

GAAP/GFS Harmonisation: Entities within the GGS Project staff recommendations for the content of a Standard

Background and introduction

- 1 The FRC's direction to the AASB states:

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)

- 2 In the process of investigating different approaches to implementing the FRC direction in relation to entities within the GGS, the Board has considered a range of issues over a number of meetings, most recently at its February 2010 meeting. An extract from the February 2010 minutes records:

The Board considered the agenda papers, including the alternative approaches that might overcome its reservations about issuing a Standard based on the proposals in ED 174 *Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS [AASBs 101, 107 and 1052]*.

The Board did not favour a Standard that would specify the financial reporting if a jurisdiction or entity opted for GFS-harmonisation financial reporting at the level of an entity within the GGS (described as Approach A in agenda paper 3.2).

The Board noted that the alternative approach (Approach B), recommended by staff in agenda paper 3.2, is aimed at substantively improving the financial reporting of, and comparability between, entities within the GGS. The Board acknowledged that such a Standard might be justified if its aims can be met. The Board directed staff to further develop its recommendations for the content of a Standard focusing explicitly on improving the usefulness of general purpose financial statements of entities within the GGS, having regard to cost/benefit considerations and the Board's other projects. Matters to be considered include:

 - (a) recognition and measurement (staff were asked to confirm the current requirements of the Commonwealth, States and Territories in relation to revaluations at the level of entities within the GGS);
 - (b) disclosure (or presentation) of information relating to the classification of line items (e.g. transactions and other economic flows);
 - (c) disclosure of budgetary information;
 - (d) disclosure of disaggregated information;
 - (e) disclosure of administered items; and
 - (f) transitional requirements.

The Board noted that such a Standard would be significantly beyond the proposals of ED 174 and would most likely require further due process through an Exposure Draft if it is to proceed.

- 3 Based on the Board's February 2010 discussions, this paper provides project staff recommendations (and a rationale for those recommendations) relating to a Standard that we believe has the potential to make a substantive improvement to the general purpose financial reporting of, including comparability between, entities within the GGS, having regard to cost/benefit considerations and the Board's other projects. This paper acknowledges that the potential for comparability between entities within the GGS, particularly across jurisdictions, is limited given the different ways in which governments structure their administrative arrangements; and because of the different

formats jurisdictions adopt for their financial statements (eg net cost of services format compared with the traditional net result format). In relation to the structure of administrative arrangements, in previous discussions the Board has noted that the loss of information due to the lack of comparability at an entity level might be mitigated through disaggregated disclosures on a functional basis (such as is required under AASB 1049 for WoG and GGS). In relation to the format of financial statements, the Board has previously decided that it would not be appropriate to restrict the format because of the different operating models adopted by governments throughout Australia. The project staff recommendations expressed throughout this paper aim to maximise comparability within these constraints.

- 4 Although the genesis for this paper is the Board's GAAP/GFS Harmonisation project, it is apparent from the Board's recent deliberations that GAAP/GFS harmonisation for entities within the GGS should be regarded as a means to an end rather than an end in itself. Expressed another way, the objective of the project is improved financial reporting rather than harmonisation per se, even though aspects of harmonisation might coincide with improvements. Whilst acknowledging the significance of the re-expressed project objective, this paper initially focuses on the project's scope as previously circumscribed by the Board. That scope is GAAP/GFS harmonisation for entities within the GGS having regard to:
- (a) recognition and measurement;
 - (b) presentation and classification; and
 - (c) disclosures,
- in relation to the technical topics addressed in AASB 1049 – including the broad approach adopted in AASB 1049 that GAAP should be retained and amended only to accommodate GFS where it does not conflict with GAAP¹. In paragraphs 48-57 of this paper we contemplate the implications of the more ambitious objective of improving financial reporting through addressing a broader range of topics and entities and the implications that might have for the scope of the project.
- 5 At its March 2010 meeting, the Board agreed a project plan for undertaking a post-implementation review of AASB 1049. Staff have commenced the review, including interviewing people in audit and treasury/finance offices with experience in implementing AASB 1049. This paper considers the merits of applying aspects of AASB 1049 to entities within the GGS without detailed regard to the findings to-date from the post-implementation review work. To the extent the review gives rise to improvements to AASB 1049, those improvements should also be considered for entities within the GGS.

Recognition and Measurement

- 6 Under existing GAAP, entities within the GGS (and other entities) have certain recognition and measurement choices. For example, AASB 116 *Property, Plant and Equipment* allows a choice between cost and fair value. The main issue in relation to recognition and measurement for a Standard on GAAP/GFS harmonisation for entities within the GGS is whether to adopt the principle that 'a recognition and measurement

¹ The main exception to this broad approach in AASB 1049 is the requirement for GGS financial reports to not consolidate, on a line-by-line basis, all controlled entities. This type of issue also arises in the context of entities within the GGS and is implicit in paragraphs (f) and (g) of appendix A of this paper.

choice in GAAP is limited to align with GFS'². Applying this principle to AASB 116 would result in property, plant and equipment that are assets under GFS being required to be measured at fair value. Appendix A of this paper lists the recognition and measurement choices in existing GAAP identified by project staff, and explains the financial reporting consequences of adopting such a principle.

- 7 Arguments in favour of adopting the principle:
- (a) it would result in improved comparability among entities within the GGS, because all such entities would adopt the same GAAP choice;
 - (b) it would provide better information for users, particularly where the principle would result in the adoption of fair value rather than cost – empirical studies have shown current values to be information positive;
 - (c) it would be consistent with AASB 1049, and therefore result in enhanced consistency between WoG/GGS financial reporting and entities within the GGS financial reporting;
 - (d) it would not be onerous for entities (particularly material entities) within the GGS, because they are required to determine the information in any event for AASB 1049 purposes;
 - (e) it would be broadly consistent with the majority of current Finance Ministers' Orders, or equivalent, in each jurisdiction for the measurement of major classes of assets (see Appendix B of this paper);
 - (f) it would be consistent with a view that the driver for recognition and measurement in general purpose financial statements of entities within the GGS should be the GGS consolidated financial statements, which are required to be prepared in accordance with AASB 1049; and
 - (g) it would give the Board some control over when changes made to GFS should be introduced into GAAP.
- 8 Arguments against adopting the principle:
- (a) it would be inconsistent with the Board's transaction-neutral policy – if private sector for-profit entities have a choice in GAAP, there is no public sector specific reason for the same choice not to be available to entities (whether for-profit or not-for-profit) within the GGS. Any changes to GAAP recognition and measurement requirements should be assessed using the Board's *Process for Modifying IFRSs for PBE/NFP*, rather than introduced through a GAAP/GFS Harmonisation project;
 - (b) incorporation of the principle into a Standard could have a significant impact on immaterial entities within the GGS that are not applying Finance Ministers' Orders, or equivalent, (or if some such Orders do not prescribe fair value for all types of assets) (see Appendix B of this paper);
 - (c) applying the principle to for-profit entities within the GGS could put such entities at a disadvantage to their private sector competitors;
 - (d) changes to GFS are beyond the control of the AASB. Therefore, adopting the principle would mean that GFS could be changed in a way that effectively removes a GAAP option without regard to transitional issues, thus resulting in onerous requirements. For example, GFS is expected to be changed in the

2 For the sake of clarity, arguably an explicit exception to the principle should be given in relation to the option in GAAP to early adopt a Standard (see paragraph (i) of Appendix A).

future to require capitalisation of defence assets, for consistency with 2008 international System of National Accounts (SNA) amendments (however, see paragraph 7(a) above, and paragraph 45(a) below regarding transitional issues); and

- (e) it is more appropriate for cost/benefit assessments of GAAP recognition and measurement options for entities within the GGS to be made at the entity or jurisdiction level, rather than by the standard-setter.

9 ***Project staff think***, on balance, the arguments in favour outweigh the arguments against adopting the principle in a Standard that ‘a recognition and measurement choice in GAAP should be limited to align with GFS’ and, therefore, financial reporting by entities within the GGS could be substantially improved if the principle were adopted. The material in Appendix A of this paper could form the basis of related application guidance to be included in such a Standard.

Classification and presentation

10 Under existing GAAP, entities within the GGS (and other entities) have certain classification and presentation choices in relation to the conventional financial statements. The main issue in relation to a Standard on GAAP/GFS harmonisation for entities within the GGS is whether, like AASB 1049, to limit GAAP classification and presentation to align with GFS to the extent it does not conflict with GAAP, for one, some or all aspects. In particular:

- (a) in relation to the statement of comprehensive income, whether the GFS distinction between transactions (and the disclosure of net result from transactions, ie net operating balance³) and other economic flows should be imposed by GAAP; and/or
- (b) in relation to the statement of financial position, whether the GFS liquidity basis of classification⁴ and the GFS distinction between financial and non-financial assets, and produced/non-produced assets, should be imposed by GAAP; and/or
- (c) in relation to the cash flow statement, whether the GFS distinction between cash flows relating to investing in financial assets for policy purposes and for liquidity management purpose should be imposed by GAAP.

Appendix C of this paper lists the classification and presentation choices in current GAAP identified by staff, and explains the consequences for financial reporting of adopting the GFS approach to them into GAAP.

11 Arguments in favour of requiring entities within the GGS to provide GAAP/GFS harmonised classification information somehow and to some extent in their financial statements:

- (a) it would be consistent with the spirit of GAAP/GFS harmonisation and the type of information provided in WoG/GGS financial statements prepared in accordance with AASB 1049;

3 To date, although other key fiscal aggregates are required to be presented by WoG and GGS under AASB 1049, the Board has decided that other GFS key fiscal aggregates should not be required to be presented by entities within the GGS.

4 AASB 101 does not provide a choice to present assets and liabilities based on liquidity. It only allows such a presentation when that presentation provides information that is reliable and more relevant.

- (b) it would provide useful information for users interested in the broad distinction between what an entity controls/can be held responsible for (ie transactions) and what is not controlled and therefore should not be held accountable for (ie other economic flows);
- (c) it would enhance comparability among entities within the GGS, both within and across jurisdictions;
- (d) it would increase confidence in the quality of data in the financial statements because the data would be prepared for the purposes of the entity's own financial reporting rather than merely as input to a consolidation exercise;
- (e) it would not be onerous. For example, in relation to distinguishing between transactions and other economic flows, many items that could be required to be classified or disclosed as other economic flows are already required to be separately presented on the face or disclosed in the notes under GAAP:
 - (i) paragraph 82(c) of AASB 101 *Presentation of Financial Statements* requires the presentation of the share of profit or loss from associates;
 - (ii) paragraph 82(g) of AASB 101 requires the presentation of, and paragraph 77(f) of AASB 116 *Property, Plant and Equipment* requires disclosure of, revaluations;
 - (iii) paragraph 52 of AASB 121 *The Effects of Changes in Foreign Exchange Rates* requires disclosure of net foreign exchanges gains and losses;
 - (iv) paragraph 20(a)(i) of AASB 7 *Financial Instruments: Disclosures* requires disclosure of net gains and losses on financial assets or liabilities at fair value through operating result;
 - (v) paragraph 20(a)(ii) of AASB 7 requires disclosure of net gain or loss on financial assets and liabilities at fair value;
 - (vi) paragraph 20(e) of AASB 7 requires disclosure of doubtful debts (ie the amount of any impairment loss for each class of financial asset); and
 - (vii) paragraph 120A(g)(v) & (h)(i) of AASB 119 *Employee Benefits* requires disclosure of net actuarial gains and losses.Even though other 'other economic flows', such as the net gain or loss on sale of non-financial assets and amortisation of non-produced assets, are not required to be presented or disclosed under current GAAP, requiring entities within the GGS to disclose the information effectively together in one note would not be onerous; and
- (f) in response to concerns about the lack of staff in entities within the GGS with familiarity with the ABS GFS Manual (see paragraph 12(c) below), the Standard could be self-contained and self-explanatory, to avoid the need for adopters of the Standard to refer to the ABS GFS Manual.

- 12 Arguments against requiring entities within the GGS to provide GAAP/GFS harmonised classification information in their financial statements:
- (a) the resulting information is of questionable value to users;
 - (b) current GAAP does not prohibit the disclosure of such information and therefore it should be left to the discretion of an entity or its jurisdiction, having regard to user needs and cost-benefit considerations, whether the information is disclosed;
 - (c) there is strong concern by some that it would be onerous at the level of an entity within the GGS, given the lack of familiarity of those entities with the

ABS GFS Manual. It would require a major education effort, the costs of which would outweigh the benefits. Furthermore, the high turnover of staff that is typical for entities within the GGS would mean the education costs are not one-off costs. [Staff note to Board: we are aware that in some jurisdictions, many entities within the GGS are familiar with GFS concepts because of the type of information that those entities feed into the consolidation process.]; and

(d) given the similarity between other economic flows and GAAP gains/losses (evident from paragraph 11(e) above), a more effective approach than imposing GAAP/GFS harmonised classification information requirements on entities within the GGS would be to simply require presentation of the operating result before and after gains and losses.

13 ***Project staff think***, on balance, the arguments in favour outweigh the arguments against a Standard requiring entities within the GGS to provide GAAP/GFS harmonised classification information somehow in their financial statements and therefore financial reporting by entities within the GGS could be substantially improved if the requirement were adopted. The material in Appendix C of this paper could form the basis of related application guidance to be included in such a Standard and developed further to avoid the need for preparers to refer to the ABS GFS Manual. To allow time to educate preparers, a reasonable period of time should be allowed before mandating GAAP/GFS harmonisation requirements (see paragraph 44 below).

14 The alternative ways in which classification and presentation issues could be dealt with in the Standard include specifying that the GFS classification information be included in:

- (a) the format of financial statements;
- (b) note disclosure (and prohibited on the face); and
- (c) the financial report somehow, whether on the face or in the notes.

The following considers these alternatives by considering arguments for and against requiring the information to be presented on the face of the financial statements, and then arguments for and against providing an on-the-face or note option.

15 Arguments in favour of incorporating GAAP/GFS harmonised classifications on the face of the financial statements:

- (a) it would provide a 'clean line of sight' between the format of the financial statements of the WoG/GGS prepared in accordance with AASB 1049 and the financial statements of entities within the GGS; and
- (b) it would enhance comparability of entities within the GGS, both within and across jurisdictions.

16 Arguments against incorporating GAAP/GFS harmonised classifications on the face of the financial statements:

- (a) the format that would be prescribed is consistent with existing GAAP, and it is beyond the role of accounting standard setters to prescribe to such a level of detail (ie the approach is rules-based rather than principles-based Standard setting);
- (b) it is sufficient to require such information to be disclosed in a note to the financial statements to satisfy GAAP/GFS harmonisation principles, thereby

- balancing the needs of users for ‘traditional’ financial statement formats and for GAAP/GFS harmonised information; and
- (c) allowing requirements for the presentation of financial statements to be developed in the context of the IASB’s Financial Statement Presentation project in a transaction-neutral way is preferable to them being developed specifically for some public sector entities without the benefit of the IASB’s deliberations. In this regard, it is relevant to note that the IASB’s work plan indicates that an Exposure Draft on the replacement of IAS 1 and IAS 7 is expected in the second quarter of 2010. (However, the Standard should not prohibit the information from being presented on the face of the financial statements to the extent doing so is not inconsistent with GAAP, although see paragraph 19(c) below.)

17	<i>Project staff think</i> , on balance, based on the arguments above, it is neither necessary nor appropriate to require GAAP/GFS harmonised classification to be presented on the face of the financial statements.
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- 18 Arguments in favour of providing entities within the GGS an on-the-face or in-the-notes option for disclosing GAAP/GFS harmonised classification information:
- (a) there is precedent for including options within Standards. For example, AASB 101 contains a number of options for entities to make disclosures in the financial statements or in the notes;⁵
- (b) providing a choice on this matter is preferable to mandating one or the other given the IASB’s work on financial statement presentation (see paragraph 16(c) above);
- (c) providing an option for classification and presentation is not as significant as providing an option for recognition and measurement;
- (d) it is reasonable to expect that jurisdictions would specify the option that entities within the GGS of that jurisdiction should adopt and therefore it is not necessary for a standard-setter to specify such rules-based requirements; and
- (e) the choice would allow an entity (or a jurisdiction) to assess the needs of users of financial statements and therefore identify the best way to convey the information.
- 19 Arguments against providing entities within the GGS an on-the-face or in-the-notes option for disclosing GAAP/GFS harmonised classification information:
- (a) it might not satisfy those who argue that consistency in format is important due to the benefits of a ‘clean line of sight’ between the financial statements of an entity within the GGS and the WoG/GGS;
- (b) it is not ideal accounting standard-setting practice to incorporate options into Standards, and it might result in the undermining of comparability; and
- (c) providing a choice and therefore allowing the information to be presented on the face is inappropriate as equivalent information about administered items

5 For example, paragraphs 99 and 100 of AASB 101 state:

99 **An entity shall present an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the entity, whichever provides information that is reliable and more relevant.**

100 Entities are encouraged to present the analysis in paragraph 99 in the statement of comprehensive income or in the separate income statement (if presented).

might not be provided and, for many entities within the GGS, information about administered items is the more important information (although see paragraphs 35-39 below).

- 20 ***Project staff think***, on balance, the information based on certain GAAP/GFS harmonised classifications should be required to be presented either on the face or in the notes⁶ of the financial statements of entities within the GGS. Where an entity elects to present the information on the face of the financial statements, it should be presented in a way that is not inconsistent with GAAP. The ‘option’ could be expressed along the lines of:
- an entity within the GGS shall disclose GAAP/GFS harmonised classification and presentation information in the general purpose financial statements. The disclosure may be incorporated into the format of the financial statements or made separately in a note.
- In addition to material based on Appendix C of this paper, related application guidance should include an illustrative example of the on-the-face option, along the lines of Appendix D of this paper (which illustrates both a net cost of services approach and a more traditional net operating result approach).

Disclosure of budgetary information

- 21 The main issue in relation to budgetary information for a Standard on GAAP/GFS harmonisation for entities within the GGS is whether such a Standard should include budgetary reporting requirements and, if so, what those requirements should be.
- 22 In the context of budgetary reporting, it is relevant to note that AASB 1004 *Contributions* already requires government departments to make disclosures about compliance with appropriations and other externally-imposed requirements. The relevant paragraphs (which were incorporated into AASB 1004 following the Board’s short-term review of now superseded AAS 29 *Financial Reporting by Government Departments*) are reproduced in Appendix F of this paper.
- 23 The Basis for Conclusions relating to these paragraphs in AASB 1004 states:
- BC30 The Board noted that issues relating to compliance with parliamentary appropriations and other externally-imposed requirements are important for government accountability. Accordingly, the Board concluded that the requirements in paragraphs 12.6 and 12.6.2-12.6.4 of AAS 29 for disclosure of compliance with parliamentary appropriations and other externally imposed requirements should be retained.
 - BC31 The Board concluded that the requirements for the disclosure by government departments of compliance with parliamentary appropriations and other externally-imposed requirements are sufficiently related to the topic of contributions to be incorporated into this Standard.
 - BC32 Consistent with the short-term nature of the project, the requirements are to be limited to government departments rather than applying them more broadly to not-for-profit public sector entities. In due course, the Board will consider extending the application of the requirements.

6 A cross-cutting issue here is how entities within the GGS should be treated under the emerging differential reporting regime if GAAP/GFS harmonisation disclosures are require. A question is whether the pending Reduced Disclosure Regime (RDR) should provide relief from some or all of any GAAP/GFS harmonisation disclosure requirements that might be developed, and (subject to feedback on ED 192 *Revised Differential Reporting Framework*) whether the RDR should be made available to certain entities within the GGS. That matter is outside the scope of this paper.

BC33 The Board concluded that it is appropriate to not retain paragraph 12.6.1 of AAS 29, which explains the meaning of parliamentary appropriations, as it is no longer necessary.

- 24 Since paragraphs 64 to 68 were incorporated into AASB 1004, the Board has issued Exposure Draft ED 180 *Income from Non-exchange Transactions (Taxes and Transfers)*. Paragraph BC32 of ED 180 states:
- BC32 Additional disclosures are specified for government departments in AASB 1004 (paragraphs 63-68). These concern parliamentary appropriations in particular, including disclosures by class and by major category, expenditure by major category, and material variances, as well as the nature and financial effect of non-compliance with externally-imposed requirements. The AASB takes the view that these disclosures could be provided voluntarily by government departments and are no longer needed as formal requirements in a Standard. Therefore, they are not included in this ED.
- 25 Whilst acknowledging the relationship between disclosures about compliance with appropriations and budgetary reporting, we think they are fundamentally different because appropriations is a narrower notion than budgeting, and might be determined on a basis different from the accounting basis. Therefore, despite the Board's current proposals in ED 180 relating to compliance with appropriations, the remainder of this section considers the suitability of AASB 1049 requirements on budgetary information for entities within the GGS.
- 26 Under AASB 1049, WoG and GGS are required to make certain disclosures about budgetary information under certain circumstances, in particular, where budgets are 'presented to parliament'. Paragraphs 59 to 65 of AASB 1049 state:
- 59 Where one or more of the following whole of government or GGS budgeted:**
- (a) **statements of financial position;**
 - (b) **statements of comprehensive income;**
 - (c) **statements of changes in equity; and**
 - (d) **statements of cash flows;**
- is or are presented to parliament, the whole of government or GGS, respectively, shall disclose for the reporting period:**
- (e) **that original budgeted financial statement or those original budgeted financial statements that were presented to parliament, presented on a basis that is consistent with the basis prescribed for financial statements by this Standard; and**
 - (a) **explanations of major variances between the actual amounts presented in that financial statement or those financial statements and corresponding original budget amounts.**
- 60 Comparative budgetary information in respect of the previous period need not be disclosed.**
- 61 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.
- 62 Any revised budget that is presented to parliament during the reporting period may be disclosed in addition to the original budget.
- 63 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 statements (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.

- 64 The whole of government and GGS statements of financial position, statements of comprehensive income, statements of changes in equity and statements of cash flows include information about the government, as determined in accordance with this Standard. To the extent the first budget presented to parliament is not consistent with the information in the corresponding 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 in the statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows.
- 65 The explanations of major variances required to be disclosed by paragraph 59(f) 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.
- 27 The notion of ‘presented to parliament’ is clearer in a WoG/GGS context than in an entity within the GGS context, because a government’s annual budget is often the prime focus of government financial reporting. In the context of entities within the GGS, budgetary information at an entity level might be included in material made available to parliament as part of the budgeting process, but it is not readily apparent that it is ‘presented to parliament’. Furthermore, it is relevant to note that the type of information made available to parliament might be on a portfolio basis rather than on an entity basis. Accordingly, if the approach in AASB 1049 were to be applied to entities within the GGS, additional guidance on the meaning of ‘presented to parliament’ might be warranted.
- 28 Arguments in favour of imposing budgetary reporting requirements on entities within the GGS include:
- (a) there is no conceptual reason to not subject entities within the GGS to the same budgetary reporting requirements under the same circumstances that are imposed on the WoG and GGS by AASB 1049;
 - (b) it would be consistent with aligning the policies of individual entities with consolidated group policies; and
 - (c) it would help facilitate fulfilment of accountability obligations by entities within the GGS (and therefore would provide decision-useful information for users).
- 29 Arguments against imposing budgetary reporting requirements on entities within the GGS include:
- (a) AASB ED 180 proposes removing requirements relating compliance with appropriations, which is closely related to budgetary reporting given that many entities within the GGS are primarily funded through appropriations;
 - (b) such requirements should be dealt with in a separate project;
 - (c) it would be inconsistent with the Board’s policy of transaction neutrality – there is no equivalent requirement for private sector entities or other public sector entities; and
 - (d) information provided through budget to actual variance analysis would be limited in its usefulness given the extent to which entities with the GGS are subject to externally imposed administrative arrangements orders.
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| 30 | <i>Project staff think</i> that, on balance, the same kind of budgetary reporting requirements that are specified in paragraphs 59-65 of AASB 1049 should be proposed to be included in a Standard on GAAP/GFS harmonisation for entities within the GGS |
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where their budgets are ‘presented to parliament’. Guidance on the meaning of ‘presented to parliament’ in the context of an entity within the GGS should be included in the Standard. We will develop draft guidance for consideration by the Board, if the Board agrees in principle with our view.

Disclosure of disaggregated information

- 31 The main issue in relation to disaggregated information for a Standard on GAAP/GFS harmonisation for entities within the GGS is whether such a Standard should include requirements for disclosure of disaggregated information. Under AASB 1049, WoG and GGS are required to make certain disaggregated disclosures by sector and function. Of most relevance here is the disclosure of functional information.
- 32 Arguments in favour of requiring disaggregated functional information disclosures include:
- (a) it would be useful to users of financial statements of entities within the GGS because users would be able to compare functions within and across jurisdictions; and
 - (b) disaggregated information is more useful to users in undertaking comparisons than the comparability of information that is argued to be a benefit from requiring GAAP/GFS harmonised classification to be adopted by entities within the GGS.
- 33 Arguments against requiring disaggregated functional information disclosures include:
- (a) further work needs to be undertaken to determine the appropriate basis for disaggregation. Alternative bases might be the GFS functional classification requirements or AASB 1052 *Disaggregated Disclosures* or AASB 8 *Operating Segments*. Currently, this work is in table 2 ‘non-active projects (subject to resources)’ of the AASB work program (last updated March 2010), with a medium priority; and
 - (b) disaggregated information at the level of an entity within the GGS is of limited use given the different ways in which governments are structured (see paragraph 3 of this paper). It would be more relevant to consider disaggregation at WoG/GGS levels, which is already satisfactorily dealt with in AASB 1049.

- 34 ***Project staff think*** it would be premature to address disaggregated information requirements as part of GAAP/GFS harmonisation for entities within the GGS because there are a number of issues that need to be addressed – including the best basis for disaggregation and costs/benefits – that would unduly delay the current project. A separate but related project should be initiated and given a high priority. A project proposal should be considered with a view to the project being moved to table 1 ‘active projects’ of the AASB’s work program as part of the Board’s rejuvenation of the public sector agenda.

Disclosure of administered items

- 35 Often the level of administered activities or balances of an entity within the GGS exceed the level of ‘controlled’ activities and balances (referred to in some

jurisdictions as ‘departmental’ items). Some are concerned that the GAAP/GFS harmonisation work to-date has focused on the ‘controlled’ items and ignored the administered items. Therefore, a question arises as to whether this GAAP/GFS harmonisation project should consider administered items.

36 In relation to administered items, the Basis for Conclusions in ED 174 states:

BC12 The Board considered whether AASB 1050 *Administered Items*, which only applies to government departments, would need to be amended in light of this Standard. The Board noted that AASB 1050 will be fundamentally reviewed as part of a separate longer-term project. Accordingly, the Board decided that it is not necessary to accelerate the Administered Items project, as AASB 1050 can be applied within the context of this Standard. The Board will have regard to GAAP/GFS harmonisation issues as it progresses its Administered Items project.

37 It is also relevant to note that AASB 1050 states:

- 24 To facilitate the assessment of the costs incurred and the cost recoveries generated as a result of the government department’s activities, administered income, expenses, assets and liabilities are reported on the same basis adopted for the recognition of the elements of the financial statements.
- 25 The manner in which administered transactions are displayed in the financial statements of a government department will depend on the administrative arrangements adopted by the controlling government, and may therefore vary from jurisdiction to jurisdiction. For example, in some jurisdictions it may be appropriate for administered transactions to be displayed as a separate schedule to the operating statement and/or the statement of financial position. In other jurisdictions, a government department’s accountability for administered transactions may mean that it is appropriate for administered transactions to be displayed with, but clearly distinguishable from, the government department’s operating statement and/or statement of financial position.

38 Appendix E of this paper summarises Finance Ministers’ Orders, or equivalent, relating to administered items in each jurisdiction. The Appendix indicates that practice is likely to be mixed in terms of whether administered items are presented as a column on the face of financial statements, in a separate schedule or in the notes, and the prominence given to that information. Currently, work on administered items is included in the project ‘Defining the Reporting Entity in the Public Sector (including consideration of the concept of control)’ – a project plan for which was approved by the AASB (and FRSB) at its 17 March 2010 meeting.

39 ***Project staff think***, given paragraphs 24 and 25 of AASB 1050, consistent with paragraph BC12 of the Basis for Conclusions of ED 174, AASB 1050 can be applied in the context of the type of Standard on GAAP/GFS harmonisation for entities within the GGS being suggested by project staff. For example, the project staff recommendations on recognition and measurement would apply to administered items per paragraph 24 of AASB 1050. In terms of presentation, administered items could be presented with an appropriate level of prominence relative to ‘controlled’ items – and consistent with paragraph 30 above, would include GAAP/GFS harmonised classification information. This approach should be considered in light of the outcome of the active project on control in the public sector, but it is not necessary to await the outcome of that project.

Transitional requirements

- 40 If recognition and measurement requirements are to be included in a Standard on GAAP/GFS harmonisation for entities within the GGS consideration needs to be given to transitional requirements. The question is whether to provide some relief from the general principle in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, which requires retrospective adoption except to the extent that it is impracticable.
- 41 The main recognition and measurement impact relevant to this project would be on property, plant and equipment because, as noted in Appendix A of this paper, currently AASB 116 allows a choice between cost and fair value whereas GFS would adopt fair value – and not all entities within the GGS might be currently applying the fair value option. It is relevant to note that paragraph 17 of AASB 108 states:
The initial application of a policy to revalue assets in accordance with AASB 116 *Property, Plant and Equipment* or AASB 138 *Intangible Assets* is a change in an accounting policy to be dealt with as a revaluation in accordance with AASB 116 or AASB 138, rather than in accordance with this Standard.
We interpret the paragraphs relating to ‘comparative information’ (paragraphs 38 to 44) of AASB 101 *Presentation of Financial Statements*, in conjunction with AASB 108, as not requiring comparative information to reflect fair values of property, plant and equipment as at any earlier comparative periods presented.
- 42 The main presentation and classification impact relevant to transitional issues pertinent to this project would be on the preparation of comparative information, for example, classifying items of income and expenses between transactions and other economic flows.
- 43 Paragraphs 66, 69 and 70 of the transitional requirements in AASB 1049 state:
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 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.
69 The optional relief provided in AASB 1 is not fully available to ... 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.
70 The transitional approach in this Standard results in comparative period information being presented in the ... first whole of government financial statements prepared in accordance with this Standard.
- 44 Another aspect of transition is the lag between the issue date and mandatory operative date of any Standard that might arise from this project. As noted in paragraph 13 above, an education exercise would be necessary if our suggestions are adopted and therefore a time lag is necessary. Also, it would be appropriate to allow time to implement changes needed to any accounting systems.

- 45 **Project staff think** a requirement to limit a GAAP recognition and measurement choice to align with GFS does not warrant specific transitional relief, except:
- (a) to perhaps allow, say, a three-year period over which weapons systems might be recognised (if the amendments to SNA are incorporated into GFS by the ABS); and
 - (b) the same kind of transitional requirements contained in AASB 1049 for WoG should be adopted for entities within the GGS. This is because, like WoG, entities within the GGS would have previously adopted AASB 1.

An operative date for a Standard arising from this project that allows at least three years before mandatory adoption, with early adoption allowed, would be appropriate.

Intra-WoG transactions and balances

- 46 An additional possible disclosure, not proposed in ED 174 and not arising directly out of deliberations on submissions on ED 174, was identified during the more recent discussions about the benefits put forward for applying GAAP/GFS harmonisation principles to entities within the GGS. In particular, the view expressed is that GAAP/GFS harmonisation at the level of an entity within the GGS facilitates an assessment of an entity's contribution to the WoG/GGS result, which is useful information for users. However, countering that argument is concern that intra-group transactions might distort the assessment. To address this concern, consideration could be given to requiring entities within the GGS to disclose information that would enable a user to adjust for intra-group transactions and balances. However, this might be an onerous and impracticable requirement because often a controlled entity would not be able to determine the after-eliminations data easily, if at all, because they are determined at the group level.

- 47 **Project staff think** that the Board should consider a requirement for the WoG/GGS (rather than an entity within the GGS) to disclose the contribution of each material controlled entity before and after eliminations (as a disaggregation). This could be effected through either a consequential amendment to AASB 1049 arising from this project or through a proposed amendment to AASB 1049 that arises from the Board's separate project on the post-implementation review of AASB 1049.

Other disclosures

- 48 A question arises as to whether other disclosures relating to GAAP/GFS harmonisation not considered above should be required to be made by entities within the GGS. A useful starting point for identifying such disclosures is to base them on paragraphs 18 and 39 of AASB 1049, as noted in the project staff view in paragraph 49 below.

- 49 **Project staff think** the following should be proposed to be included in a GAAP/GFS harmonisation Standard for entities within the GGS (based on paragraphs 39 and 18 of AASB 1049 respectively):

In relation to the note containing the summary of significant accounting policies, that note shall make reference to the extent to which GAAP/GFS harmonisation principles have been

adopted and the ABS GFS Manual⁷ has formed a basis for determining accounting policies consistent with Australian Accounting Standards. Therefore, 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:

- (a) a statement on the extent to which the financial statements are prepared on a GAAP/GFS harmonised basis; and
- (b) a reference to the ABS GFS Manual as being the basis for GFS information that is included in the financial statements.

An entity within the GGS adopting GAAP/GFS harmonisation principles might also elect to make additional disclosures in the financial statements. Where that is the case, the additional disclosures shall be made in a way that does not detract from the information prescribed in Australian Accounting Standards.

Should the scope of the project be broadened?

- 50 So far, as noted in paragraph 4, this paper has considered improvements to, including comparability of, financial reporting by entities within the GGS in the context of GAAP/GFS harmonisation. However, as also noted in paragraph 4 above, the broad objective of the project identified by the Board in February 2010 (see paragraph 2) raises the question of whether a wider range of technical topics and/or entities should be included within the scope of the project.

Range of technical topics

- 51 There are a number of technical topics listed in table 2 ‘non-active projects (subject to resources)’ of the AASB’s work program that, if addressed, have the potential to substantially improve, including make more comparable, financial reporting by entities within the GGS. They include:
- (a) performance indicators (public sector);
 - (b) measurement of contributions by owners as owners;
 - (c) review of Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*;
 - (d) compliance with parliamentary appropriations and other externally-imposed requirements;
 - (e) summary financial reports and MD&A;
 - (f) heritage assets; and
 - (g) other ‘gaps in GAAP’.
- 52 There are also a number of topics listed in table 3 ‘agenda decisions to be made’ of the AASB’s work program. They include:
- (a) identifying cash generating units;
 - (b) current cost accounting for infrastructure assets; and
 - (c) GAAP/GFS interim reporting.
- 53 Each of these projects could be progressed as part of this project, despite their lack of direct link to GAAP/GFS harmonisation.

7 The need to explicitly refer to the ABS GFS Manual would depend on the extent to which the Board decides to incorporate GFS requirements directly into the Standard (see paragraph 11(f) above).

- 54 ***Project staff think***, consistent with the technical topics addressed in AASB 1049, the scope of the current work should not be expanded. However, given the potential for the projects to substantially improve the quality of financial reporting by entities within the GGS, the projects should be commenced as soon as practicable.

Range of entities

- 55 Table 2 of the AASB work program includes ‘budget reporting beyond GGS and WoG’. In addition to budgetary reporting, all the topics addressed in this paper (and the topics listed in paragraphs 51 and 52 above) could be considered from the perspectives of a broader range of entities than entities within the GGS. In particular, they could be expanded to:
- (a) all entities controlled by government;
 - (b) all public sector entities;
 - (c) all not-for-profit entities; or even, conceivably,
 - (d) all public sector and private sector for-profit and not-for-profit entities.
- 56 Issues pertinent to considering the range of entities that should be subject to this project relate to:
- (a) the Board’s policy of verbatim adoption of IFRSs for for-profit entities (which would suggest not expanding the project beyond not-for-profit entities);
 - (b) transaction neutrality (which would suggest the entities affected by the outcome of this project should be restricted);
 - (c) the Board’s *Process for Modifying IFRSs for PBE/NFP* (which would suggest decisions about the range of entities affected should not be determined only from a GAAP/GFS harmonisation perspective);
 - (d) the fact that AASB 1049 specifies requirements for consolidated financial reports, which raises the question of whether entities consolidated into WoG (not just GGS), irrespective of whether for-profit or not-for-profit, should be subject to the same requirements;
 - (e) concerns about ‘project creep’ (which would suggest the scope of this project should be limited, to keep it manageable); and
 - (f) at its November 2006 meeting (see minute item 16, lead-in to second set of (a)-(c)), the Board decided not to apply GAAP/GFS harmonisation principles to PNFC and PFC entities. However, since that decision, the focus has changed from GAAP/GFS harmonisation to the quality of financial reporting.

- 57 ***Project staff think*** that, on balance:
- (a) comparability within the for-profit sector should outweigh comparability between for-profit and not-for-profit public sector entities;
 - (b) for-profit entities should continue to comply with IFRS as adopted in Australia; and
 - (c) the scope of this project should be limited to entities within the GGS

The nature of the Standard

- 58 If the Board decides to adopt some or all of the project staff recommendations, a question arises as to what form the Standard should take. Alternative forms include:

- (a) a stand-alone Standard specific to entities within the GGS;
- (b) a Standard that amends other Australian Accounting Standards that have implications for GAAP/GFS harmonisation; or
- (c) a revised AASB 1049, whether integrating requirements for entities within the GGS throughout it, or adding a supplement to AASB 1049.

The following table summarises the relative pros and cons of each alternative identified by project staff.

Stand-alone Standard	Incorporation into AASB 1049: integrated or supplement	Amending Standard
Provides one place for entities within the GGS to go, without needing to identify the applicable requirements out of a more broadly scoped Standard(s)	Keeps all requirements relating to the single topic of GAAP/GFS harmonisation in one place. A supplement to AASB 1049 would be easier for identifying requirements specific to entities within the GGS rather than integrating the requirements into AASB 1049	Acknowledges that entities within the GGS would need to refer to all relevant Australian Accounting Standards anyway
Not consistent with the Board's policy of issuing topic-based Standards rather than industry-based Standards	AASB 1049 is dominated by WoG and GGS	Inconsistent with the approach taken in AASB 1049
Provides a convenient place to locate any general principles – such as the limitation of a GAAP recognition and measurement option to a GFS requirement	Provides a convenient place to locate any general principles – such as the limitation of a GAAP recognition and measurement option to a GFS requirement	Might result in a significant number of Aus paragraphs throughout existing Standards. If the requirements include the limitation of a GAAP recognition and measurement option to a GFS requirement, Aus paragraphs would need to be incorporated into each Standard that has an optional treatment. Although many Standards do not have explicit options, they may contain implicit options and therefore it would be easier to specify the principle in one place, in a manner similar to the approach in which paragraph 13 of AASB 1049
Easiest to draft, because starting with a clean sheet	Could be difficult to integrate with AASB 1049, but relatively straightforward to add as a supplement (separate section) to AASB 1049. However, there could be a temptation to amend WoG and GGS requirements, which would pre-empt the Board's in-progress Post-implementation Review of AASB 1049 project	If the requirements include the limitation of a GAAP recognition and measurement option to a GFS requirement, it could be difficult to ensure that we have picked up all options (both explicit and implicit) in existing Standards. It might be easier to add a boiler-plate Aus paragraph to each Standard along the lines of "To the extent this Standard contains recognition and measurement options, entities within the GGS ..." However, that was not the approach taken with AASB 1049
Easiest to maintain – although a risk that it might get out of step with AASB 1049	Relatively easy to maintain – and has the benefit of any changes to AASB 1049 would be considered from WoG, GGS and entity within the GGS perspective	Harder to maintain

The Basis for Conclusions would accompany the requirements and be readily available for reference by users of the Standard	The Basis for Conclusions would accompany the requirements, but the Basis for Conclusions on WoG and GGS might detract from the Basis for Conclusions on entities within the GGS	The Basis for Conclusions would remain with the amending Standard, which once compiled into principal standards would not be prominent in the documents entities within the GGS refer to
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59 **Project staff think**, on balance, if the Board decides that the Standard should address recognition, measurement, classification, presentation and disclosure requirements, a stand-alone Standard should be issued (particularly if the range of entities affected is limited), due to the relative ease of drafting and the expectation that it would be more user-friendly for entities within the GGS and be accompanied by its Basis for Conclusions.

The nature of the accompanying Basis for Conclusions

60 The nature of the Basis for Conclusions that would accompany any Board pronouncement on GAAP/GFS harmonisation for entities within the GGS would depend on the Board's decisions about the issues discussed throughout this paper.

61 **Project staff think** that the Basis for Conclusions should be expressed in terms of improving the usefulness of general purpose financial statements of entities within the GGS, including comparability between entities within the GGS, having regard to cost/benefit considerations and the Board's other projects. We suggest the rationale for the project staff views expressed throughout this paper form the basis for the Basis for Conclusions.

Is an Exposure Draft warranted?

62 The question arises as to whether an exposure process would be necessary if any or all of the project staff views above are adopted, given the recommendations in this paper are arguably a natural progression from the Board's review of the comments on ED 174.

63 **Project staff think** that, consistent with the Board's February 2010 minutes (see paragraph 2 above), because there would be significant differences from ED 174, exposure would be warranted.

Appendix A⁸
Issues relating to recognition and measurement

Guidance based on the following could be included in a Standard:

Examples of recognition and measurement options in GAAP, and the impact the principle of 'limit a recognition and measurement option in GAAP to align with GFS' would have on financial statements, include:

Staff note to Board: As at the date of this paper, a number of Australian Accounting Standards are on issue but have not become mandatory, although early adoption is permitted. Item (i) of this Appendix notes that adoption of GAAP/GFS harmonisation principles would not lead to, but nor would it preclude, early adoption of Standards that align more closely with GFS principles. Accordingly, this Appendix is written in the context of mandatory Standards. This is particularly relevant to the references to AASB 139 *Financial Instruments: Recognition and Measurement* in item (b) of this Appendix. The IASB is in the process of replacing IAS 39 *Financial Instruments: Recognition and Measurement*, which is currently incorporated into AASB 139, in phases. The IASB recently issued IFRS 9 *Financial Instruments*, dealing at this stage with classification and measurement of financial assets, and plans to add requirements on the classification and measurement of financial liabilities, impairment of financial assets at amortised cost and hedging in 2010. We think the approach in this Appendix in relation to AASB 139 is justified on the basis that the IASB has signalled that IFRS 9 will not be mandatory until periods beginning on or after 1 January 2013, which for Australian entities within the GFS would be for periods ending on or after 30 June 2014. Of particular relevance is that the new requirements change the categories of financial assets measured at fair value.

- (a) assets within the scope of AASB 116 *Property, Plant and Equipment*, AASB 138 *Intangible Assets* 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 within the scope of those Standards would be measured at fair value because the ABS GFS Manual would measure those assets at market value.

However, the principle would not modify the fair value options allowed under AASB 116, AASB 138 and AASB 140. 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 would be measured at cost. Where historical cost is adopted because fair value cannot be measured reliably, historical cost would 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 would continue 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 would be measured at fair value where the ABS GFS Manual adopts market value as the measurement basis.

Although fair value measurement in the statement of financial position would be adopted for consistency with the principle, the accounting for changes in fair value in the statement of comprehensive income would not be affected by that approach. Rather, changes in fair value would be classified in the statement of comprehensive income 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 statement of comprehensive income.

- (c) actuarial gains and losses relating to defined benefit superannuation plans that may be recognised in full through operating result (which is part of comprehensive result), recognised in full through

8 Many of the examples in this appendix are based on those in paragraph 14(a) of AASB 1049.

- other non-owner changes in equity (which is also part of comprehensive result), or partially deferred using a 'corridor approach' under AASB 119 *Employee Benefits*. The option to partially defer using a 'corridor approach' would not be consistent with the ABS GFS Manual, and therefore would not be adopted under the principle. The other two options (which relate to classification and presentation [see Appendix C of this paper] rather than recognition and measurement) would be available.
- (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*. Proportionate consolidation would be inconsistent with the ABS GFS Manual's principles and rules. Therefore, proportionate consolidation would not be adopted under the principle.
 - (e) borrowing costs that may be expensed or capitalised by not-for-profit public sector entities under AASB 123 *Borrowing Costs*. Adoption of the expense option would broadly align with the ABS GFS Manual. Therefore, the expense option would be adopted under the principle.
 - (f) in relation to separate financial statements, the measurement choice provided in AASB 127 between cost and AASB 139 in the accounting for investments in subsidiaries, jointly controlled entities and associates that are not classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*. Adoption of accounting in accordance with AASB 139 is relatively more consistent with the ABS GFS Manual. Therefore, accounting in accordance with the AASB 139 option would be adopted under the principle. [*staff note to Board* – see also item (g)(ii) below].
 - (g) the choice provided in AASB 127 that, under certain circumstances, a parent can elect not to present consolidated financial statements⁹. This option would continue to be available under the principle because the ABS GFS Manual does not explicitly address financial reporting by individual entities within the GGS. [*Staff note to Board*: However, we think a Standard on GAAP/GFS harmonisation for entities within the GGS should provide guidance for both consolidated and separate financial statements along the following lines:
 - (i) consistent with AASB 127, if an entity within the GGS presents consolidated financial statements, adopting GAAP/GFS harmonisation principles would result in the consolidation, on a line-by-line basis, of all controlled entities, including those in the Public Non-Financial Corporations (PNFC) sector and the Public Financial Corporations (PFC) sector¹⁰; and
 - (ii) consistent with AASB 127, if an entity within the GGS presents separate financial statements, adopting GAAP/GFS harmonisation principles would result in the accounting for investments in subsidiaries, jointly controlled entities and associates that are not classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with AASB 5 would be accounted for in accordance with AASB 139. (see also item (f) above).
 - (h) the choice provided in AASB 128 *Investments in Associates* to not account for an investment in an associate using the equity method (see paragraph 13(c) of AASB 128). The choice is between AASB 139, cost or the equity method. AASB 139 requires fair value where it can be reliably measured, and therefore would be consistent with the ABS GFS Manual. However, where fair value cannot be reliably measured, a choice between cost and the equity method would remain under the principle because the ABS GFS Manual does not express a preference between cost and the equity method.
 - (i) the choice of early adoption that might be provided when an Australian Accounting Standard is issued prior to becoming mandatorily operative. Delayed operative dates are often provided by the AASB to facilitate the smooth transition to new requirements. The principle does not usurp the Board's intention in providing a lag between the issue of a Standard and its mandatory operative date. Accordingly, the choice in GAAP remains as an exception to the principle.

9 *Staff note to Board*: currently the relief given by paragraph 10 of AASB 127 for intermediate parent entities to not prepare consolidated financial statements is limited by virtue of paragraph 10(d), which permits the relief only when a parent further up the group structure makes IFRS-compliant financial statements available (rather than financial statements in compliance with AASs). The AASB considered this matter at its 17 March 2010 meeting and decided to explore extending the relief to cases where the higher-level parent makes available financial statements that comply with AASs. Accordingly, this appendix is written on the assumption that the relief in paragraph 10 of AASB 127 is generally available to entities within the GGS.

10 *Staff note to Board*: although AASB 1049 requires disclosure of sectors, we are not suggesting an equivalent requirement for entities within the GGS.

Appendix B
Jurisdictions' policies relating to the measurement of assets

State/ Territory	Scope	Policy Statement
Australian Capital Territory	“This ACT Accounting Policy applies to Property, Plant and Equipment (PPE) held by departments and Territory authorities. When accounting for property, plant and equipment agencies must follow the relevant Australian Equivalents to International Financial Reporting Standards (AIFRS).” ¹¹	<p>“Paragraph 13 of AASB 1049 specifies that when a standard allows optional treatments, the treatment that aligns with GFS must be applied. As a result paragraph 14(a) states that assets within the scope of AASB 116, 138 and 140 are to be measured at fair value.</p> <p>However paragraph 5 of AASB 1049 specifies that the requirements of the standard only need to be applied when their application is material in accordance with AASB 1031 <i>Materiality</i>. The ACT Government is applying paragraph 5 of <i>AASB 1049</i> and has allowed departments to value their plant and equipment, leasehold improvements and intangibles either at fair value or cost as they are not considered material when compared to the total assets at the Whole of Government (WoG) level and General Government Sector (GGS) level.”¹²</p> <p>“Agencies are to adhere to the revaluation provisions of AASB 116 and obtain a fair valuation for the following asset classes:</p> <ul style="list-style-type: none"> • Land • Buildings • Infrastructure • Heritage/Community”¹³ <p>“Detailed below are the asset classes agencies have the option of valuing at fair value or cost:</p> <ul style="list-style-type: none"> • Plant and equipment • Leasehold improvements • Intangibles <p>Although agencies may choose to value some asset classes using fair value and other classes using cost, the method chosen for a class of assets must be consistently applied to the entire asset class.”¹⁴</p>
Commonwealth	“These Orders are relevant to all reporting entities covered by: (a) section 49 of the <i>FMA Act</i> ; or	“Subsequent to initial recognition, entities must measure every type of departmental and administered asset listed below at fair value in

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- 11 [ACT Accounting Policy: Property, Plant and Equipment](#) (sect 1.1.1)
12 [ACT Accounting Policy: Property, Plant and Equipment](#) (sect 2.1.5)
13 [ACT Accounting Policy: Property, Plant and Equipment](#) (sect 2.1.6)
14 [ACT Accounting Policy: Property, Plant and Equipment](#) (sect 2.1.8)
15 [Finance Minister's Orders – Incorporating Policy and Guidance](#) (sect 1.2 – 1.3)

State/ Territory	Scope	Policy Statement
	<p>(b) clause 2 of Schedule 1 to the <i>CAC Act</i>.</p> <p>These Orders form part of the financial reporting framework for Australian Government reporting entities.”¹⁵</p>	<p>accordance with AASB 116 <i>Property, Plant and Equipment</i> or AASB 140 <i>Investment Property</i> as applicable:</p> <p>(a) land;</p> <p>(b) buildings;</p> <p>(c) infrastructure, plant and equipment;</p> <p>(d) heritage and cultural assets (where not intangible assets); and</p> <p>(e) investment properties.</p> <p>Intangible assets must be valued by class, at:</p> <p>(a) cost, in the absence of an active market; or</p> <p>(b) fair value, where an active market exists.</p> <p>The cost model must be applied to specialist military equipment.”¹⁶</p>
New South Wales	<p>“This Policy is applicable to all NSW public sector entities (including Statutory State Owned Corporations) for financial years ending on or after 30 June 2007.”¹⁷</p> <p>In relation to intangible assets: “This Circular updates NSW Treasury mandates under Australian Accounting Standards to be applied in all NSW public sector agency financial reports for financial years ending on or after 30 June 2009.”¹⁸</p>	<p>“Consistent with past practice, this NSW Treasury policy requires that all physical non-current assets, including investment property, be valued on the fair value basis.”¹⁹</p> <p>In relation to intangible assets: “Mandate fair value. It will be uncommon for fair value to exist, as there is unlikely to be an “active market” (although it may happen) (AASB 138, para 78). Where there is no active market, cost is used.”²⁰</p>
Northern Territory	<p>“(1) The Treasurer may, from time to time, issue directions to Accountable Officers concerning the principles, practices and procedures to be observed in the administration of the</p>	<p>“After initial recognition, assets that belong to the following asset classes are to be revalued using the revaluation model:</p> <ul style="list-style-type: none"> - land; - buildings;

16 [Finance Minister’s Orders – Incorporating Policy and Guidance](#) (sect 33.2 – 33.4)

17 [Valuation of Physical Non-Current Assets at Fair Value](#) (pg 1)

18 [NSW TC 09/03: Mandates of Options and Major Policy Decisions Under Australian Accounting Standards](#) (pg 1)

19 [Valuation of Physical Non-Current Assets at Fair Value](#) (sect 1.2)

20 [NSW TC 09/03: Mandates of Options and Major Policy Decisions Under Australian Accounting Standards](#) (pg 6)

21 [Financial Management Act](#) (sect 38)

22 [Financial Management Act](#) (sect 3)

State/ Territory	Scope	Policy Statement
	<p>financial affairs of the Territory and Agencies.</p> <p>(2) The Accountable Officer of an Agency, the Accountable Officer of the Central Holding Authority and each employee of an Agency must comply with the Treasurer's Directions."²¹</p> <p>“Accountable Officer means:</p> <p>(a) in relation to an Agency – the chief executive officer (however described) of the Agency or a person whom the Treasurer declares in writing to be the Accountable Officer for the Agency for this Act; or</p> <p>(b) in relation to the Central Holding Authority – the person whom the Treasurer declares in writing to be the Accountable Officer of the Authority for this Act."²²</p>	<p>- infrastructure assets; - heritage and cultural assets; - intangible assets; and - biological assets (if any)."²³</p> <p>“Other classes of non-current assets are not to be revalued and are to continue to be measured using the cost model.”²⁴</p>
Queensland	<p>“Departments and statutory bodies must apply the policies set out in this document, as per section 23(3) of the FPMS.</p> <p>It applies both to assets controlled by agencies and those administered on a whole-of-Government basis.</p> <p>These policies also apply to controlled entities of the above agencies to the extent necessary to ensure consistency in accounting policies in accordance with AASB 127 <i>Consolidated and Separate Financial Statements</i>.”²⁵</p>	<p>“Agencies are to record at fair value all land, buildings, infrastructure, heritage and cultural assets and major plant and equipment.</p> <p>Investment property is also to be recorded at fair value except where fair value cannot be measured reliably – refer to Section 5.5 under sub-heading ‘Investment Property’.</p> <p>...</p> <p>Application of fair value to individual assets requires different approaches for different assets. An important distinction is that between:</p> <ul style="list-style-type: none"> • assets for which a market price for the asset in its current type and condition exists or is able to be inferred from market activity; and • assets for which no such market price exists or can be inferred. <p>For the former, the market price is the fair value. The fair value of an asset is determined by reference to its highest and best use, that is, the most probable use of the asset that is physically possible, legally permissible, financially feasible, and which results in the highest value.</p> <p>Opportunities that are not available to the agency are not taken into account. For the latter, fair value can be estimated using an income or a depreciated replacement cost approach.”²⁶</p> <p>“Agencies must record at cost plant and equipment and intangible assets for which there is no active</p>

- 23 [Treasurer's Directions: Accounting - Assets](#) (sect A2.4.2)
- 24 [Treasurer's Directions: Accounting - Assets](#) (sect A2.4.3)
- 25 [Non-Current Asset Policies for the Queensland Public Sector](#) (sect 1.2)
- 26 [Non-Current Asset Policies for the Queensland Public Sector](#) (sect 4.2)

State/ Territory	Scope	Policy Statement
		market. Work in Progress is also to be carried at cost. ²⁷
South Australia	“This Accounting Policy Framework... applies to the general purpose financial statements of each public authority for the reporting period ending on or after 30 June 2009.” ²⁸	“Other than for intangible assets (refer to APS 12.6), subsequent to initial recognition each class of non-current assets will be measured at fair value. The cost basis of measurement will not apply.” ²⁹ “Intangible assets will be measured at cost unless the asset is acquired for no cost or for a nominal amount and then the asset’s fair value is deemed to be its cost.” ³⁰
Tasmania	“Treasurer’s Instructions are issued under the authority of the (Financial Management and Audit) Act and, subject to Instruction 105 (4), require compliance by all Heads of Agency.” ³¹	“After recognition as an asset, an Agency must record at historic cost all classes of Non-current assets, other than land, buildings, infrastructure, heritage and cultural assets, investment property and long-lived items of property, plant and equipment.” ³² “Agencies must record at fair value all land, buildings, infrastructure and heritage and cultural assets and long-lived items of property, plant and equipment.” ³³ “After initial recognition, each class of intangible asset shall be accounted for using: (a) The revaluation model where there is an active market for that class of asset; or (b) The cost model in the absence of an active market.” ³⁴
Victoria	“For the purposes of the <i>Model</i> , the applicable reporting entities are: <ul style="list-style-type: none"> . the Departments of Education and Early Childhood Development, Human Services, Transport, Innovation Industry and Regional Development, Justice, Premier and Cabinet, Primary Industries, Sustainability and Environment, Treasury and Finance, and Planning and Community Development; and . the Parliament of Victoria and Victoria Police. <p>Under a proposed revision to AASB 1049 for GGS entities, DTF is implementing new financial statement</p>	“All non-current physical assets except land under declared roads are measured initially at cost and subsequently revalued at fair value less accumulated depreciation and impairment.” ³⁶ “Intangible assets are initially recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Costs incurred subsequent to initial acquisition are capitalised when it is expected that additional future economic benefits will flow to the Department.” ³⁷

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- 27 [Non-Current Asset Policies for the Queensland Public Sector](#) (sect 4.5)
28 [Accounting Policy Statement](#) (sect 1)
29 [Accounting Policy Statement](#) (APS 3.1)
30 [Accounting Policy Statement](#) (APS 12.6)
31 [Compliance](#) (sect 1)
32 [Recognition and Measurement of Non-current Assets](#) (sect 6)
33 [Recognition and Measurement of Non-current Assets](#) (sect 8)
34 [Intangible Assets](#) (sect 2)

State/ Territory	Scope	Policy Statement
	<p>formats for departments that align with these new government sector formats through the Model Financial Report in this edition of the <i>Model</i>. All other GGS entities such as Roads Corporation and the Environmental Protection Authority are encouraged to adopt these new financial statement formats in their 2008-09 annual reports. Other public sector entities such as PNFCs and PFCs may wish to adopt these formats where useful and appropriate for their users, or alternatively follow the guidance and formats of the financial statements and accompanying notes in the 2007-08 edition of the <i>Model</i>.³⁵</p>	
Western Australia	<p>“A person who is an accountable authority or an officer is to comply with the Treasurer’s instructions.”³⁸</p> <p>“accountable authority, of an agency, means the person or body determined under section 54, 55 or 56, as the case requires; ... agency means a department, a sub-department or a statutory authority;”³⁹</p>	<p>“Subsequent to initial recognition, agencies must measure land and buildings at fair value as defined in Australian Accounting Standard AASB 116 ‘Property, Plant and Equipment’ in preparing financial statements for annual reporting periods beginning on or after 1 January 2005.”⁴⁰</p> <p>“Under AASB 138 ‘Intangible Assets’, fair value must be determined by reference to an active market. Consequently, most intangibles in the public sector cannot be measured on the fair value basis.”⁴¹</p> <p>“All acquired and internally developed intangible assets are initially recognised at cost. For assets acquired at no cost or for nominal cost, the cost is their fair value at the date of acquisition.”⁴²</p>

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- 35 [Model Department Accounts](#) (pg 5)
36 [Model Department Accounts](#) (note 1)
37 [Model Department Accounts](#) (note 1)
38 [Financial Management Act 2006](#) (para 78)
39 [Financial Management Act 2006](#) (para 3)
40 [Treasurer’s Instruction: Non-current assets](#) (sect 954)
41 [Treasurer’s Instruction: Non-current assets](#) (sec. 955)
42 [Model Department: Notes to financial statements](#)

Appendix C⁴³
Issues relating to classification and presentation

Guidance based on the following could be included in a Standard:

Consistent with GAAP/GFS harmonisation principles, GFS classification and presentation information pertinent to the statements of financial position, comprehensive income, cash flows and changes in equity shall either be disclosed in a note, or presented on the face of the financial statements in a manner consistent with the ABS GFS Manual, to the extent that presentation would not conflict with GAAP. If the on-the-face approach is adopted, it would mean that:

- (a) in relation to the statement of financial position, assets would be presented in a manner consistent with GFS financial/non-financial and produced/non-produced classifications⁴⁴;
- (b) in relation to the statement of comprehensive income:
 - (i) under the option in paragraph 81 of AASB 101, paragraph 81(a) would be adopted, resulting in the presentation of all items of income and expense recognised in a period in a single statement of comprehensive income;
 - (ii) all amounts relating to an item included in the determination of comprehensive result would be classified as transactions or other economic flows in a manner consistent with the principles in the ABS GFS Manual⁴⁵. The following examples illustrate how this approach would apply to particular items:
 - A net profit/(loss) from associates potentially comprises two components under GFS classification – dividends from associates and the remainder. Accordingly, dividends would be classified as transactions and the remainder classified as other economic flows. Such dividends would not be included in the line item that includes dividends from entities other than associates;
 - B dividend income would be classified as transactions to the extent that the ABS GFS Manual accounts for it as dividends and otherwise as other economic flows;
 - C changes in the fair value of financial instruments measured at fair value, that do not arise from undistributed interest or dividends, would be classified as other economic flows, irrespective of whether the instruments are classified as ‘fair value through profit or loss’ or ‘available-for-sale’;
 - D actuarial gains and losses relating to defined benefit superannuation plans would be classified as other economic flows, irrespective of whether they are included in the calculation of operating result/profit or loss, or the other non-owner changes in equity section of the statement of comprehensive income;
 - E 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 would be classified as transactions and the price changes would be classified as other economic flows. Although the consumption of capital might be considered to be similar in nature to depreciation, it would not be included in the line item that includes depreciation;
 - F depreciation of defence weapons platforms would be classified as a transaction, by analogy with the GFS classification of depreciation of other plant and equipment;
 - G doubtful debts would be classified as other economic flows, by analogy with the GFS classification of revaluation of other assets;

43 Many of the examples in part (b)(ii) of this appendix are based on those in paragraph 31 of AASB 1049.

44 *Staff note to Board:* consistent with the approach in AASB 1049, it would not be necessary for the Standard applicable to entities within the GGS to explicitly refer to the manner in which AASB 101 deals with liquidity order. Instead, liquidity order should be reflected in the illustration that we suggest accompanies the Standard (see appendix D of this paper).

45 As noted in paragraph 11(f) of the body of this paper, rather than cross-reference to the ABS GFS Manual, the Standard could incorporate any GFS type requirements directly.

- H bad debts would be classified as transactions to the extent they are mutually agreed, otherwise they would be classified as other economic flows;
 - I the income and expense recognised as a result of liabilities such as defined benefit superannuation or long service leave being assumed by another entity (eg the government) in accordance with paragraph 41 of AASB 1004 *Contributions* would be classified as transactions, on the basis that they are a transaction between the entity within the GGS and another entity;
 - J a capital asset charge, which might be imposed by a government on the written-down value of non-current physical assets controlled by an entity within the GGS, would be classified as a transaction on the basis that it is a transaction between the entity and the government. It differs in nature from finance costs referred to in paragraph 82(b) of AASB 101; and
 - K amounts previously recognised in other comprehensive income that are reclassified to operating result/profit or loss (referred to as reclassification adjustments) under certain Australian Accounting Standards would be classified as other economic flows to the extent they arise from the realisation of previously recognised other economic flows.
- (c) In relation to the statement of cash flows:
- (i) present cash flows relating to investing in financial assets for policy purposes separately from cash flows relating to investing in financial assets for liquidity management purposes, determined in a manner consistent with the ABS GFS Manual;
 - (ii) although cash flows from operating activities may be reported using either the direct method or the indirect method in the statement of cash flows under AASB 107 *Statement of Cash Flows*, the direct method would be adopted because it is consistent with the format of the cash flow statement under the ABS GFS Manual; and
 - (iii) although dividends paid may be classified as a financing cash flow or as a component of cash flows from operating activities under AASB 107, classification as a financing cash flow would be adopted because it is consistent with the format of the cash flow statement under the ABS GFS Manual.
- (d) AASB 1049 makes a general comments that GAAP includes implicit options. In particular, paragraph 15 states:

Certain Australian Accounting Standards do not prescribe specific treatments for all items and issues within their scope. An example is AASB 101, which specifies only the minimum line items to be presented in the statement of financial position and requires additional line items, headings and subtotals to be presented 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. Those ABS GFS Manual principles and rules are required to be applied in the presentation of the whole of government statement of financial position and the GGS statement of financial position to the extent that they do not conflict with AASB 101.

Appendix D
Illustrative Example

Illustrations based on the following could be included in a Standard:

Illustrative Example A provides an example of possible formats for the financial statements of an entity within the GGS, whilst Illustrative Example B provides a possible alternative format for the statement of comprehensive income, using a net cost of services format. Both Illustrative Examples are consistent with the staff suggestions throughout this paper, and therefore Australian Accounting Standards, including AASB 101 *Presentation of Financial Statement* and AASB 107 *Statement of Cash Flows*, and the assumptions made for the purpose of the illustrations.

The styles and formats illustrated are not mandatory. Other styles and formats would be equally appropriate if they meet the requirements of the Australian Accounting Standards.

Illustrative Examples A and B do not purport to present in 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 or all the notes. They also do not illustrate the disclosure requirements of all Australian Accounting Standards.

ILLUSTRATIVE EXAMPLE A

Financial Statements for an Entity within the General Government Sector

**Statement of Comprehensive Income for Department ABC for the Year Ended 30 June
20XX**

	Notes	\$'000
Continuing Operations – Transactions		
Revenue from Transactions		
Output appropriations		107,621
Special appropriations		8,976
Interest, other than swap interest		1,556
Dividends		623
Sales of goods and services		2,113
Other current revenues		<u>153</u>
		121,042
Expenses from Transactions		
Employee benefits expense		
Wages, salaries and supplements		(4,409)
Superannuation		(521)
Use of goods and services		(12,529)
Depreciation		(18,347)
Capital asset charge		(1,202)
Interest, other than swap interest		(59)
Grants		(77,515)
Other operating expenses		<u>(4,362)</u>
		(118,944)
Net Result from Continuing Operations – Transactions		2,098
Net Result from Discontinued Operations – Transactions	X	<u>1,471</u>
NET RESULT FROM TRANSACTIONS – NET OPERATING BALANCE		3,839

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Continuing Operations – Other Economic Flows – Included in Operating Result

Other revenue		
Net swap interest revenue		390
Net gain on financial assets or liabilities at fair value through operating result		10
Amortisation of non-produced assets		(2)
Impairment of non-financial assets		(202)
Doubtful debts		(4)
		<u>192</u>

Discontinued Operations – Other Economic Flows – Included in Operating Result X 150

Operating Result from Continuing Operations 2,290

Operating Result from Discontinued Operations X 1,891

OPERATING RESULT 4,181

Other Economic Flows – Other Non-owner Changes in Equity

Revaluations		1,050
Net gain on financial assets measured at fair value		<u>1,502</u>
		2,552

COMPREHENSIVE RESULT 6,733

Statement of Financial Position for Department ABC as at 30 June 20XX

	Notes	\$'000
Assets		
<i>Financial assets</i>		
Cash and deposits		19,927
Accounts receivable		25,074
Financial assets classified as held for sale, including disposal group assets*	Y	4,132
Shares and other equity		<u>18,640</u>
		67,773
<i>Non-financial assets</i>		
Produced assets		
Inventories		31,544
Non-financial assets classified as held for sale, including disposal group assets*	Y	17,064
Machinery and equipment		86,108
Buildings and structures		26,448
Investment properties		136
Intangibles		6,096
Non-produced assets		
Land		1,267
Intangibles		<u>3,643</u>
		<u>172,306</u>
TOTAL ASSETS		240,079

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Liabilities		
Accounts payable		11,451
Liabilities directly associated with assets classified as held for sale	Y	3,684
Advances		21,063
Provisions		5,714
TOTAL LIABILITIES		41,912
NET ASSETS/(LIABILITIES)		198,167
Equity		
Contributed capital		51,727
Accumulated surplus/(deficit)		143,260
Other reserves		3,180
TOTAL EQUITY		198,167
*Assets classified as held for sale, including disposal group assets		21,196

Statement of Cash Flows for Department ABC for the Year Ended 30 June 20XX

	Notes	\$'000
Cash Flows from Operating Activities		
Cash received		
Appropriations		110,292
Sales of goods and services		2,434
Interest, excluding swap interest		1,596
Dividends		623
Goods and Services Tax recovered from the ATO		2,281
Other receipts		18
		117,244
Cash paid		
Payments to and on behalf of employees		(7,870)
Purchases of goods and services		(18,365)
Interest, excluding swap interest		(55)
Capital asset charge		(1,192)
Grants		(77,515)
Goods and Services Tax paid to the ATO		(1,981)
Other payments		(10)
		(106,988)
NET CASH FLOWS FROM OPERATING ACTIVITIES		10,256
Cash Flows from Investing Activities		
<i>Non-Financial Assets</i>		
Sales of non-financial assets		22,107
Purchases of new non-financial assets		(23,163)
Net cash flows from investments in non-financial assets		(1,056)
<i>Financial Assets (Policy Purposes)</i>		
Sales of businesses		6,866
Purchases of investments		(9,133)
Net cash flows from investments in financial assets (policy purposes)		(2,267)

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<i>Financial Assets (Liquidity Management Purposes)</i>	
Sales of investments	6,701
Net cash flows from investments in financial assets (liquidity management purposes)	6,701
NET CASH FLOWS FROM INVESTING ACTIVITIES	3,378
Cash Flows from Financing Activities	
Cash received	
Owner contributions by State Government	3,145
Advances received	1,350
Swap interest	366
	4,861
Cash paid	
Advances paid	(14,077)
Swap interest	(20)
Other financing	(30)
	(14,127)
NET CASH FLOWS FROM FINANCING ACTIVITIES	(9,266)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,368
Cash and cash equivalents at beginning of year	15,559
CASH AND CASH EQUIVALENTS AT END OF YEAR	19,927

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

	Contributed capital	Accumulated surplus/ (deficit)	Asset revaluation reserve	Accumulated net gain/(loss) on financial assets measured at fair value	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000
Equity at 1 July 20XX-1	48,672	139,079	1,225	(597)	188,379
Transactions with owners in their capacity as owners					
Capital appropriations	2,044	-	-	-	2,044
Administrative restructures					
Net assets received	55,951	-	-	-	55,951
Net assets transferred	(54,940)	-	-	-	(54,940)
Total Comprehensive Result	-	4,181	1,050	1,502	6,733
EQUITY AT 30 JUNE 20XX	51,727	143,260	2,275	905	198,167

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Agenda paper 15.2

Note X: Discontinued Operations

	<i>Notes</i>	<i>\$'000</i>
Discontinued Operations – Transactions		
Revenue from Transactions		
Output appropriations		3,386
Other current revenues		286
		3,672
Expenses from Transactions		
Employee benefits expense		
Wages, salaries and supplements		(1,451)
Superannuation		(172)
Other operating expenses		(308)
		(1,931)
Net Result from Discontinued Operations – Transactions		1,741
Discontinued Operations – Other Economic Flows – Included in Operating Result		
Net gain on sale of non-financial assets		150
Operating Result from Discontinued Operations		1,891

Note Y: Assets classified as held for sale, including disposal group assets and directly associated liabilities

(a) Assets classified as held for sale, including disposal group assets

	<i>Notes</i>	<i>\$'000</i>
Disposal group assets		
Assets of discontinued operations		
<i>Financial assets</i>		
Cash and deposits		175
Accounts receivable		3,957
		4,132
<i>Non-financial assets</i>		
Produced assets		
Machinery and equipment		16,944
Assets classified as held for sale		
<i>Non-financial assets</i>		
Non-produced assets		
Land		120
Total assets classified as held for sale, including disposal group assets		21,196

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(b) Liabilities directly associated with assets classified as held for sale

	<i>Notes</i>	<i>\$'000</i>
Liabilities of discontinued operations		
Accounts payable		(3,684)
Total liabilities directly associated with assets classified as held for sale		<u>(3,684)</u>

ILLUSTRATIVE EXAMPLE B

Statement of Comprehensive Income (A Net Cost of Services format)

Statement of Comprehensive Income for Department ABC for the Year Ended 30 June 20XX

	Notes	\$'000
Continuing Operations – Transactions (Excluding Appropriations)		
Expenses from Transactions		
Employee benefits expense		
Wages, salaries and supplements		(4,409)
Superannuation		(521)
Use of goods and services		(12,529)
Depreciation		(18,347)
Capital asset charge		(1,202)
Interest, other than swap interest		(59)
Grants		(77,515)
Other operating expenses		(4,362)
		(118,944)
Revenue from Transactions (Excluding Appropriations)		
Interest, other than swap interest		1,556
Dividends		623
Sales of goods and services		2,113
Other current revenues		153
		4,445
		(114,499)
Continuing Operations – Transactions (Excluding Appropriations) *		
Discontinued Operations – Transactions (Excluding Appropriations) #	Z	(1,645)
Continuing Operations – Other Economic Flows – Included in Operating Result		
Other revenue		
Net swap interest revenue		390
Net gain on financial assets or liabilities at fair value through operating result		10
Amortisation of non-produced assets		2
Impairment of non-financial assets		(202)
Doubtful debts		(4)
		192
Discontinued Operations – Other Economic Flows – Included in Operating Result	Z	150
NET COST OF SERVICES		(115,802)

AASB 28-29 April 2010
Agenda paper 15.2

Continuing Operations – Transactions (Appropriations) *		
Output appropriations		107,621
Special appropriations		<u>8,976</u>
		116,597
Discontinued Operations – Transactions (Appropriations) #	Z	3,386
Operating Result from Continuing Operations		2,290
Operating Result from Discontinued Operations	Z	<u>1,891</u>
OPERATING RESULT		4,181
Other Economic Flows – Other Non-owner Changes in Equity		
Revaluations		1,050
Net gain on financial assets measured at fair value		<u>1,502</u>
		2,552
COMPREHENSIVE RESULT		<u>6,733</u>
* Net Result from Continuing Operations – Transactions		2,098
# Net Result from Discontinued Operations – Transactions	Z	<u>1,741</u>
Net Result from Transactions – Net Operating Balance		3,839

Note Z: Discontinued Operations

	<i>Notes</i>	<i>\$'000</i>
Discontinued Operations – Transactions (Excluding Appropriations)		
Expenses from Transactions		
Employee benefits expense		(1,451)
Wages, salaries and supplements		(172)
Superannuation		(308)
Other operating expenses		<u>(1,931)</u>
Revenue from Transactions (Excluding Appropriations)		
Other current revenues		<u>286</u>
		<u>286</u>
Discontinued Operations – Transactions (Excluding Appropriations)		<u>(1,645)</u>
Discontinued Operations – Other Economic Flows – Included in Operating Result		
Net gain on sale of non-financial assets		150
Discontinued Operations – Transactions (Appropriations)		
Output appropriations		3,386
Net Result from Discontinued Operations – Transactions		1,741
Operating Result from Discontinued Operations		<u><u>1,891</u></u>

Appendix E
Jurisdictions' policies relating to administered items

Jurisdiction	Policy Statement
Australian Capital Territory	<p>“The Department produces Departmental and Territorial financial reports. The Departmental financial report includes income, expenses, assets and liabilities over which the Department has control. The Territorial financial report includes income, expenses, assets and liabilities that the Department administers on behalf of the ACT Government, but does not control.”⁴⁶</p> <p>“The FMA requires an Appropriation Act make separate appropriations in relation to each Department for... any payments to be made by the Department on Behalf of the Territory (i.e. administered expenses).”⁴⁷</p>
Commonwealth	<p>“With the exception of items covered under UUUUDivision 38, entities must distinguish items as departmental or administered in the financial statements for all disclosures outlined in this schedule.</p> <p>The financial statements must present administered and departmental items in accordance with Cabinet decisions on their classification.”⁴⁸</p> <p>“Entities must prepare a schedule of administered items in compliance with Division 85 of this schedule.”⁴⁹</p> <p>“The financial statements of an entity that administers activities for the Australian Government, must include a schedule of administered items and associated administered notes.</p> <p>The schedule of administered items and associated administered notes must:</p> <ul style="list-style-type: none"> (a) include administered items as defined in Division 15; (b) be presented in the form prescribed by Annexure A; (c) include the administered reconciliation table in accordance with section 85.5; (d) include disclosures in relation to accounting policies and financial instruments in accordance with the relevant accounting standards; and (e) use background shading for the schedule of administered items and administered notes. <p>The schedule of administered items and administered notes must:</p> <ul style="list-style-type: none"> (a) comply with all applicable requirements of this schedule; and (b) provide in the heading of, or as a footnote to, the schedule of administered items, a brief description of the activities being administered on behalf of the Australian Government. <p>A statement of changes in equity or statement of recognised income and expense is not required for administered items.</p> <p>The administered reconciliation table must include the following line items:</p> <ul style="list-style-type: none"> (a) Opening administered assets less administered liabilities as at 1 July (b) Adjustment for change in accounting policies (c) Adjustment for errors (d) Adjusted opening administered assets less administered liabilities (e) Plus: Administered income (f) Less: Administered expenses (g) Administered transfers to/from Australian Government: <ul style="list-style-type: none"> (i) Appropriation transfers from OPA: <ul style="list-style-type: none"> • Annual appropriations administered expenses • Administered assets and liabilities appropriations • Special appropriations (limited) (ii) Transfers to OPA (iii) Restructuring (h) Transfers to other entities (Finance only) (i) Transfers from other entities (Finance only) (j) Administered revaluations taken to/from reserves (k) Currency translation gain/loss (l) Closing administered assets less administered liabilities as at 30 June”⁵⁰

46 [Addendum to the Model Financial Report](#) (pg 30)
 47 [Addendum to the Model Financial Report](#) (pg 49)
 48 [Finance Minister's Orders – Incorporating Policy and Guidance](#) (sect 15.1-15.2)
 49 [Finance Minister's Orders – Incorporating Policy and Guidance](#) (sect 75.1)

Jurisdiction	Policy Statement
New South Wales	<p>“Administered activities may be defined as those activities that are carried out on behalf of another entity (e.g. the Crown Entity). Therefore, the income and expenses and assets and liabilities relating to those activities should not be recognised in the primary financial statements of the agency.”⁵¹</p> <p>“Administered expenses and income are not recognised in the operating statement but are required to be disclosed in the complete set of financial statements, showing separately:</p> <ul style="list-style-type: none"> ▫ each major class of expense and income and ▫ in respect of each of those classes of expenses and income, the amounts that can be attributed to each of the agency’s activities and the amounts that cannot be attributed. <p>Administered expenses and income are to be reported on the same basis as the agency in terms of the recognition of expenses and income in the financial report.</p> <p>Administered assets and liabilities are also required to be disclosed, showing separately each major class of asset / liability.”⁵²</p> <p>“Administered assets and liabilities are not recognised in the balance sheet but are required by AASB 1050 to be disclosed in the notes, showing separately each major class of asset and liability.</p> <p>Administered assets and liabilities are reported on the same basis adopted for the recognition of assets and liabilities in the financial report.</p> <p>Agencies must disclose administered assets and liabilities including receivables, land and buildings and other material categories...</p> <p>Other material categories of administered assets are to be disclosed. Also any material categories of administered liabilities are to be disclosed, including any liability to Consolidated Fund.”⁵³</p> <p>“There is to be separate disclosure of a schedule of administered debts written-off during the financial year classified by type, separately disclosing fines and / or penalties by type. With respect to taxes, fines and regulatory fees, details of all remissions are also to be disclosed.”⁵⁴</p> <p>“Agencies are required to show by note a schedule of administered uncollected amounts (including assessments issued but not yet paid), appropriately classified by type and age. Allowance for impairment by type and age must also be disclosed.”⁵⁵</p>
Northern Territory	<p>“The Territory’s accrual output budget framework will probably not segregate these (administered and controlled) items, principally on the basis that this leads to significant additional recording and reporting for little benefit. This segregation also provides an environment where agencies are only responsible for part of their operations and encourages attempts to move items from the controlled to the administered category.</p> <p>Recognition of the differences for items that agencies manage on behalf of the Territory can be accommodated through other means. In this regard, Territory revenue will be distinguished and recorded in the Territory Holding Unit. Expenses where agencies have limited control, such as transfer payments, will be recorded as discrete outputs and managed accordingly. Agencies will not hold any assets or liabilities on behalf of the Territory, as these will be centrally held by the Territory Holding Unit.”⁵⁶</p>

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- 50 [*Finance Minister’s Orders – Incorporating Policy and Guidance*](#) (sect 85.1-85.5)
 - 51 [*Accounting Policy: Financial Reporting Code for Budget Dependent General Government Sector Agencies*](#) (pg 21)
 - 52 [*Accounting Policy: Financial Reporting Code for Budget Dependent General Government Sector Agencies*](#) (pg 22)
 - 53 [*Accounting Policy: Financial Reporting Code for Budget Dependent General Government Sector Agencies*](#) (pg 88)
 - 54 [*Accounting Policy: Financial Reporting Code for Budget Dependent General Government Sector Agencies*](#) (pg 22)
 - 55 [*Accounting Policy: Financial Reporting Code for Budget Dependent General Government Sector Agencies*](#) (pg 22)
 - 56 [*Working for Outcomes*](#) (pg 92)

Jurisdiction	Policy Statement
Queensland	<p>“Administered transactions and balances may be disclosed as notes to the ‘controlled’ financial statements unless they are material in amount in relation to the controlled financial statements. Should this be the case, the administered transactions and balances must be reported as discrete financial statements within the agency’s overall financial statements. Administered transactions and balances must be accounted for on the same basis as controlled transactions and balances.</p> <p>Where administered revenue is accrued as a receivable, a corresponding expense and liability should be accrued to recognise that the administered revenue is payable to the whole-of-Government. For consistency, the administered liability should be termed ‘Transfers to Government Payable’.”⁵⁷</p>
South Australia	<p>“The financial statements of all government reporting entities will distinguish between those transactions and balances that are controlled and those that are administered by the entity on behalf of the Government. Those administered transactions and balances that are:</p> <ol style="list-style-type: none"> 1. significant in relation to the entity’s overall performance or financial position, will be disclosed in the financial statements after the explanatory notes in separate administered financial schedules and notes. The administered schedules will include <ul style="list-style-type: none"> • Statement of Administered Financial Position; • Statement of Administered Comprehensive Income; • Statement of Administered Changes in Equity; • Statement of Administered Cash Flows; and • Schedule of Administered Income and Expenses attributable to the administered activities of the entity. 2. insignificant in relation to the entity’s overall performance or financial position, will be disclosed in the explanatory notes. <p>The administered financial schedules and administered explanatory notes will be prepared using accounting policies and principles that have been adopted for controlled transactions and balances. For example, commitments, contingent assets and contingent liabilities will be disclosed for administered items.”⁵⁸</p>
Tasmania	<p>“For the purposes of financial reporting, transactions and balances relating to administered resources are not recognised as Agency revenues, expenses, assets or liabilities. Administered resources are disclosed in notes to general purpose financial statements.”⁵⁹</p> <p>“The schedules of administered income and expenses, assets and liabilities and cash flows are presented as the first note to the financial statements in the Model Statements. The structure, format and content of notes to administered schedules of income and expenses, assets and liabilities and cash flows must be consistent with the structure, format and content of the notes to the controlled financial statements.”⁶⁰</p>
Victoria	<p>“To facilitate the assessment of the costs incurred and the cost recoveries generated as a result of the government department’s activities, administered revenues, expenses, assets and liabilities are reported on the same basis adopted for the recognition of the elements of the financial statements. That is, they are accounted for using the accrual basis of accounting</p>

57 [Part C – Accounting Policy Guidelines](#) (pg 129)
58 [General Purpose Financial Statements Framework](#) (sect 3.11-3.12)
59 [Definition of “Administered” and Controlled”](#) (sect 5)
60 [Presentation of Annual Financial Statements](#) (pg 4)
61 [Model Financial Report](#) (pg 122)

Jurisdiction	Policy Statement
	<p>and by adopting the accounting standards required to be adopted by AASB 1050.”⁶¹</p> <p>“Income and expenses that are administered by a department are not recognised in its comprehensive operating statement but are disclosed in the notes.</p> <p>AASB 1050 and FRD 9A <i>Departmental Disclosure of Administered Assets and Liabilities by Department</i> requires administered income and expenses to be disclosed separately by major class and attributed to outputs where such allocation can be determined reliably.”⁶²</p> <p>“Assets and liabilities administered by the department are not recognised in its balance sheet but are disclosed in the notes.</p> <p>AASB 1050 encourages, but does not require, the allocation of administered assets and liabilities to outputs. However, FRD 9A extends AASB 1050’s disclosure requirement for administered revenue and expenses to include disclosure on a major activity basis for administered assets and liabilities. Assets and liabilities should only be disclosed on a major activity basis when such allocations can be reliably attributable to the outputs.”⁶³</p>
Western Australia	<p>“...it is considered more appropriate that the schedules of administered items be presented as notes to the financial statements as illustrated in the model financial statements attached to the Treasurer’s instructions.”⁶⁴</p> <p>“Disclosures required by other Accounting Standards (e.g. AASB 7 ‘Financial Instruments: Disclosures’) are not required for administered income, expenses, assets and liabilities.”⁶⁵</p>

62 [Model Financial Report](#) (pg 135)

63 [Model Financial Report](#) (pg 135)

64 [Financial Administration Bookcase](#) (pg 19)

65 [Financial Administration Bookcase](#) (pg 20)

Appendix F

Extracts from AASB 1004 relating to compliance with appropriations

- 64 The complete set of financial statements of a government department shall disclose separately:
- (a) a summary of the recurrent, capital or other major categories of appropriations, disclosing separately:
 - (i) the original amounts appropriated for the reporting period; and
 - (ii) the total amounts appropriated for the reporting period;
 - (b) amounts authorised other than by way of appropriation and advanced separately by the Treasurer, other minister or other legislative authority for the reporting period;
 - (c) the expenditures for the reporting period in respect of each of the items disclosed in (a) and (b) above;
 - (d) the reasons for any material variances between the amounts appropriated or otherwise authorised and the associated expenditures for the reporting period; and
 - (e) the nature and probable financial effect of any non-compliance by the government department with externally-imposed requirements for the reporting period, not already disclosed by virtue of (d) above, and that are relevant to assessments of the government department's performance, financial position or financing and investing activities.
- 65 The information disclosed about compliance with externally-imposed requirements shall be in a form that is relevant to users of that information, and that reflects the following:
- (a) the operating characteristics of the government department;
 - (b) the structure of the appropriations;
 - (c) any other requirements that are imposed externally on the government department; and
 - (d) the general purpose nature of the complete set of financial statements.
- 66 For the purposes of economic decision making, including assessments of accountability, this Standard requires that users of the complete set of financial statements be provided with information about the amounts appropriated or otherwise authorised for a government department's use, and whether the government department's expenditures were as authorised. When spending limits imposed by parliamentary appropriation or other authorisation have not been complied with, information regarding the amount of, and reasons for, the non-compliance is relevant for assessing the performance of management, the likely consequences of non-compliance, and the ability of the government department to continue to provide services at a similar or different level in the future.
- 67 Broad summaries of the major categories of appropriations and associated expenditures, rather than detailed reporting of appropriations line-item by line-item for each activity, is sufficient for most users of a government department's complete set of financial statements. Determining the level of detail and the structure of the summarised information is a matter of judgement. The detailed information about compliance with spending mandates required by certain users should be provided in special purpose financial statements.
- 68 In addition to requirements to comply with expenditure limits imposed by parliamentary appropriations, government departments are subject to a range of legislative, regulatory and other externally-imposed requirements governing their operations. Knowledge of non-compliance with such requirements is relevant for accountability purposes and may affect users' assessments of the government department's performance and likely future operations. It may also influence decisions about resources to be allocated to that government department in the future.