

## **AASB Staff Issues Paper on IPSASB Exposure Draft *Elements and Recognition in Financial Statements***

### **Introduction**

- 1 The main agenda paper analysing issues regarding the IPSASB ED *Elements and Recognition in Financial Statements* is Agenda Paper 13.4. That paper sets out in a table:
  - (a) the issues raised in the Specific Matters for Comment on the IPSASB Consultation Paper (CP) *Elements and Recognition in Financial Statements*;
  - (b) the AASB's main comments on those issues;
  - (c) an update of each issue for its proposed treatment in the IPSASB ED on Elements and Recognition; and
  - (d) the AASB staff recommendation on the treatment of those issues in the IPSASB ED.
- 2 The issues discussed in Agenda Paper 13.4 effectively subsume the Specific Matters for Comment in the IPSASB ED on Elements and Recognition; those Matters are therefore not discussed in addition to the issues raised in the IPSASB CP.

### **AASB staff's key concerns with the IPSASB ED**

- 3 The AASB staff's primary concern with the IPSASB ED is in regard to its proposal to identify 'deferred inflows' and 'deferred outflows' as elements of financial statements and, consequently, to identify 'net financial position' in addition to net assets. Draft comments on that issue for inclusion in the Board's submission are set out in Agenda Paper 13.3.
- 4 The key concerns of AASB staff identified in Agenda Paper 13.4, in addition to the primary concern mentioned in paragraph 3 above, are in respect of the following issues within that paper:
  - (a) Issue 11: Staff think the discussion of liabilities includes various flaws and therefore needs considerable revision;
  - (b) Issue 16: Staff disagree with the ED's proposal that the issue of whether (and when) social benefit 'obligations' would qualify as liabilities should be dealt with only at a standards level;
  - (c) Issue 21: Staff disagree with not defining net assets as an element of financial statements, and with treating net assets as a residual amount rather than a residual interest; and
  - (d) Issue 24: Staff are concerned that no explicit recognition criteria are provided, and that the discussion of uncertainty in Section 7 (on Recognition) needs updating to be contemporary with IASB thinking (from a transaction neutrality viewpoint).

- 5 In addition, staff have identified a key concern that **asset revaluations** credited directly to equity under IPSASs (e.g., revaluations of property, plant and equipment) are not catered for in the various definitions. Given the IPSASB ED's proposed concept of 'revenue' equates to the concept of 'income' in the IASB Conceptual Framework, one might expect the definition of revenue to cover revaluations (e.g. in other comprehensive income). This is particularly so because the ED does not identify 'capital maintenance adjustments' as elements. However, the ED's definition of revenue doesn't mention 'enhancements' (it only includes 'inflows'). Therefore, the treatment of revaluations is unclear.

#### **Comments from staff of the Australian Bureau of Statistics (ABS)**

- 6 In response to a letter of invitation from the AASB Chairman, staff of the ABS provided the following comments on the IPSASB ED:

“The ABS does not recognise deferred inflows and deferred outflows as part of the GFS Framework. Draft Chapter 5 of the revised IMF GFSM indicates that it is possible for governments to receive cash receipts before having an unconditional claim to it (this includes advances for provision of goods and services in the future, grants for the construction of fixed assets over several periods, and receipt of amounts for sales of goods that will be delivered in the future), but these receipts cannot be recognised as revenue in the period in which they were received. Under an accrual accounting system, it is only once the government has unconditional claim to the revenue that it enters the GFS system.

Only economic assets are recorded in the macroeconomic statistical system, and they appear in the balance sheet of the unit that is the economic owner of the asset. Economic assets are resources (i) over which economic ownership rights are enforced by institutional units, individually or collectively, and (ii) from which economic benefits may be derived by their owners by holding them or using them over a period of time.”

- 7 These comments seem compatible with the AASB staff's recommendations on the key issues arising from the IPSASB ED.

#### **Questions for Board members**

Do you agree with the key concerns identified by AASB staff in paragraphs 3 – 5 above?

Are there any additional significant issues you consider should be raised in the Board's submission on the IPSASB ED?