

**Exposure Draft**

**Supplement to ED 155**  
June 2007

# **Financial Reporting by Whole of Governments – Illustrative Example**

Prepared by the  
**Australian Accounting Standards Board**



**Australian Government**

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**Australian Accounting  
Standards Board**

## **Commenting on this Supplement to ED 155**

This Supplement should be considered in conjunction with Exposure Draft ED 155 *Financial Reporting by Whole of Governments*. Comments should be forwarded so as to arrive by 17 August 2007. Comments should be addressed to:

The Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West Victoria 8007  
AUSTRALIA

A copy of all non-confidential submissions will be placed on public record on the AASB website: [www.aasb.com.au](http://www.aasb.com.au).

## **Obtaining a Copy of this Supplement to ED 155**

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ISSN 1030-5882

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## **PREFACE**

### **Relationship of this Supplement to ED 155 and AASB 1049**

This Supplement to ED 155 should be considered in conjunction with Exposure Draft ED 155 *Financial Reporting by Whole of Governments*.

The AASB issued ED 155 in May 2007 as part of the AASB's implementation of a Financial Reporting Council (FRC) broad strategic direction. As noted in ED 155, to provide constituents with a timely opportunity to comment on the principles proposed to be included in a GAAP/GFS harmonised Standard for whole of governments, ED 155 was issued without an illustrative example.

The illustrative example has now been developed and is broadly based on Illustrative Example A which accompanies AASB 1049 *Financial Reporting of General Government Sectors by Governments*.

Unlike Illustrative Example A of AASB 1049, in preparing this illustration to accompany ED 155, the AASB has assumed that the GGS does not hold investments in controlled entities whose shares are publicly traded, reflecting the present circumstances in all Australian jurisdictions. Otherwise, wherever possible, the AASB has avoided changing the numbers, descriptions and explanations adopted in Illustrative Example A of AASB 1049. The Board will consider making consistent improvements to the descriptions and explanations in both illustrations at the time it develops the Standard from ED 155.

The assumptions used in preparing Illustrative Example A in this Supplement to ED 155 are listed in agenda paper 2.2 considered at the AASB's June 2007 meeting and available on the AASB website.

### **Request for Comments**

In common with ED 155, comments are invited on this Supplement to ED 155 by 17 August 2007. The AASB would prefer that respondents express a clear overall opinion on whether Illustrative Example A, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical on the major issues. The AASB regards both critical and supportive comments as essential to a balanced review of the issues and will consider all submissions.

### **Specific Matters for Comment**

The AASB would particularly value comments on whether the illustrated acceptable format for the financial statements and selected notes provides guidance that is helpful in implementing the proposals in ED 155.



# ACCOUNTING STANDARD AASB 10XX

## ***FINANCIAL REPORTING BY WHOLE OF GOVERNMENTS***

### **ILLUSTRATIVE EXAMPLE A**

*This example accompanies, but is not part of, the Standard.*

#### **Illustration of an Acceptable Format and Content of Financial Statements, Reconciliation Notes, Explanations of Key Technical Terms, Functional Information and Sector Information**

This Illustrative Example provides an illustration of an acceptable format for the financial statements of a government that is consistent with the requirements of the Standard and the assumptions made for the purpose of the illustration. It also illustrates an acceptable style and format for reconciliation notes, explanations of key technical terms, functional information and sector information.

The style and format illustrated are not mandatory. Other styles and formats may be equally appropriate so long as they meet the requirements of the Standard.

To assist an understanding of the illustration, particularly in relation to differences between GAAP and GFS, explanatory notes are provided immediately following the illustrative reconciliation notes. They do not form part of the illustrative financial statements or notes.

The illustration does not purport to identify all possible differences between GAAP and GFS, nor to present on the face of the financial statements all the line items as might be required by a different set of assumptions. Additionally, it does not illustrate the disclosure of comparative period information, and notes required by AASB 10XX paragraphs 30, 31 (except the relevant reconciliation notes and explanations of key technical terms), 41(a) and the explanation of differences required by 41(b)(ii)B. It also does not illustrate the disclosure requirements of budgetary information (paragraphs 47 to 53 of AASB 10XX), nor all the disclosures required by other Australian Accounting Standards.

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

**Operating Statement for the Whole of Government of the ABC Government  
for the Year Ended 30 June 200X**

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



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

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

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

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

**COMPREHENSIVE RESULT – TOTAL CHANGE IN NET WORTH BEFORE TRANSACTIONS WITH OWNERS AS OWNERS****11,614****KEY FISCAL AGGREGATES**

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

Refer to note Y to the financial statements for explanations of key technical terms used in this statement.

<sup>a</sup> Explanatory note: As noted in paragraph 9(c) of the Standard, an alternative treatment of net actuarial gains relating to defined benefit superannuation plans [consistent with paragraph 93B of AASB 119 *Employee Benefits*] would be to present them under the heading 'Other Non-Owner Movements in Equity'. Choosing that option would (consistent with AASB 119.93B) prevent the inclusion on the face of the operating statement of the opening and closing balances of accumulated surplus/(deficit) and the changes during the period (referred to in paragraph 97(b) of AASB 101 *Presentation of Financial Statements*).

**Balance Sheet for the Whole of Government of the ABC Government  
as at 30 June 200X**

	Notes	\$m
<b>Assets</b>		
<i>Financial Assets</i>		
Cash and deposits		14,070
Accounts receivable		18,080
Securities other than shares		78,438
Loans		17,714
Shares and other equity		
Investments accounted for using equity method		695
Investments in other entities		1,142
		<u>130,139</u>
<i>Non-Financial Assets</i>		
Produced assets		
Inventories		5,346
Machinery and equipment		67,014
Buildings and structures		16,654
Intangibles		1,380
Valuables		6,867
Non-produced assets		
Land		9,876
Intangibles		1,193
		<u>108,330</u>
<b>TOTAL ASSETS</b>		<b>238,469</b>

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

Refer to note Y to the financial statements for explanations of key technical terms used in this statement.

**Cash Flow Statement for the Whole of Government of the ABC Government  
for the Year Ended 30 June 200X**

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

*Financial Assets (Liquidity Management Purposes)*

Sales of investments	1,778
Increases in investments	<u>(9,084)</u>
Net cash flows from investments in financial assets (liquidity management purposes)	(7,306)
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(11,149)</b>

**Cash Flows from Financing Activities**

Cash received	
Advances received	356
Borrowing	9,336
Deposits received	6,947
Swap interest	3,617
Other financing	<u>2,857</u>
	23,113

Cash paid	
Advances paid	(312)
Borrowing	(15,013)
Deposits paid	(1,841)
Swap interest	(3,040)
Other financing	<u>(1,870)</u>
	(22,076)

<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b><u>1,037</u></b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,006)</b>
Cash and cash equivalents at beginning of year	<u>16,076</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>14,070</u></b>

**KEY FISCAL AGGREGATE**

Net cash flows from operating activities	8,106
Net cash flows from investments in non-financial assets	<u>(2,202)</u>
<b>CASH SURPLUS/(DEFICIT)</b>	<b><u>5,904</u></b>

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Refer to note Y to the financial statements for explanations of key technical terms used in this statement.

**R1 Operating Statement for the Whole of Government by Sector of the ABC Government for the Year Ended 30 June 200X**

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

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

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

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

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

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

	<b>9,791</b>	<b>(1,578)</b>	<b>5,821</b>	<b>(2,420)</b>	<b>11,614</b>
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**KEY FISCAL AGGREGATES**

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

Refer to note Y to the financial statements for explanations of key technical terms.

**R2 Balance Sheet for the Whole of Government by Sector of the ABC Government as at 30 June 200X**

	Notes	GGS \$m	PNFC sector \$m	PFC sector \$m	Eliminations \$m	Whole of Government \$m
<b>Assets</b>						
<i>Financial Assets</i>						
Cash and deposits		10,591	939	2,540	-	14,070
Accounts receivable		16,748	764	2,557	(1,989)	18,080
Securities other than shares		24,188	457	104,293	(50,500)	78,438
Loans		18,060	15	98	(459)	17,714
Shares and other equity						
Investments accounted for using equity method		365	330	-	-	695
Investments in other entities (excluding sector entities)		-	357	785	-	1,142
Investments in other sector entities		32,759	-	-	(32,759)	-
		102,711	2,862	110,273	(85,707)	130,139
<i>Non-Financial Assets</i>						
Produced assets						
Inventories		4,832	502	12	-	5,346
Machinery and equipment		54,367	12,546	101	-	67,014
Buildings and structures		14,152	1,821	681	-	16,654
Intangibles		1,250	115	15	-	1,380
Valuables		6,442	358	67	-	6,867
Non-produced assets						
Land		5,196	4,327	353	-	9,876
Intangibles		747	428	18	-	1,193
		86,986	20,097	1,247	-	108,330
<b>TOTAL ASSETS</b>		<b>189,697</b>	<b>22,959</b>	<b>111,520</b>	<b>(85,707)</b>	<b>238,469</b>



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

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Refer to note Y to the financial statements for explanations of key technical terms.

### R3 Cash Flow Statement for the Whole of Government by Sector of the ABC Government for Year Ended 30 June 200X

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

**Financial Assets (Liquidity Management Purposes)**

Sales of investments	500	45	1,977	(744)	1,778
Increases in investments	(3,500)	(5)	(9,934)	4,355	(9,084)
Net cash flows from investments in financial assets (liquidity management purposes)	(3,000)	40	(7,957)	3,611	(7,306)
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(7,111)</b>	<b>585</b>	<b>(7,934)</b>	<b>3,311</b>	<b>(11,149)</b>
<b>Cash Flows from Financing Activities</b>					
Cash received					
Advances received	356	-	-	-	356
Borrowing	13,241	450	-	(4,355)	9,336
Deposits received	899	20	6,028	-	6,947
Swap interest	1,912	110	1,595	-	3,617
Other financing	233	169	2,455	-	2,857
	16,641	749	10,078	(4,355)	23,113
Cash paid					
Advances paid	(312)	-	-	-	(312)
Borrowing	(14,720)	(677)	(360)	744	(15,013)
Deposits paid	(213)	(7)	(1,621)	-	(1,841)
Swap interest	(1,572)	(41)	(1,427)	-	(3,040)
Dividends paid	-	(259)	(789)	1,048	-
Distribution paid	-	(300)	-	300	-
Other financing	(765)	(990)	(115)	-	(1,870)
	(17,582)	(2,274)	(4,312)	2,092	(22,076)
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>(941)</b>	<b>(1,525)</b>	<b>5,766</b>	<b>(2,263)</b>	<b>1,037</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,607</b>	<b>(3,353)</b>	<b>(260)</b>	<b>-</b>	<b>(2,006)</b>
Cash and cash equivalents at beginning of year	8,984	4,292	2,800	-	16,076
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>10,591</b>	<b>939</b>	<b>2,540</b>	<b>-</b>	<b>14,070</b>
<b>KEY FISCAL AGGREGATE</b>					
Net cash flows from operating activities	9,659	(2,413)	1,908	(1,048)	8,106
Net cash flows from investments in non-financial assets	(2,770)	545	23	-	(2,202)
<b>CASH SURPLUS/(DEFICIT)</b>	<b>6,889</b>	<b>(1,868)</b>	<b>1,931</b>	<b>(1,048)</b>	<b>5,904</b>

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Refer to note Y to the financial statements for explanations of key technical terms.

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

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

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

\*Determined in accordance with the ABS GFS Manual.

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

\*Determined in accordance with the ABS GFS Manual.

## **Explanatory Notes Supporting Illustrative Example A**

### **Convergence Differences relating to the Whole of Government Operating Statement and Sector Operating Statements**

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

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

The convergence differences comprise:

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

This difference flows through to the whole of government amounts.

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

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

**b Expenses from Transactions – Depreciation**

The convergence differences comprise:

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

This difference flows through to the whole of government amounts.

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

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

**c Expenses from Transactions – Social Benefits**

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

This difference flows through to the whole of government amounts.

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

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

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



**e Other Differences**

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

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

*Net Lending/(Borrowing)*

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

The convergence differences are explained as follows:

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

*Net Other Economic Flows*

**g Other Economic Flows – Included in Operating Result – Other Revenue – Dividends from Other Sector Entities to GGS**

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

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

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

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

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

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

The convergence differences comprise:

\$90m in the GGS: The net asset value (and therefore the change in net asset value) of other sector entities determined under GFS principles and rules differs from the net asset value (and therefore the change in net asset value) of the subsidiaries recognised in the balance sheet (being the net asset value determined before elimination of intersector balances).

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

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

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

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

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

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

This difference flows through to the whole of government amounts.

**k Other Economic Flows – Other Non-Owner Movements in Equity – Revaluations**

The convergence differences comprise:

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

This difference flows through to the whole of government amounts.

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

This difference flows through to the whole of government amounts.

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

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

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

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

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

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

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

**Convergence Differences relating to the Whole of Government  
Balance Sheet and Sector Balance Sheets**

*Net Worth*

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

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

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

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

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

This difference flows through to the whole of government amounts.

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

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

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

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

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

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

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

This difference flows through to the whole of government amounts.

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

The convergence differences comprise:

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

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

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

This difference flows through to the whole of government amounts.

**r Liabilities – Provisions**

The convergence differences comprise:

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

This difference flows through to the whole of government amounts.



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

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

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

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

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

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

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

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

This difference flows through to whole of government amounts.

## **Convergence Differences relating to the Whole of Government Cash Flow Statement and Sector Cash Flow Statements**

### ***Cash Surplus/(Deficit)***

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

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

This difference flows through to the whole of government amounts.

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

For the GGS, an amount of \$37,898m has been recognised as payments for purchases of goods and services from operating activities in the cash flow statement. Under GFS, the corresponding amount is \$39,983m. The convergence difference of \$2,085m comprises:

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

For the PNFC sector, an amount of \$550m has been recognised as payments for purchases of goods and services from operating activities in the cash flow statement. Under GFS, the corresponding amount is \$591m. The convergence difference of \$41m comprises capitalised development costs that are classified as purchases of non-financial assets – which are classified as investing activities in the cash flow statement.

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

## Key Technical Terms Used in the Whole of Government Financial Report

### Y Selected Key Technical Terms Used in the Whole of Government Financial Report

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

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

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

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

- (a) cash;
- (b) an equity instrument of another entity;
- (c) a contractual right:
  - (i) to receive cash or another financial asset from another entity; or
  - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- (d) a contract that will or may be settled in the entity's own equity instruments and is:
  - (i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Disaggregated Information

### Z Functional Classification for Whole of Government

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

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