

EXTRACT FROM MINUTES: AASB 13-14 APRIL 2005 MEETING

GAAP/GFS CONVERGENCE

Agenda item 7

The Board had before it:

- (a) a covering memorandum from Robert Keys and Robert Orford, dated 7 April 2005 (Agenda paper 7.1);
- (b) a draft Exposure Draft ED 14X *Financial Reporting of General Government Sectors by Governments* (Agenda paper 7.2);
- (c) a draft Appendix C (illustrative financial statements) for draft ED 14X (Agenda paper 7.3);
- (d) an issues paper on line item classification in the converged operating statement (Agenda paper 7.4); and
- (e) an issues paper submitted by the Heads of Treasuries Accounting and Reporting Advisory Committee (HOTARAC) dealing with defined benefit superannuation schemes dated 10 March 2004 (related to discussion of employee benefits expense in draft Appendix C to ED 14X – note 6 to the operating statement in agenda paper 7.3 (Agenda paper 7.5).

A The Board reviewed Appendix C to the draft ED 14X and decided to:

- (a) retain the columnar format for the operating statement and balance sheet, and to note in the ED that it is illustrative only and, therefore, not mandatory; and to ask respondents to the ED to provide an alternative format (that is consistent with the ED) if they consider that a columnar format is unsuitable. In deciding to retain the columnar format for illustrative purposes, the Board noted that it:
 - (i) allows the user the flexibility to focus on the column(s) of interest, and hence choose the column(s) to be given prominence in any comparative schedules that may accompany the financial statements; and
 - (ii) facilitates a comparison of budget to actuals for the particular column of interest, where one of the columns reflects the basis upon which the budget is prepared;
- (b) focus the notes to the statements on an explanation of convergence differences (thus notes 5, 12, 17 and 20 to 22 to the operating statement are to be deleted, as are the shaded sections headed “AASB staff note to Board”);
- (c) include a statement that the illustration does not purport to identify all possible convergence differences;
- (d) not illustrate the disclosure of comparative data, the explanatory notes required by paragraph 44 of ED 14X, performance indicators (paragraph 50 of ED 14X), budgetary information (as required by paragraph 53 of ED 14X), nor all the disclosures required by other Australian Accounting Standards;
- (e) add an illustration of the disclosures of items based on a functional classification as proposed in paragraphs 46 and 47 of the draft ED. The Board noted that developing such an illustration would help it assess the rigour of the drafting of those two paragraphs, including the requirement to disclose reconciliations;

- (f) ensure that the terminology in the notes is consistent with the terminology in the statements; and
- (g) remove the asterisks from the statements and to refer to the glossary currently in note 23 by way of a footnote on the face of each statement. The Board also decided that the glossary should be completed in consultation with staff of the Australian Bureau of Statistics (ABS). In addition, the Board decided that a question should be included in the ED asking constituents whether the inclusion of definitions is useful.

B In relation to the operating statement the Board decided to:

- (a) change the heading of the final column on the operating statement to “GAAP comprehensive result”;
- (b) include a total for the convergence differences column on the operating statement, and highlight this line and the line items comprehensive result, GFS net operating balance and GFS net other economic flows by including a continuous line immediately above the four columns and a double continuous line immediately below the final three columns of this group of items;
- (c) add the word “less” before the line item “net increase in non-financial assets”;
- (d) include a footnote on the face noting that an alternative treatment for net actuarial gains consistent with the December 2004 version of AASB 119.93A is to present them as other non-owner movements in equity, and that such a treatment would (consistent with AASB 119.93B) prevent the inclusion on the face of the operating statement of the opening and closing balances of retained earnings and the changes during the period (see AASB 101.97(b)) – see also minute item E(c) below;
- (e) insert single lines above 6,947 and 6,289 in the transactions column; and
- (f) direct staff to explore further whether:
 - (i) the line item “correction of errors” should be deleted on the basis that normally in practice it would be adjusted retrospectively under AASB 108;
 - (ii) to extract a “finance cost” element from the line item “wages and salaries” to disclose the interest cost on employee benefits other than those related to superannuation to ensure compliance with the requirement in AASB 101.81(b) to show “finance costs” on the face of the statement;

C In relation to the balance sheet the Board decided to:

- (a) add “GAAP” as the heading of the final column on the balance sheet;
- (b) direct staff to explore further whether there is a convergence difference that needs to be disclosed related to the treatment of loans; and
- (c) within the headings financial assets, non-financial assets and liabilities, list line items in liquidity order;

D In relation to the cash flow statement the Board decided to:

- (a) not include the distinction between cash flows relating to investing in financial assets for “policy” and “non-policy” purposes on the face of the cash flow statement, and to seek comments from respondents to the ED on whether such a distinction would be useful and whether it can be made with sufficient rigour. The dichotomy should be described as policy/non-policy or policy/liquidity, whichever is adopted in practice; and
- (b) allow dividends received to be split on the cash flow statement between operating and investing cash flows such that the convergence difference in note 1 to the cash flow statement would be eliminated;

E The Board also commenced its review of the draft ED (in particular paragraphs 1 to 25) and decided to:

- (a) retain in paragraph 10 (and throughout the ED) the reference to GFSM 2001 and to seek comments from respondents to the ED on the appropriateness of such a reference compared with a reference to the GFS Manual published by the ABS;
- (b) in relation to the fair value option in AASB 139, delete the last two sentences in paragraph 12(c) of the ED which describe the treatment of loans under GFSM 2001;
- (c) in relation to the options in AASB 119 *Employee Benefits*, amend paragraph 12(d) and commentary to paragraph 33 to clarify the implications of recognising actuarial gains/losses on defined benefit superannuation plans in full directly in retained earnings; and to seek comments from respondents to the ED on whether a particular treatment of such gains/losses should be mandated (see also minute item B(d) above);
- (d) add a sub paragraph in paragraph 16 identifying that GFSM 2001 and Australian Accounting Standards may differ in the classification of events to particular line items. In this regard, the Board noted agenda paper 7.4 relating to line item classification in the converged operating statement. Paragraph 16 should also cross-reference to Appendix C, which illustrates other possible convergence differences;
- (e) delete the section dealing with land under roads. The Board decided to effectively replace this section with an ED proposing amendments to AASB 116 that would specify requirements for land under roads and would delete the land under roads requirements from AASs 27, 29 and 31. The ED proposing amendments to AASB 116 will propose requiring land under roads to be recognised at cost of acquisition, but only where cost is measurable reliably, and prohibit revaluation; and
- (f) accept (apart from the decisions above) all other mark-ups highlighted in paragraphs 1 to 25 of the ED.

The Board decided that it would consider the remaining paragraphs of the draft ED, Appendices A & B, and the Preface at its May meeting.

The Board noted that this was the last AASB meeting that Robert Orford (seconded from the Department of Finance and Administration) would be attending and expressed its appreciation for his contributions to the development of its projects on public sector financial reporting, in particular, his work in progressing the GAAP/GFS Convergence project.

Action:

Staff