grants	(		69,494)
Social benefits	(		71,730)
Superannuation net interest expenses	(		4,902)
Loss on write-off of financial assets at fair value through operating result			(380)
	(		224,476)
<b>NET RESULT FROM TRANSACTIONS – NET OPERATING BALANCE</b>			<b>3,657</b>

**Other Economic Flows – Included in Operating Result**

Other revenue		
Net swap interest revenue	577	
Net foreign exchange gains	2,	120
Net gain on sale of non-financial assets		343
Net gain on financial assets or liabilities at fair value through operating result		265
Net actuarial gains <sup>a</sup>	866	
Amortisation of non-produced assets	(	119)
Doubtful debts	(	604)
Share of net profit/(loss) from associates, excluding dividends		(26)
	3,	<u>422</u>
		<b><u>7,079</u></b>

**OPERATING RESULT**

**Other Economic Flows – Other Non-owner Movements in Equity**

Revaluations		1,589
Net gain on financial assets measured at fair value		<u>2,946</u>
		4,535

**COMPREHENSIVE RESULT – TOTAL CHANGE IN NET WORTH BEFORE TRANSACTIONS WITH OWNERS AS OWNERS**

**11,614**

**KEY FISCAL AGGREGATES**

<b>NET LENDING/(BORROWING)</b>	S2	<b>5,100</b>
<i>plus</i> Net acquisition/(disposal) of non-financial assets from transactions	(	<u>1,443</u> )
<b>NET OPERATING BALANCE</b>	S1	<b>3,657</b>
<i>plus</i> Net other economic flows	7,	957
<b>TOTAL CHANGE IN NET WORTH BEFORE TRANSACTIONS WITH OWNERS AS OWNERS</b>	S3	<b><u>11,614</u></b>

<sup>a</sup> Explanatory note: As noted in paragraph 14(c) of the Standard, an alternative treatment of net actuarial gains relating to defined benefit superannuation plans [consistent with paragraph 93B of AASB 119 *Employee Benefits*] would be to present them under the heading 'Other Non-Owner Movements in Equity'. Choosing that option would (consistent with AASB 119.93B) prevent the inclusion on the face of the operating statement of the opening and closing balances of accumulated surplus/(deficit) and the changes during the period (referred to in paragraph 97(b) of AASB 101 *Presentation of Financial Statements*).

**Balance Sheet for the Whole of Government of the ABC Government  
 as at 30 June 20XX**

	Notes	\$	m
<b>Assets</b>			
<i>Financial Assets</i>			
Cash and deposits	14,		070
Accounts receivable	18,		080
Securities other than shares	78,		438
Loans	9,		956
Advances	7,		758
Shares and other equity			
Investments accounted for using equity method			695
Investments in other entities	1,		142
	130,		<u>139</u>
<i>Non-Financial Assets</i>			
Produced assets			
Inventories	5,		346
Machinery and equipment	67,		014
Buildings and structures	16,		654
Intangibles	1,		380
Valuables	6,		867
Non-produced assets			
Land	9,		876
Intangibles	1,		193
			<u>108,330</u>
<b>TOTAL ASSETS</b>			<b>238,469</b>

<b>Liabilities</b>		
Deposits held	81,	311
Accounts payable	5,	080
Securities other than shares	21,	520
Loans	9,	346
Superannuation	89,	858
Provisions	30,	298
<b>TOTAL LIABILITIES</b>		<u><b>237,413</b></u>
<b>NET ASSETS/(LIABILITIES)</b>		<u><b>1,056</b></u>
Accumulated surplus/(deficit)	(	33,041)
Other reserves	34,	097
<b>NET WORTH</b>	T	<u><u><b>1,056</b></u></u>

**Cash Flow Statement for the Whole of Government of the ABC Government  
 for the Year Ended 30 June 20XX**

	Notes	\$m
<b>Cash Flows from Operating Activities</b>		
Cash received		
Taxes received	206,	343
Sales of goods and services	10,	624
Interest, excluding swap interest	3,	298
Dividends from associates	3	
Other receipts	3,	161
	223,	<u>429</u>
Cash paid		
Payments to employees	(	19,996)
Purchases of goods and services	(	41,019)
Interest, excluding swap interest	(	4,841)
Subsidies	(	5,253)
Grants	(	69,494)
Social benefits	(	70,597)
Other payments	(	4,123)
	(	<u>215,323</u> )
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>8,106</b>
<b>Cash Flows from Investing Activities</b>		
<i>Non-Financial Assets</i>		
Sales of non-financial assets	3,	036
Purchases of new non-financial assets	(	<u>5,238</u> )
Net cash flows from investments in non-financial assets		(2,202)
<i>Financial Assets (Policy Purposes)</i>		
Purchases of investments	(	<u>1,641</u> )
Net cash flows from investments in financial assets (policy purposes)		(1,641)

<i>Financial Assets (Liquidity Management Purposes)</i>		
Sales of investments	1,	778
Purchases of investments	(	<u>9,084</u>
Net cash flows from investments in financial assets (liquidity management purposes)		(7,306)
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(11,149)</b>
<b>Cash Flows from Financing Activities</b>		
Cash received		
Borrowing	9,	692
Deposits received	6,	947
Swap interest	3,	617
Other financing	2,	<u>857</u>
	23,	113
Cash paid		
Borrowing	(	15,325)
Deposits paid	(	1,841)
Swap interest	(	3,040)
Other financing	(	<u>1,870</u>
	(	22,076)
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b><u>1,037</u></b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(2,006)</b>
Cash and cash equivalents at beginning of year	16,	<u>076</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b><u>14,070</u></b>
<b>KEY FISCAL AGGREGATE</b>		
Net cash flows from operating activities	8,	106
Net cash flows from investments in non-financial assets	(	<u>2,202</u>
<b>CASH SURPLUS/(DEFICIT)</b>	U	<b><u>5,904</u></b>

**R1 Operating Statement for the Whole of Government by Sector of the ABC Government  
for the Year Ended 30 June 20XX**

	GGS Notes	\$m	\$m	PNFC sector \$m	PFC sector E	eliminations \$m	Whole of Government \$m
<b>Revenue from Transactions</b>							
Taxation revenue		209,178	-	-	-	-	209,178
Other revenue							
Interest, other than swap interest		1,304	113	3,969	(2,088)		3,298
Dividends and income tax equivalents from other sector entities		1,399	-	-	(1,399)		-
Dividends from associates (part of share of net profit/(loss) from associates)		1	2	-	-		3
Sales of goods and services		4,314	6,079	3,677	(1,208)		12,862
Other current revenues		2,684	130	176	(198)		2,792
		218,880	6,324	7,822	(4,893)		228,133
<b>Expenses from Transactions</b>							
Employee expenses							
Wages, salaries and supplements		(14,178)	(6,302)	(386)	-		(20,866)
Superannuation		(2,069)	(395)	(13)	-		(2,477)
Use of goods and services		(37,898)	(550)	(2,855)	593		(40,710)
Depreciation		(3,672)	(125)	(26)	-		(3,823)
Interest, other than swap interest and superannuation interest expenses		(4,201)	(513)	(2,215)	2,088		(4,841)
Subsidy expenses		(5,742)	-	-	489		(5,253)
Grants		(69,692)	-	-	198		(69,494)
Social benefits		(71,856)	-	-	126		(71,730)
Income tax equivalents expenses		-	(200)	(151)	351		-
Superannuation net interest expenses		(4,898)	(3)	(1)	-		(4,902)
Loss on write-off of financial assets at fair value through operating result		(380)	-	-	-		(380)
		( 214,586)	(8,088)	(5,647)	3,845		(224,476)
<b>NET RESULT FROM TRANSACTIONS – NET OPERATING BALANCE</b>		<b>4,294</b>	<b>(1,764)</b>	<b>2,175</b>	<b>(1,048)</b>		<b>3,657</b>

**Other Economic Flows – Included in Operating Result**

Other revenue					
Net swap interest revenue	340	69	168	-	577
Dividends from other sector entities	300	-	-	(300)	-
Net foreign exchange gains/(losses)	599	(3)	1,524	-	2,120
Net gain on sale of non-financial assets	200	145	(2)	-	343
Net gain on financial assets or liabilities at fair value through operating result	220	-	45	-	265
Net actuarial gains	840	21	5	-	866
Amortisation of non-produced assets	(75)	(43)	(1)	-	(119)
Doubtful debts	(500)	(63)	(41)	-	(604)
Share of net profit/(loss) from associates, excluding dividends	(51)	25	-	-	(26)
	<u>1,873</u>	<u>151</u>	<u>1,698</u>	<u>(300)</u>	<u>3,422</u>
<b>OPERATING RESULT</b>	<b><u>6,167</u></b>	<b><u>(1,613)</u></b>	<b><u>3,873</u></b>	<b><u>(1,348)</u></b>	<b><u>7,079</u></b>

**Other Economic Flows – Other Non-owner Movements in Equity**

Revaluations 1	,552	20	17	-	1,589
Net gain on equity investments in other sector entities measured at proportional share of net assets/(liabilities)	1,072	-	-	(1,072)	-
Net gain on financial assets measured at fair value	1,000	15	1,931	-	2,946
	<u>3,624</u>	<u>35</u>	<u>1,948</u>	<u>(1,072)</u>	<u>4,535</u>

**COMPREHENSIVE RESULT – TOTAL CHANGE IN NET WORTH BEFORE TRANSACTIONS WITH OWNERS AS OWNERS**

**KEY FISCAL AGGREGATES**

<b>NET LENDING/(BORROWING)</b>	S2	<b>4,967</b>	<b>(1,042)</b>	<b>2,223</b>	<b>(1,048)</b>	<b>5,100</b>
<i>plus</i> Net acquisition/(disposal) of non-financial assets from transactions	(	673)	(722)	(48)	-	(1,443)
<b>NET OPERATING BALANCE</b>	S1	<b>4,294</b>	<b>(1,764)</b>	<b>2,175</b>	<b>(1,048)</b>	<b>3,657</b>
<i>plus</i> Net other economic flows		5,497	186	3,646	(1,372)	7,957
<b>TOTAL CHANGE IN NET WORTH BEFORE TRANSACTIONS WITH OWNERS AS OWNERS</b>	S3	<b>9,791</b>	<b>(1,578)</b>	<b>5,821</b>	<b>(2,420)</b>	<b>11,614</b>

**R2 Balance Sheet for the Whole of Government by Sector of the ABC Government  
as at 30 June 20XX**

	N	otes	GGS \$m	PNFC sector \$m	PFC sector E \$m	eliminations \$m	Whole of Government \$m
<b>Assets</b>							
<i>Financial Assets</i>							
Cash and deposits			10,591	939	2,540	-	14,070
Accounts receivable			16,748	764	2,557	(1,989)	18,080
Securities other than shares			24,188	457	104,293	(50,500)	78,438
Loans			10,302	15	98	(459)	9,956
Advances			7,758	-	-	-	7,758
Shares and other equity							
Investments accounted for using equity method			365	330	-	-	695
Investments in other entities (excluding sector entities)			-	357	785	-	1,142
Investments in other sector entities			32,759	-	-	(32,759)	-
			102,711	2,862	110,273	(85,707)	130,139
<i>Non-Financial Assets</i>							
Produced assets							
Inventories			4,832	502	12	-	5,346
Machinery and equipment			54,367	12,546	101	-	67,014
Buildings and structures			14,152	1,821	681	-	16,654
Intangibles			1,250	115	15	-	1,380
Valuables			6,442	358	67	-	6,867
Non-produced assets							
Land			5,196	4,327	353	-	9,876
Intangibles			747	428	18	-	1,193
			86,986	20,097	1,247	-	108,330
<b>TOTAL ASSETS</b>			<b>189,697</b>	<b>22,959</b>	<b>111,520</b>	<b>(85,707)</b>	<b>238,469</b>

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<b>Liabilities</b>					
Deposits held	364	10	80,937	-	81,311
Accounts payable	5,253	150	1,666	(1,989)	5,080
Securities other than shares	60,650	500	10,870	(50,500)	21,520
Loans	6,246	359	3,200	(459)	9,346
Deferred tax liability	-	506	-	(506)	-
Unfunded superannuation	88,540	768	550	-	89,858
Provisions	28,094	659	1,545	-	30,298
<b>TOTAL LIABILITIES</b>	<b>189,147</b>	<b>2,952</b>	<b>98,768</b>	<b>(53,454)</b>	<b>237,413</b>
<b>NET ASSETS/(LIABILITIES)</b>	<b>550</b>	<b>20,007</b>	<b>12,752</b>	<b>(32,253)</b>	<b>1,056</b>
Contributed Equity	-	6,900	350	(7,250)	-
Accumulated surplus/(deficit)	(19,252)	10,857	863	(25,509)	(33,041)
Other reserves	19,802	2,250	11,539	506	34,097
<b>NET WORTH</b>	<b>550</b>	<b>20,007</b>	<b>12,752</b>	<b>(32,253)</b>	<b>1,056</b>

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**R3 Cash Flow Statement for the Whole of Government by Sector of the ABC Government  
for Year Ended 30 June 20XX**

	Notes	GGS \$m	PNFC sector \$m	PFC sector E \$m	eliminations \$m	Whole of Government \$m
<b>Cash Flows from Operating Activities</b>						
Cash received						
Taxes received		206,343	-	-	-	206,343
Sales of goods and services		4,314	5,615	1,899	(1,204)	10,624
Interest, excluding swap interest		1,304	113	3,969	(2,088)	3,298
Dividends and income tax equivalents receipts		1,399	-	-	(1,399)	-
Dividends from associates		1	2	-	-	3
Other receipts		2,935	275	159	(208)	3,161
		<u>216,296</u>	<u>6,005</u>	<u>6,027</u>	<u>(4,899)</u>	<u>223,429</u>
Cash paid						
Income tax equivalents paid		-	(200)	(151)	351	-
Payments to employees		(16,247)	(3,397)	(352)	-	(19,996)
Purchases of goods and services		(37,898)	(3,151)	(559)	589	(41,019)
Interest, excluding swap interest		(4,201)	(513)	(2,215)	2,088	(4,841)
Subsidies		(5,742)	-	-	489	(5,253)
Grants		(69,692)	-	-	198	(69,494)
Social benefits		(70,723)	-	-	126	(70,597)
Other payments		(2,134)	(1,157)	(842)	10	(4,123)
		<u>(206,637)</u>	<u>(8,418)</u>	<u>(4,119)</u>	<u>3,851</u>	<u>(215,323)</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>9,659</b>	<b>(2,413)</b>	<b>1,908</b>	<b>(1,048)</b>	<b>8,106</b>
<b>Cash Flows from Investing Activities</b>						
<i>Non-Financial Assets</i>						
Sales of non-financial assets		1,734	1,234	68	-	3,036
Purchases of new non-financial assets		(4,504)	(689)	(45)	-	(5,238)
Net cash flows from investments in non-financial assets		<u>(2,770)</u>	<u>545</u>	<u>23</u>	<u>-</u>	<u>(2,202)</u>
<i>Financial Assets (Policy Purposes)</i>						
Dividends received out of proceeds from sale of PNFC sector assets		300	-	-	(300)	-
Purchases of investments		(1,641)	-	-	-	(1,641)
Net cash flows from investments in financial assets (policy purposes)		<u>(1,341)</u>	<u>-</u>	<u>-</u>	<u>(300)</u>	<u>(1,641)</u>

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<b>Financial Assets (Liquidity Management Purposes)</b>					
Sales of investments	500	45	1,977	(744)	1,778
Purchases of investments	(3,500)	(5)	(9,934)	4,355	(9,084)
Net cash flows from investments in financial assets (liquidity management purposes)	(3,000)	40	(7,957)	3,611	(7,306)
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(7,111)</b>	<b>585</b>	<b>(7,934)</b>	<b>3,311</b>	<b>(11,149)</b>
<b>Cash Flows from Financing Activities</b>					
Cash received					
Borrowing	13,597	450	-	(4,355)	9,692
Deposits received	899	20	6,028	-	6,947
Swap interest	1,912	110	1,595	-	3,617
Other financing	233	169	2,455	-	2,857
	16,641	749	10,078	(4,355)	23,113
Cash paid					
Borrowing	( 15,032)	(677)	(360)	744	(15,325)
Deposits paid	( 213)	(7)	(1,621)	-	(1,841)
Swap interest	( 1,572)	(41)	(1,427)	-	(3,040)
Dividends paid out of proceeds from sale of assets	-	(300)	-	300	-
Other dividends paid	-	(259)	(789)	1,048	-
Other financing	( 765)	(990)	(115)	-	(1,870)
	(17,582)	( 2,274)	(4,312)	2,092	(22,076)
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>(941)</b>	<b>(1,525)</b>	<b>5,766</b>	<b>(2,263)</b>	<b>1,037</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,607</b>	<b>(3,353)</b>	<b>(260)</b>	<b>-</b>	<b>(2,006)</b>
Cash and cash equivalents at beginning of year	8,984	4,292	2,800	-	16,076
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>10,591</b>	<b>939</b>	<b>2,540</b>	<b>-</b>	<b>14,070</b>
<b>KEY FISCAL AGGREGATE</b>					
Net cash flows from operating activities	9,659	(2,413)	1,908	(1,048)	8,106
Net cash flows from investments in non-financial assets	(2,770)	545	23	-	(2,202)
<b>CASH SURPLUS/(DEFICIT)</b>	<b>6,889</b>	<b>(1,868)</b>	<b>1,931</b>	<b>(1,048)</b>	<b>5,904</b>

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	GGS	PNFC sector	PFC sector	Eliminations	Whole of Government	Explanatory Notes
Notes	\$m	\$m	\$m	\$m	\$m	
<b>Note S1 – Reconciliation to GFS Net Operating Balance*</b>						
Net result from transactions – net operating balance	4,294	(1,764)	2,175	(1,048)	3,657	
Convergence differences						
Use of goods and services – defence weapons	(2,040)	-	-	-	(2,040)	a(i)
– development costs	(45)	(41)	-	-	(86)	a(ii)
Depreciation – defence weapons	2,104	-	-	-	2,104	b(i)
– development costs	6	5	-	-	11	b(ii)
Social benefits	94	-	-	-	94	c
Dividends to GGS from other sector entities	-	(259)	(789)	1,048	-	d
Total convergence differences	119	(295)	(789)	1,048	83	
<b>GFS NET OPERATING BALANCE</b>	<b>4,413</b>	<b>(2,059)</b>	<b>1,386</b>	<b>-</b>	<b>3,740</b>	e
<b>Note S2 – Reconciliation to GFS Net Lending/(Borrowing)*</b>						
Net lending/(borrowing)	4,967	(1,042)	2,223	(1,048)	5,100	
Convergence differences						
Relating to net operating balance	119	(295)	(789)	1,048	83	
Relating to net acquisition/(disposal) of non-financial assets from transactions	(100)	(7)	(1)	-	(108)	f
Total convergence differences	19	(302)	(790)	1,048	(25)	
<b>GFS NET LENDING/(BORROWING)</b>	<b>4,986</b>	<b>(1,344)</b>	<b>1,433</b>	<b>-</b>	<b>5,075</b>	

**Note S3 – Reconciliation to GFS Total Change in Net Worth\***

Comprehensive result – total change in net worth before transactions with owners as owners		9,791	(1,578)	5,821	(2,420)	11,614	
Convergence differences							
Relating to net operating balance	S1	119	(295)	(789)	1,048	83	
Relating to other economic flows							
Dividends to GGS out of proceeds from sale of PNFC sector assets		(300)	-	-	300	-	g
Doubtful debts		500	63	41	-	604	h
Net gain on equity investments in other sector entities measured at proportional share of net assets/(liabilities)		390	-	-	(390)	-	i
Share of net profit/(loss) from associates (excluding dividends)		51	-	-	-	51	j
Revaluations – defence weapons		920	-	-	-	920	k(i)
Revaluations – market value of investments		(55)	-	-	-	(55)	k(ii)
Revaluations – intangible assets		130	12	-	-	142	k(iii)
Revaluations – property		-	10	-	(10)	-	k(iv)
Remeasurement of shares and other contributed capital		-	1,788	(5,073)	3,285	-	l
Total convergence differences		1,755	1,578	(5,821)	4,233	1,745	
<b>GFS TOTAL CHANGE IN NET WORTH</b>		<b>11,546</b>	<b>-</b>	<b>-</b>	<b>1,813</b>	<b>13,359</b>	

\*Determined in accordance with the ABS GFS Manual.

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	GGs	PNFC sector	PFC sector	Eliminations	Whole of Government	
Notes	\$m	\$m	\$m	\$m	\$m	Explanatory Notes
<b>Note T – Reconciliation to GFS Net Worth*</b>						
Net worth	550	20,007	12,752	(32,253)	1,056	
Convergence differences						
Assets						
Accounts receivable	1,800	165	298	-	2,263	m
Shares and other equity						
Investments accounted for using equity method	36	-	-	-	36	n
Investments in other sector entities	900	-	-	(900)	-	o
Fixed assets						
Machinery and equipment	(30,745)	-	-	-	(30,745)	p
Intangible fixed assets – research and development	(400)	(69)	-	-	(469)	q(i)
Intangible fixed assets – no active market	150	-	-	-	150	q(ii)
Liabilities						
Provisions 94		-	-	-	94	r(i)
Deferred tax liability	-	506	-	(506)	-	r(ii)
Shares and other contributed capital	-	(20,609)	(13,050)	33,659	-	s
Total convergence differences	(28,165)	(20,007)	(12,752)	32,253	(28,671)	
<b>GFS NET WORTH</b>	<b>(27,615)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(27,615)</b>	t
<b>Note U – Reconciliation to GFS Cash Surplus/(Deficit)*</b>						
Cash surplus/(deficit)	6,889	(1,868)	1,931	(1,048)	5,904	
Convergence differences						
Adjustments to cash flows from investments in non-financial assets						
Finance leases and similar arrangements	(4)	-	-	-	(4)	u
<b>GFS CASH SURPLUS/(DEFICIT)</b>	<b>6,885</b>	<b>(1,868)</b>	<b>1,931</b>	<b>(1,048)</b>	<b>5,900</b>	v

\*Determined in accordance with the ABS GFS Manual.

## Disaggregated Information

### Z Functional Classification for Whole of Government

	Expenses, excluding losses, included in operating result 20XX \$m	Assets 20XX \$m
General public services	(53,194)	10,009
Defence	(13,669)	78,063
Public order and safety	(2,521)	5,587
Education	(14,156)	8,645
Health	(33,569)	2,002
Social security and welfare	(72,488)	4,045
Housing and community amenities	(1,727)	5,533
Recreation and culture	(2,291)	3,003
Fuel and energy	(1,546)	990
Agriculture, forestry, fishing and hunting	(3,711)	2,572
Mining and mineral resources, other than fuels; manufacturing; and construction	(3,756)	2,515
Transport and communications	(4,509)	17,051
Other economic affairs	(1,502)	1,046
Other purposes <sup>b</sup>	(15,576)	97,408
<b>TOTAL</b>	<b>(224,215)</b>	<b>238,469</b>

<sup>b</sup> Explanatory note: For the purpose of this illustration, financial assets that are not allocated to other functions are included in the 'Other purposes' function.

#### *Reconciliation of 'expenses, excluding losses, included in the operating result' to 'expenses from transactions' in the operating statement*

20XX	\$m
Expenses from transactions	224,476
Less: loss on write-off of financial assets at fair value through operating statement	(380)
224,096	
Plus: amortisation of non-produced assets	119
<b>Expenses, excluding losses, included in operating result</b>	<b>224,215</b>

## ILLUSTRATIVE EXAMPLE B

### General Government Sector Financial Statements and Selected Notes

#### Operating Statement for the General Government Sector of the ABC Government for the Year Ended 30 June 20XX

	Notes	\$	m
<b>Revenue from Transactions</b>			
Taxation revenue	209,		178
Other revenue			
Interest, other than swap interest			1,304
Dividends and income tax equivalents from other sector entities			1,399
Dividends from associates (part of share of net profit/(loss) from associates)			1
Sales of goods and services			4,314
Other current revenues			<u>2,684</u>
	218,		880
<b>Expenses from Transactions</b>			
Employee expenses			
Wages, salaries and supplements			(14,178)
Superannuation			(2,069)
Use of goods and services			(37,898)
Depreciation	(		3,672)
Interest, other than swap interest and superannuation interest expenses			(4,201)
Subsidy expenses	(		5,742)
Grants	(		69,692)
Social benefits	(		71,856)
Superannuation net interest expenses			(4,898)
Loss on write-off of financial assets at fair value through operating result			<u>(380)</u>
	(		<u>214,586)</u>
<b>NET RESULT FROM TRANSACTIONS – NET OPERATING BALANCE</b>			<b>4,294</b>

<b>Other Economic Flows – Included in Operating Result</b>	
Other revenue	
Net swap interest revenue	340
Dividends from other sector entities	300
Net foreign exchange gains	599
Net gain on sale of non-financial assets	200
Net gain on financial assets or liabilities at fair value through operating result	220
Net actuarial gains <sup>a</sup>	840
Amortisation of non-produced assets	(75)
Doubtful debts	( 500)
Share of net profit/(loss) from associates, excluding dividends	1, (51)
	873
<b>OPERATING RESULT</b>	<b>6,167</b>
<b>Other Economic Flows – Other Movements in Equity</b>	
Revaluations	1, 552
Net gain on equity investments in other sector entities measured at proportional share of net assets/(liabilities)	1,072
Net gain on financial assets measured at fair value	1,000
	3, 624
<b>COMPREHENSIVE RESULT – TOTAL CHANGE IN NET WORTH</b>	<b>9,791</b>
<b>KEY FISCAL AGGREGATES</b>	
<b>NET LENDING/(BORROWING)</b>	<b>S2 4,967</b>
<i>plus</i> Net acquisition/(disposal) of non-financial assets from transactions	( 673)
<b>NET OPERATING BALANCE</b>	<b>S1 4,294</b>
<i>plus</i> Net other economic flows	5, 497
<b>TOTAL CHANGE IN NET WORTH</b>	<b>S3 9,791</b>

<sup>a</sup> Explanatory note: As noted in paragraph 14(c) of the Standard, an alternative treatment of net actuarial gains relating to defined benefit superannuation plans [consistent with paragraph 93B of AASB 119 *Employee Benefits*] would be to present them under the heading 'Other Movements in Equity'. Choosing that option would (consistent with AASB 119.93B) prevent the inclusion on the face of the operating statement of the opening and closing balances of accumulated surplus/(deficit) and the changes during the period (referred to in paragraph 97(b) of AASB 101 *Presentation of Financial Statements*).

**Balance Sheet for the General Government Sector of the ABC Government  
 as at 30 June 20XX**

	Notes	\$	m
<b>Assets</b>			
<i>Financial Assets</i>			
Cash and deposits		10,591	
Accounts receivable		16,748	
Securities other than shares		24,188	
Loans		10,302	
Advances		7,758	
Shares and other equity			
Investments accounted for using equity method		365	
Investments in other sector entities		32,759	
	102,	711	
<i>Non-Financial Assets</i>			
Produced assets			
Inventories	4,	832	
Machinery and equipment	54,	367	
Buildings and structures		14,152	
Intangibles	1,	250	
Valuables	6,	442	
Non-produced assets			
Land and Intangibles	5,	196	
		747	
	86,	986	
<b>TOTAL ASSETS</b>		<b>189,697</b>	

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<b>Liabilities</b>	
Deposits held	364
Accounts payable	5, 253
Securities other than shares	60,650
Loans	6, 246
Superannuation	88, 540
Provisions	28, 094
<b>TOTAL LIABILITIES</b>	<b><u>189,147</u></b>
<b>NET ASSETS/(LIABILITIES)</b>	<b><u>550</u></b>
Accumulated surplus/(deficit)	(19,252)
Other reserves	19, 802
<b>NET WORTH</b>	<b>T <u>550</u></b>

**Cash Flow Statement for the General Government Sector of the ABC Government for the Year Ended 30 June 20XX**

	Notes	\$m
<b>Cash Flows from Operating Activities</b>		
Cash received		
Taxes received	206,	343
Sales of goods and services	4,	314
Interest, excluding swap interest	1,	304
Dividends and income tax equivalents receipts	1,	399
Dividends from associates		1
Other receipts	2,	935
	216,	296
Cash paid		
Payments to employees	(	16,247)
Purchases of goods and services	(	37,898)
Interest, excluding swap interest		(4,201)
Subsidies	(	5,742)
Grants	(	69,692)
Social benefits	(	70,723)
Other payments	(	2,134)
	(	206,637)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>9,659</b>
<b>Cash Flows from Investing Activities</b>		
<i>Non-Financial Assets</i>		
Sales of non-financial assets	1,	734
Purchases of new non-financial assets	(	4,504)
Net cash flows from investments in non-financial assets		(2,770)
<i>Financial Assets (Policy Purposes)</i>		
Dividends received out of proceeds from sale of PNFC assets	300	
Purchases of investments	(	1,641)
Net cash flows from investments in financial assets (policy purposes)		(1,341)

<b>Financial Assets (Liquidity Management Purposes)</b>	
Sales of investments	500
Purchases of investments	( 3,500)
Net cash flows from investments in financial assets (liquidity management purposes)	(3,000)
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(7,111)</b>
<b>Cash Flows from Financing Activities</b>	
Cash received	
Borrowing	13, 597
Deposits received	899
Swap interest	1, 912
Other financing	233
	16, 641
Cash paid	
Borrowing	( 15,032)
Deposits paid	( 213)
Swap interest	( 1,572)
Other financing	( 765)
	( 17,582)
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>(941)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,607</b>
Cash and cash equivalents at beginning of year	8, 984
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>10,591</b>
<b>KEY FISCAL AGGREGATE</b>	
Net cash flows from operating activities	9, 659
Net cash flows from investments in non-financial assets	( 2,770)
<b>CASH SURPLUS/(DEFICIT)</b>	<b>U 6,889</b>

<b>Note S1 – Reconciliation to GFS Net Operating Balance*</b>	Notes	20XX \$m	E	xplanatory Notes
Net result from transactions – net operating balance		4,294		
Convergence differences				
Use of goods and services – defence weapons		(2,040)		a(i)
– development costs		(45)		a(ii)
Depreciation – defence weapons		2,104		b(i)
– development costs		6		b(ii)
Social benefits		94		c
Total convergence differences		<u>119</u>		
<b>GFS NET OPERATING BALANCE</b>		<b><u>4,413</u></b>		e
<b>Note S2 – Reconciliation to GFS Net Lending/(Borrowing)*</b>				
Net lending/(borrowing)				
Convergence differences		4,967		
Relating to net operating balance	S1	119		
Relating to net acquisition/(disposal) of non-financial assets from transactions		<u>(100)</u>		f
Total convergence differences		19		
<b>GFS NET LENDING/(BORROWING)</b>		<b><u>4,986</u></b>		
<b>Note S3 – Reconciliation to GFS Total Change in Net Worth*</b>				
Comprehensive result – total change in net worth		9,791		
Convergence differences				
Relating to net operating balance	S1	119		
Relating to other economic flows				
Dividends to GGS out of proceeds from sale of PNFC assets		(300)		g
Doubtful debts		500		h
Net gain on equity investments in other sector entities measured at proportional share of net assets/(liabilities)		390		i
Share of net profit/(loss) from associates (excluding dividends)		51		j
Revaluations – defence weapons		920		k(i)
Revaluations – market value of investments		(55)		k(ii)
Revaluations – intangible assets		<u>130</u>		k(iii)
Total convergence differences		1,755		
<b>GFS TOTAL CHANGE IN NET WORTH</b>		<b><u>11,546</u></b>		

\*Determined in accordance with the ABS GFS Manual.

<b>Note T – Reconciliation to GFS Net Worth*</b>		\$m		Explanatory Notes
Notes				
Net worth	550			
Convergence differences				
Assets				
Accounts receivable	1,	800		m
Shares and other equity				
Investments accounted for using equity method	36			n
Investments in other sector entities	900			o
Fixed assets				
Machinery and equipment	(	30,745)		p
Intangible fixed assets – research and development	(	400)		q(i)
Intangible fixed assets – no active market	150			q(ii)
Liabilities				
Provisions	94			r(i)
Total convergence differences	(	28,165)		
<b>GFS NET WORTH</b>		<b>(27,615)</b>		t
<b>Note U – Reconciliation to GFS Cash Surplus/(Deficit)*</b>				
Cash surplus/(deficit)		6,889		
Convergence differences				
Adjustments to cash flows from investments in non-financial assets				
Finance leases and similar arrangements		(4)		u
<b>GFS CASH SURPLUS/(DEFICIT)</b>		<b>6,885</b>		v

\*Determined in accordance with the ABS GFS Manual.

## Disaggregated Information

### Z Functional Classification for General Government Sector

	20XX Expenses, excluding losses, included in operating result \$m	20XX Assets \$m
General public services	(50,661)	7,149
Defence	(13,018)	55,759
Public order and safety	(2,401)	3,991
Education	(13,482)	6,175
Health	(31,971)	1,430
Social security and welfare	(69,036)	2,899
Housing and community amenities	(1,645)	3,952
Recreation and culture	(2,182)	2,145
Fuel and energy	(1,473)	707
Agriculture, forestry, fishing and hunting	(3,535)	1,837
Mining and mineral resources, other than fuels; manufacturing; and construction	(3,578)	1,797
Transport and communications	(4,295)	42,179
Other economic affairs	(1,431)	747
Other purposes <sup>b</sup>	(15,573)	58,930
<b>TOTAL</b>	<b>(214,281)</b>	<b>189,697</b>

<sup>b</sup>Explanatory note: For the purpose of this illustration, financial assets that are not allocated to other functions are included in the 'Other purposes' function.

#### *Reconciliation of 'expenses, excluding losses, included in operating result' to 'expenses from transactions' in the operating statement*

20XX	\$m
Expenses from transactions	214,586
Less: loss on write-off of financial assets at fair value through operating statement	(380)
214,206	
Plus: amortisation of non-produced assets	75
<b>Expenses, excluding losses, included in operating result</b>	<b>214,281</b>

## **Explanatory Notes Supporting Illustrative Examples A and B**

The following notes are for explanatory purposes only, and do not form part of the financial statements or accompanying notes illustrated in Illustrative Examples A or B.

The notes provide explanations of the convergence differences between the key fiscal aggregates presented in each of the financial statements and GFS measures of the key fiscal aggregates for the whole of government (including the sectors) and GGS.

### **Convergence Differences relating to the Operating Statements**

#### ***Net Operating Balance***

##### **a Expenses from Transactions – Use of Goods and Services**

The convergence differences comprise:

- a(i)** \$2,040m in the GGS because GFS treats defence weapons and, by extension, their platforms as single-use goods and classifies them as expenses upon acquisition as expenses from transactions. However, the defence weapons are not recognised as use of goods and services expenses from transactions in the operating statement, because they are recognised as assets upon acquisition (refer also to Note b(i)).

This difference flows through to the whole of government amounts.

- a(ii)** (\$45m) in the GGS and (\$41m) in the PNFC sector because GFS expenses certain development costs and classifies them as expenses from transactions. However, the development costs are not recognised as expenses from transactions in the operating statement because they are recognised as intangible fixed assets upon acquisition. GFS treats goods and services used for research and development as use of goods and services expenses from transactions, rather than as acquisitions of intangible fixed assets, even though some development activities are expected to bring benefits for more than one year (refer also to Note b(ii)).

The total difference of (\$86m) flows through to the whole of government amounts.

**b Expenses from Transactions – Depreciation**

The convergence differences comprise:

- b(i)** \$2,104m in the GGS because GFS does not recognise depreciation on defence weapons and their platforms, whereas it is recognised as an expense from transactions in the operating statement (refer also to Note a(i)).

This difference flows through to the whole of government amounts.

- b(ii)** \$6m in the GGS and \$5m in the PNFC sector because GFS recognises a smaller amortisation of produced intangibles than is recognised as an expense from transactions in the operating statement. GFS treats goods and services used for research and development as use of goods and services expense from transactions, rather than as acquisitions of intangible fixed assets, even though some development activities may bring benefits for more than one year (refer also to Note a(ii)).

The total difference of \$11m flows through to the whole of government amounts.

**c Expenses from Transactions – Social Benefits**

The convergence difference of \$94m in the GGS arises because GFS does not recognise a liability relating to the potential beneficiaries of a social benefit scheme who had not registered for benefits as at the reporting date and the associated expense from transactions, whereas such an amount is recognised in the operating statement and classified as expenses from transactions.

This difference flows through to the whole of government amounts.

**d Dividends to GGS from Other Sector Entities**

The convergence difference comprises (\$259m) in the PNFC sector and (\$789m) in the PFC sector because GFS treats dividends to owners as an expense, whereas such an amount is not recognised as an expense in the operating statement because it is treated as a distribution to owners and therefore a direct debit to equity.

The total difference of (\$1,048m) does not flow through to the whole of government amounts as it arises from intersector transactions.

**e Other Differences**

A classification difference arises in the whole of government and the GGS, because GFS classifies the debt security written off by mutual agreement of \$380m as a capital grant expense from transactions, whereas, although it is recognised as an expense from transactions in the operating statement, it is classified as write-off of financial assets at fair value through operating result. [For the purpose of Illustrative Examples A and B, the debt security is assumed to have satisfied the criteria in AASB 139 *Financial Instruments: Recognition and Measurement* for classification as a 'fair value through profit or loss' financial asset.] The write-off arose from the government agreeing to forgive the outstanding debt of a Country. The classification difference has no impact on the amount of the GFS Net Operating Balance.

A GGS/PNFC elimination difference arises in respect of the treatment of \$25m of the social benefits. Under GFS, certain transactions between the GGS and entities within the PNFC and PFC sectors are not eliminated on consolidation, whereas under AASB 127 *Consolidated and Separate Financial Statements*, intragroup transactions, that are not in substance transactions with external parties, are eliminated in full. The GFS treatment has the effect of 'grossing up' both GFS 'revenue from transactions – other current revenues' and GFS 'expenses from transactions – grants' of the whole of government by equal amounts even though the key fiscal aggregates remain the same. [For the purpose of this illustration, it is assumed the GGS has compensated a PNFC entity for \$25m of community service obligations, imposed by the GGS, that requires the PNFC entity to provide free services to a cohort of private individuals.] The compensation provided by the GGS to the PNFC entity is not eliminated under GFS (instead it is 'rerouted' through the household sector of the economy and therefore treated as an expense of the GGS to the household sector, and an expense of the household sector to the PNFC entity and therefore revenue of the PNFC entity). This convergence difference has no impact on the amount of the whole of government's GFS Net Operating Balance. This difference does not affect the GGS or the PNFC and PFC sectors but impacts the whole of government total of revenues and expenses.

*Net Lending/(Borrowing)*

**f Net Acquisition/(Disposal) of Non-Financial Assets from Transactions**

The convergence differences are explained as follows:

	Operating Statement \$m	GFS \$m	Convergence Difference \$m	For explanations see notes
<i>GGs</i>				
Gross fixed capital formation	3,932	1,847	2,085	a(i)&(i i) b(i)&(ii) #
Depreciation (3,747)		(1,562)	(2,185)	
Change in inventory	300	300	-	
Other transactions in non-financial assets	(1,158)	(1,158)	-	
Net acquisition/(disposal) of non-financial assets from transactions	(673)	(573)	(100)	
<i>PNFC Sector</i>				
Gross fixed capital formation	342	301	41	a(ii) b(ii) #
Depreciation (168)		(120)	(48)	
Change in inventory	(9)	(9)	-	
Other transactions in non-financial assets	(887)	(887)	-	
Net acquisition/(disposal) of non-financial assets from transactions	(722)	(715)	(7)	
<i>PFC Sector</i>				
Gross fixed capital formation	18	18	-	#
Depreciation (27)		(26)	(1)	
Change in inventory	2	2	-	
Other transactions in non-financial assets	(41)	(41)	-	
Net acquisition/(disposal) of non-financial assets from transactions	(48)	(47)	(1)	
<i>Whole of Government</i>				
Gross fixed capital formation	4,292	2,166	2,126	a(i)&(ii) b(i)&(ii) #
Depreciation (3,942)		(1,708)	(2,234)	
Change in inventory	293	293	-	
Other transactions in non-financial assets	(2,086)	(2,086)	-	
Net acquisition/(disposal) of non-financial assets from transactions	(1,443)	(1,335)	(108)	

# Depreciation shown in the operating statement column includes both depreciation, and amortisation from non-produced assets. Note b(i)&(ii) explains the convergence difference so far as it relates to the item described as depreciation in the operating statement. The convergence differences shown in this note also include the amounts for 'amortisation of non-produced assets' presented in the operating statement of \$75m for the GGS, \$43m for the PNFC sector and \$1m for the PFC sector.

*Net Other Economic Flows*

**g Other Economic Flows – Included in Operating Result – Other Revenue – Dividends to GGS from the sale of PNFC sector assets**

The convergence difference of (\$300m) arises in the GGS because GFS classifies \$300m of the distributions from other sector entities as a transaction in financial assets (that is, as a withdrawal of equity because it is funded from proceeds from sale of assets), whereas the operating statement - recognises it as dividend revenue and classifies it as other economic flows (refer also to Note i).

This difference does not flow through to the whole of government amounts as it arises from intersector transactions.

**h Other Economic Flows – Included in Operating Result – Doubtful Debts**

The convergence differences of \$500m in the GGS, \$63m in the PNFC sector and \$41m in the PFC sector arise because GFS does not recognise doubtful debts, whereas the operating statement recognises doubtful debts and classifies it as other economic flows. In this example, no bad debts were written off from doubtful debts. GFS recognises amounts written off when there is mutual agreement with debtors as capital grants expenses in the period of the write off, and recognises those written off unilaterally by the government as other economic flows also in the period of the write off.

The total difference of \$604m flows through to the whole of government amounts.

**i Other Economic Flows – Other Non-Owner<sup>6</sup> Movements in Equity – Net Gain on Equity Investments in Other Sector Entities Measured at Proportional Share of Net Assets/(Liabilities)**

The convergence differences comprise:

\$90m in the GGS: The net asset value (and therefore the change in net asset value) of other sector entities determined under GFS principles and rules differs from the net asset value (and therefore the change in net asset

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<sup>6</sup> The term 'Non-Owner' is not needed in a GGS context compared with the whole of government context. In a whole of government context the term is used in Illustrative Example A in relation to the PNFC and PFC sector financial statements to distinguish between transactions that occur between the GGS (as owner) and the PNFC/PFC sectors and other types of transactions.

value) of the subsidiaries recognised in the balance sheet (being the net asset value determined before elimination of intersector balances).

The difference is therefore equivalent to the total of those convergence differences affecting the total change in net worth impacting either through the net operating balance (itemised in Note S1) or other economic flows (other than transactions with owners as owners in the form of dividends paid – itemised in Note S3). The components are:

\$m	
Use of goods and services – development costs [PNFC]	(41)
Depreciation – development costs [PNFC]	5
Doubtful debts [PNFC]	63
Doubtful debts [PFC]	41
Revaluations – intangible assets [PNFC]	12
Revaluations – property [PNFC]	10
TOTAL 90	<u>90</u>

\$300m in the GGS: GFS treats this amount as a distribution from other sector entities classified as a transaction in financial assets (that is, as a withdrawal of equity because it is funded from proceeds from sale of assets), whereas the operating statement recognises it as dividend revenue and classifies it as other economic flows (refer also to Note g). Under GFS, the holding gain on other sector entities is determined after taking into account additions to and withdrawals from equity that have occurred.

The total difference of \$390m does not flow through to the whole of government amounts as it arises from intersector items.

**j Other Economic Flows – Included in Operating Result – Share of Net Profit/(Loss) from Associates, Excluding Dividends**

The convergence difference of \$51m arises in the GGS because GFS does not recognise the share of the associate’s loss (excluding dividends), whereas consistent with the equity method of accounting, it is recognised as an expense of \$51m and classified as an other economic flow and dividends are recognised as a revenue of \$1m and classified as a transaction in the operating statement. GFS recognises the decrease in the market value of investments in associates of \$55m as an other economic flow (refer to Note k(ii)), and the dividends on such investments of \$1m as dividend revenue from transactions.

This difference flows through to the whole of government amounts.

**k Other Economic Flows – Other Non-Owner<sup>7</sup> Movements in Equity – Revaluations**

The convergence differences comprise:

- k(i)** \$920m in the GGS because GFS does not recognise the net decrease in the fair value of defence weapons (resulting from revaluations and impairments), whereas it is recognised as an other economic flow in the operating statement. GFS treats defence weapons expenditures as expenses from transactions rather than assets (refer also to Notes a(i) and b(i)).

This difference flows through to the whole of government amounts.

- k(ii)** (\$55m) in the GGS because GFS recognises the decrease in the market value of investments in associates of \$55m as an other economic flow, whereas it is not recognised in the operating statement. Consistent with the equity method of accounting, the operating statement recognises the share of the associate's loss of \$50m as a loss of \$51m classified as other economic flows and revenue (from dividends) of \$1m (refer also to Note j).

This difference flows through to the whole of government amounts.

- k(iii)** \$130m in the GGS and \$12m in the PNFC sector because GFS recognises the net increase in the revalued intangible assets as an other economic flow, whereas it is not recognised in the operating statement. In accordance with paragraph 81 of AASB 138 *Intangible Assets*, the intangible assets in this example are not revalued because there is no active market for them.

The total difference of \$142m flows through to the whole of government amounts.

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<sup>7</sup> The term 'Non-Owner' is not needed in a GGS context compared with the whole of government context. In a whole of government context the term is used in Illustrative Example A in relation to the PNFC and PFC sector financial statements to distinguish between transactions that occur between the GGS (as owner) and the PNFC/PFC sectors and other types of transactions.

- k(iv)** \$10m in the PNFC sector because while GFS recognises the gross increase in the revalued asset (in Illustrative Example A, assumed to have arisen from an upward asset revaluation of properties), it does not recognise as an offset, part of the increase in the revalued asset, as being due to a corresponding increase in the deferred tax liability.

This difference does not flow through to the whole of government amounts as the whole of government does not have a deferred tax liability.

**l Remeasurement of shares and other contributed capital**

The convergence differences of \$1,788m in the PNFC sector and (\$5,073m) in the PFC sector arise because GFS measures net worth as assets less liabilities less share capital/contributed capital (remeasured). Because in Illustrative Example A, PNFC and PFC sectors are 100 per cent owned by the GGS, the GFS net worth, and therefore the GFS change in net worth, of these sectors is zero. In effect, all of the convergence differences that impact on the comprehensive result are netted off for the PNFC and PFC sectors against the GFS remeasurement of shares and other contributed capital.

The total difference of (\$3,285m) does not flow through to the whole of government amounts as they relate to the GGS ownership interest in PNFC/PFC sectors.

**Convergence Differences relating to the Balance Sheets**

*Net Worth*

**m Assets – Financial Assets – Accounts Receivable**

The convergence differences of \$1,800m in the GGS, \$165m in the PNFC sector and \$298m in the PFC sector arise because GFS does not recognise doubtful debts, whereas a provision for doubtful debts is recognised in the balance sheet.

This total difference of \$2,263m flows through to the whole of government amounts.

**n Assets – Financial Assets – Shares and Other Equity – Investments Accounted for Using Equity Method**

The convergence difference of \$36m arises in the GGS because GFS recognises the net decrease in the market value of investments in associates, whereas the equity method of accounting is applied in the calculation of the carrying amount recognised in the balance sheet.

This difference flows through to the whole of government amounts.

**o Assets – Financial Assets – Shares and Other Equity – GGS Investments in Other Sector Entities**

The convergence difference of \$900m arises in the GGS in relation to the measurement of equity investments in other sector entities measured at proportional share of net assets/(liabilities), due to different definition, recognition and measurement principles and rules for certain assets and liabilities under GFS.

The difference is therefore equivalent to the total of those convergence differences affecting Net Worth (as itemised in Note T). The components are:

\$m	
Amounts receivable [PNFC]	165
Amounts receivable [PFC]	298
Intangible fixed assets – research and development [PNFC]	(69)
Deferred tax liability [PNFC]	506
TOTAL 900	900

This difference does not flow through to the whole of government amounts as it arises from an intersector item.

**p Assets – Non-Financial Assets – Produced Assets – Machinery and Equipment**

The convergence difference of (\$30,745m) in the GGS arises because GFS expenses defence weapons upon acquisition, whereas the defence weapons are capitalised and subject to revaluation and impairment for balance sheet purposes, and expensed over time through depreciation.

This difference flows through to the whole of government amounts.

**q Assets – Non-Financial Assets – Produced Assets – Intangibles**

The convergence differences comprise:

- q(i)** (\$400m) in the GGS and (\$69m) in the PNFC sector because GFS treats research and development costs as use of goods and services expense, whereas some are treated as acquisitions of intangible fixed assets for the balance sheet because some development activities are expected to bring benefits for more than one year.

This total difference of (\$469m) flows through to the whole of government amounts.

- q(ii)** \$150m in the GGS because GFS recognises the revaluation of certain intangible assets, whereas those intangible assets have not been revalued in the balance sheet because there is no active market (in accordance with paragraph 81 of AASB 138).

This difference flows through to the whole of government amounts.

**r Liabilities – Provisions**

The convergence differences comprise:

- r(i)** \$94m in the GGS because GFS does not recognise certain provisions that are recognised in the balance sheet as liabilities (for example to the extent that they arise from constructive obligations for which there is no counterparty recognising a related financial asset).

This difference flows through to the whole of government amounts.

- r(ii)** \$506m in the PNFC sector because GFS does not recognise the deferred tax liability.

This difference does not flow through to the whole of government amounts as it arises from a PNFC sector liability that is not a whole of government liability.

[Note: the GGS, as the tax collector, does not recognise deferred tax balances to the extent the tax-equivalent events associated with the PNFC sector's deferred tax balances have not occurred, even though from the PNFC sector's viewpoint, the event is the recognition of the underlying assets and/or liabilities in accordance with AASB 112 *Income Taxes*. This treatment in the GGS accords with GFS and therefore does not give rise to a convergence difference.]

**s** **Shares and Other Contributed Capital**

The convergence differences of (\$20,609m) in the PNFC sector and (\$13,050m) in the PFC sector arise because GFS measures net worth as assets less liabilities less shares/contributed capital, whereas shares/contributed capital are not deducted in the determination of GAAP net worth. Because in this example GFS measures shares/contributed capital of the PNFC and PFC sectors at the net assets of those sectors, PNFC and PFC sector GFS net worth is nil.

The total difference of (\$33,659m) does not flow through to the whole of government amounts as they relate to the GGS ownership interest in the PNFC and PFC sectors.

**t** **Classification Difference Included in the GFS Net Worth**

A classification difference arises in the GGS because GFS classifies \$28,000m of the \$28,094m of provisions as other accounts payable. The classification difference has no impact on the amount of the GFS Net Worth.

This difference flows through to whole of government amounts.

## **Convergence Differences relating to the Cash Flow Statements**

### *Cash Surplus/(Deficit)*

#### **u Cash Flows from Investments in Non-Financial Assets**

The convergence difference of (\$4m) in the GGS arises because GFS recognises a notional cash outflow relating to new finance leases and similar arrangements in calculating cash surplus/(deficit), whereas the cash flow statement does not recognise notional cash flows.

This difference flows through to the whole of government amounts.

#### **v Classification Differences Included in the GFS Cash Surplus/(Deficit)**

For the whole of government and GGS, amounts of \$41,019m and \$37,898m respectively have been recognised as payments for purchases of goods and services from operating activities in the cash flow statement. Under GFS, the corresponding amounts are \$43,145m and \$39,983m respectively.

The convergence difference of \$2,085m in the GGS comprises:

- \$2,040m: purchases of defence weapons that are classified as purchases of non-financial assets – which are investing activities in the cash flow statement; and
- \$45m: capitalised development costs that are classified as purchases of non-financial assets – which are investing activities in the cash flow statement.

For the PNFC sector, an amount of \$550m has been recognised as payments for purchases of goods and services from operating activities in the cash flow statement. Under GFS, the corresponding amount is \$591m.

The convergence difference of \$41m comprises capitalised development costs that are classified as purchases of non-financial assets – which are classified as investing activities in the cash flow statement.

The total convergence difference of \$2,126m flows through to whole of government.

These classification differences have no impact on the amount of the GFS Cash Surplus/(Deficit).

## ILLUSTRATIVE EXAMPLE C

### **Extract from the Note Containing the Summary of Significant Accounting Policies of a General Government Sector**

The following is an example of an extract from Note 1 of a financial report for a year subsequent to the first year of adoption of the Standard, consistent with the requirements of paragraph 41 of the Standard, assuming that the GGS financial report is presented separately from the whole of government financial report.

This financial report of the General Government Sector (GGS) of *[name of government]* has been prepared in accordance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, which requires compliance with all Australian Accounting Standards except those identified below. Its purpose is to provide users with information about the stewardship of the government in relation to its GGS and accountability for the resources entrusted to it; information about the financial position, performance and cash flows of the government's GGS; and information that facilitates assessments of the macro-economic impact of the government's GGS.

The GGS of *[name of government]* is a component of the Whole of Government of *[name of government]*. The GGS is determined in accordance with the principles and rules contained in the Australian Bureau of Statistics *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005* (ABS GFS Manual). Under the ABS GFS Manual, the GGS consists of all government units and non-profit institutions controlled and mainly financed by government. Government units are legal entities established by political processes that have legislative, judicial, or executive authority over other units and which provide goods and services to the community or to individuals on a non-market basis; and make transfer payments to redistribute income and wealth. Non-profit institutions are created for the purpose of producing or distributing goods and services but are not a source of income, profit or other financial gain for the government.

The Standard under which the GGS financial report is prepared does not require full application of AASB 127 *Consolidated and Separate Financial Statements* and AASB 139 *Financial Instruments: Recognition and Measurement*. Assets, liabilities, income, expenses and cash flows of government controlled entities that are in the Public Non-Financial Corporations sector and the Public Financial Corporations sector are not separately recognised in the GGS of *[name of government's]* financial statements. Instead, the GGS financial statements recognise an asset, being

the controlling equity investment in those entities, and recognise a gain or loss relating to changes in the carrying amount of that asset, measured in accordance with AASB 1049. Readers are referred to the Whole of Government general purpose financial report of *[name of government]* for the year ended 30 June 20XX for financial information that separately recognises assets, liabilities, income, expenses and cash flows of all entities under the control of the *[name of government]*.

The ABS GFS Manual also provides the basis upon which Government Finance Statistics (GFS) information that is contained in the financial report is prepared. In particular, notes disclosing key fiscal aggregates of net worth, net operating balance, total change in net worth, net lending/(borrowing) and cash surplus/(deficit) determined using the principles and rules in the ABS GFS Manual are included in the financial report, together with a reconciliation of those key fiscal aggregates to the corresponding key fiscal aggregates recognised in the financial statements.

## ILLUSTRATIVE EXAMPLE D

### Key Technical Terms Used in the Financial Report

This illustration provides an example of the presentation of explanations of selected key technical terms required by paragraph 43(a)(iv) of the Standard used in the Whole of Government and GGS Financial Statements and Selected Notes (Illustrative Examples A and B).

This illustration presents generic explanations, suitable in both a whole of government and GGS context, except where indicated. There are instances where the generic definition is not necessarily appropriate and further guidance has been provided.

**Cash surplus/(deficit)** is net cash inflow from operating activities minus the net cash outflow from investments in non-financial assets.

**Convergence difference** is the difference between the amounts recognised in the financial statements compared with the amounts determined for GFS purposes as a result of differences in definition, recognition, measurement, classification and consolidation principles and rules.

**Comprehensive result (total change in net worth before transactions with owners as owners)**<sup>8</sup> is the net result of all items of income and expense recognised for the period. It is the aggregate of operating result and other movements in equity, other than transactions with owners as owners.

**Financial asset** is any asset that is:

(a) cash;

~~72~~(b) an equity instrument of another entity;

~~73~~(c) a contractual right:

(i) to receive cash or another financial asset from another entity; or

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<sup>8</sup> Explanatory note: The term 'transactions with owners as owners' is most pertinent in a whole of government context. Such transactions may occur between the GGS, as owner, and the PNFC/PFC sectors and therefore required to be disclosed in the sector information included in the whole of government financial report. In addition, transactions with owners may occur in a whole of government context in relation to partly owned subsidiaries. Accordingly, the GGS financial report could use the alternative term 'Comprehensive result (total change in net worth)' defined as the net result of all items of income and expense recognised for the period. It is the aggregate of operating result and other movements in equity.

- (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or

74(d) a contract that will or may be settled in the entity's own equity instruments and is:

- (i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
- (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

**General Government Sector (GGS)** is the institutional sector comprising all government units and non-profit institutions controlled and mainly financed by government.

**Government Finance Statistics (GFS)** enable policymakers and analysts to study developments in the financial operations, financial position and liquidity situation of the government. More details about the GFS can be found in the ABS GFS Manual *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005*.

**Gross fixed capital formation** is the value of acquisition less disposals of new and existing produced assets that can be used in production, other than inventories.

**Mutually agreed bad debts** are financial assets written off where there was prior knowledge and consent by the counterparties.

**Net acquisition/(disposal) of non-financial assets from transactions** is gross fixed capital formation less depreciation plus changes in inventories plus other transactions in non-financial assets.

**Net actuarial gains** includes actuarial gains and losses on defined benefit superannuation plans.

**Net cash flows from investments in financial assets (liquidity management purposes)** is cash receipts from liquidation or repayment of investments in financial assets for liquidity management purposes less cash payments for such investments. Investment for liquidity management purposes means making funds available to others with no policy intent and with the aim of earning a commercial rate of return.

**Net cash flows from investments in financial assets (policy purposes)** is cash receipts from the repayment and liquidation of investments in financial assets for policy purposes less cash payments for acquiring financial assets for policy purposes. Acquisition of financial assets for policy purposes is distinguished from investments by the underlying government motivation for acquiring the assets. Acquisition of financial assets for policy purposes is motivated by government policies such as encouraging the development of certain industries or assisting citizens affected by natural disaster.

**Net gain on equity investments in other sector entities measured at proportional share of net assets/(liabilities)** comprises the net gains relating to the equity held by the GGS in other sector entities. It arises from a change in the net asset value of the subsidiaries. The net gains are measured based on the proportional share of the subsidiary's net assets/(liabilities) before elimination of intersector balances.

**Net lending/(borrowing)** is net operating balance minus the net acquisition/(disposal) of non-financial assets. It is also equal to transactions in the net acquisition/(disposal) of financial assets minus the net incurrence of liabilities. It indicates the extent to which financial resources are placed at the disposal of the rest of the economy or the utilisation of financial resources generated by the rest of the economy. It is an indicator of the financial impact on the rest of the economy.

**Net other economic flows** is the net change in the volume or value of assets and liabilities that does not result from transactions.

**Net result from transactions – net operating balance** is revenue from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. It is the component of the change in net worth that is due to transactions and can be attributed directly to government policies since governments have control over their transactions.

**Net worth** is assets less liabilities and shares/contributed capital. For the GGS, net worth is assets less liabilities since shares and contributed capital is zero<sup>9</sup>. It is an economic measure of wealth and reflects the contribution to the wealth of Australia. The change in net worth is the preferred measure for assessing the sustainability of fiscal activities.

**Non-financial assets** are all assets that are not ‘financial assets’.

**Non-produced assets** are assets needed for production that have not themselves been produced, such as land, subsoil assets, and certain intangible assets.

**Non-produced intangibles** are intangible assets needed for production that have not themselves been produced. They include constructs of society such as patents.

**Operating result** is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as ‘other non-owner movements in equity’.

**Other current revenues** refers to current revenue other than current revenue from taxes, sales of goods and services, and property income. It includes revenue from fines other than penalties imposed by tax authorities.

**Other economic flows** – see definition of ‘net other economic flows’ above.

**Other sector entities** are government controlled entities that are not part of the GGS.

**Public Financial Corporations (PFC) sector** is the institutional sector comprising resident government controlled corporations and quasi-corporations mainly engaged in financial intermediation or provision of auxiliary financial services.

**Public Non-Financial Corporations (PNFC) sector** is the institutional sector comprising resident government controlled corporations and quasi-corporations mainly engaged in the production of market goods and/or non-financial services.

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<sup>9</sup> Explanatory note: The reference to shares/contributed capital is most pertinent in a whole of government context. As an alternative, the GGS financial report could define ‘net worth’ as ‘assets less liabilities’ because shares and contributed capital do not exist in a GGS context.

**Quasi-corporation** is an unincorporated enterprise that functions as if it were a corporation, has the same relationship with its owner as a corporation, and keeps a separate set of accounts.

**Securities other than shares** are negotiable financial instruments serving as evidence of the obligations to settle by means of providing cash, a financial instrument, or some other item of economic value. The security normally specifies a schedule for interest payments and principal repayments. Some examples are: bills, bonds and debentures, commercial paper, securitised mortgage loans, and loans that have become marketable de facto.

**Social benefits** are payments in cash or in kind to relieve households and individuals of the burden of a defined set of social risks. Social risks are events or circumstances that may adversely affect the welfare of households either by imposing additional demands on their resources or by reducing their incomes.

**Transactions** are interactions between two units by mutual agreement or an action within a unit that is analytically useful to treat as a transaction.

**Unilaterally determined bad debts** are financial assets written off without an agreement with the debtor in cases such as bankruptcy of the debtor.

**Use of goods and services** is the total value of goods and services purchased for use in a production process or acquired for resale less the net change in inventories of those goods and services. Goods and services acquired for use as in-kind transfers to households or as grants without being used in a production process are excluded.

**Valuables** are produced goods of considerable value that are acquired and held primarily as stores of value over time and are not used primarily for purposes of production or consumption. They include works of art not used primarily in museums to produce services for the public.

**Wages, salaries and supplements** consist of all uncapitalised compensation of employees except for superannuation. It includes pay in cash or in kind.

**Whole of government financial report** is a financial report that is prepared in accordance with Australian Accounting Standards, including AASB 127 *Consolidated and Separate Financial Statements*, and thereby separately recognises assets, liabilities, income, expenses, and cash flows of all entities under the control of the government on a line-by-line basis.