EXPOSURE DRAFT

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July 2005

Financial Reporting of General Government Sectors by Governments

Prepared by the
Australian Accounting Standards Board

Australian Government

Australian Accounting Standards Board

Commenting on this Exposure Draft

Comments on this Exposure Draft should be forwarded so as to arrive by 21 October 2005. Comments should be addressed to:

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A copy of all non-confidential submissions will be placed on public record on the AASB's website: www.aasb.com.au.

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Australian Accounting Standard AASB 10XX *Financial Reporting of General Government Sectors by Governments* is set out in paragraphs 1 to 67 and Appendix A. All paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in this Standard are in *italics* the first time they appear in the Standard. AASB 10XX is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the UIG Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

PREFACE

The AASB is developing its policies on having Bases for Conclusions and Implementation Guidance accompany its Standards. Certain information contained in this Preface and elsewhere in the Exposure Draft and additional material may be included in a Basis for Conclusions or Implementation Guidance, once the Standard is finalised.

Reasons for Issuing this Exposure Draft

The Australian Accounting Standards Board (AASB) is implementing the Financial Reporting Council's (FRC's) broad strategic direction for public sector accounting standard setting:

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

The AASB decided to implement the FRC's broad strategic direction by considering it in the context of three phases. The first phase relates to financial reporting by the Australian Government and the State and Territory governments and the sectors therein [General Government Sector (GGS), Public Non-Financial Corporations (PNFC) sector and Public Financial Corporations (PFC) sector]. The second phase relates to reporting by entities within the GGS. The third phase relates to reporting by other public sector entities.

Within phase 1, the AASB decided that a separate Standard should be developed that specifies requirements for financial reporting by a government of its GGS, as defined in the International Monetary Fund's (IMF's) *Government Finance Statistics Manual 2001* (GFSM 2001 – available on the IMF web site at http://www.imf.org/external/pubs/ft/gfs/manual/index.htm). To this end, the AASB decided that priority should be given to developing an Exposure Draft relating to separate GGS financial reports. The Board has deferred decisions on the extent to which its proposals on GGS financial reporting should be applied to the remaining aspects of phase 1, comprising financial reporting by whole of governments, the PNFC sector and the PFC sector, as well as phases 2 and 3, comprising financial reporting by government departments, statutory bodies, local governments, universities, government business enterprises and other public sector entities. Comments on this Exposure Draft will provide input for the Board's future deliberations on the remainder of phase 1 and, subsequently, phases 2 and 3.

Main Features of this Exposure Draft

The Exposure Draft proposes:

(a) that the GGS of a government is a reporting entity for which a stand-alone general purpose financial report (GPFR) should be prepared. Consistent with GFSM 2001 principles, the financial report does not consolidate GGS controlled entities that are classified by GFSM 2001 into other sectors – it only consolidates entities that are classified within the GGS, as defined in GFSM 2001. To the extent that the GGS coincides with the scope of the government's budget, the GGS financial report is a statement of budget outcome. It does not purport to present the overall whole of government result or position;

(b) that, because of the nature of the departure from the *Conceptual Framework*[1] arising from the proposal for the GGS to not consolidate certain controlled entities in a GPFR, the summary of significant accounting policies note to the financial statements should:

   (i) state this Accounting Standard is the Accounting Standard under which the GGS financial report is prepared;

   (ii) state the purpose for which the GGS financial report is prepared;

   (iii) describe the GGS, and refer to a list of entities within the GGS, and any changes therein since the previous reporting date;

   (iv) describe how the GGS financial report differs from the whole of government, fully consolidated, GPFR;

   (v) provide a cross-reference to the whole of government GPFR that has been prepared for the same period as the GGS financial report; and

   (vi) refer to GFSM 2001 as being the basis for information that is pertinent to GFS included in the financial report;

(c) that the GGS asset "investment in controlled entities" that arises as a consequence of the non-consolidation of controlled entities in other

[1] The *Conceptual Framework* referred to in the Preface comprises Statements of Accounting Concepts SAC 1 *Definition of the Reporting Entity* and SAC 2 *Objective of General Purpose Financial Reporting* and the *Framework for the Preparation and Presentation of Financial Statements*.

sectors should be measured at fair value where fair value is reliably measurable and at the government’s proportional share of the net assets where fair value is not reliably measurable. In the latter case, net assets are those that are consolidated into the whole of government GPFR. Changes in the resulting carrying amount of the “investment in controlled entities” are treated in a manner consistent with the carrying amount being fair value and therefore subject to the requirements in AASB 139 *Financial Instruments: Recognition and Measurement* (although see (e) below in relation to the options in AASB 139);

(d) that, with the exception of the non-consolidation of controlled entities in the PNFC and PFC sectors and certain other exceptions specified in the Exposure Draft, for definition, recognition, measurement and classification purposes, GAAP requirements, as reflected in Australian Accounting Standards, should be applied. Differences from the GFSM 2001 definition, recognition, measurement and classification requirements should be disclosed as convergence differences (as noted in (g) below);

(e) that, where Australian Accounting Standards allow for optional treatments, only those treatments aligned with GFSM 2001 may be applied;

(f) that, where GFS-related information is included in the financial report because it is required by this Standard or provided at the discretion of the government, the principles and rules in GFSM 2001 for determining that information should be applied;

(g) that, where the GFS-related information corresponds to, but differs from, the information prepared in accordance with Australian Accounting Standards, a reconciliation to the GFS-related information should be provided;

(h) principles for the format of the financial statements. The financial statements should include on their face information that is required by GAAP, together with key GFSM 2001 amounts, determined in accordance with GFSM 2001 principles and rules. In particular, in relation to the:

    (i) balance sheet: information that accords with GAAP on-the-face requirements should be presented on the face. Presenting items in a liquidity order within a financial/non-financial classification as defined in Australian Accounting Standards would satisfy the requirements in AASB 101 *Presentation of Financial Statements*. In addition, the key GFSM 2001 amount net worth should be presented on the face. To the extent there are differences in the determination of GFSM 2001 amounts and the determination of corresponding amounts used in the determination of equity, they should be disclosed as "convergence differences", either on the face or in the notes. Appendix B to the Exposure Draft includes an example of an acceptable format that comprises three columns: GFS assets/liabilities; convergence differences; and GAAP assets/liabilities/equity;

(ii) operating statement: information that is consistent with GAAP on-the-face requirements should be presented on the face, but in a form that presents, in addition to the operating result, the GAAP comprehensive result (comprising all non-owner movements in equity – in contrast to the requirements in AASB 101). Income and expenses are required to be classified by nature, determined in a manner consistent with GFSM 2001 where appropriate, on the face of the operating statement. In addition, key GFSM 2001 amounts should be presented on the face, being net operating balance, net change in non-financial assets, net change in financial assets, net change in liabilities, net lending/(borrowing) and total other economic flows. To the extent there are differences in the determination of GFSM 2001 amounts and the determination of corresponding amounts used in the determination of GAAP comprehensive result, they should be disclosed as "convergence differences", either on the face or in the notes. Appendix B to the Exposure Draft includes an example of an acceptable format that comprises four columns: GFS transactions; GFS other economic flows; convergence differences; and GAAP comprehensive result; and

(iii) cash flow statement: information that accords with GAAP on-the-face requirements should be presented on the face, together with the key GFSM 2001 amount cash surplus/(deficit) and its derivation, determined in accordance with GFSM 2001 principles and rules. Because the GFS cash surplus/(deficit) presented should be determined in accordance with GFSM 2001 principles and rules, it should not include the effect of notional cash flows relating to finance leases and similar arrangements. Appendix B to the Exposure Draft includes an example of an acceptable format comprising a single column, with the derivation of GFS cash surplus/(deficit) at the foot of the statement;

(i) to require disclosure of a list of entities within the GGS, and any changes to that list since the end of the previous annual reporting period and the reasons for those changes; and explanations of key technical terms used in the financial report;

(j) to require disclosure of a description of each broad function of the GGS as specified in GFSM 2001, and the GAAP assets and liabilities, and revenue, expenses (excluding losses) and net gains/(losses) included in operating result, that are reliably attributable to those functions. This information would be aggregated and reconciled to agree with the related information in the financial statements[2];

(k) that, where financial and non-financial performance indicators are disclosed, they are relevant, reliable, comparable and understandable – being the qualitative characteristics identified and explained in the *Framework for the Preparation and Presentation of Financial Statements*. Proposed commentary encourages:

(i) reporting of performance indicators that describe and disclose the outputs of goods and services (aggregated where appropriate) in terms of quantity, quality, time, location and cost;

(ii) preparers not to place undue emphasis on easily measured dimensions; and

(iii) presentation of budgeted performance indicators (established by a formal process) against actual performance indicators (determined on a consistent basis);

(l) to require the inclusion of the original budget relating to the reporting period, restated if necessary to align with the basis of the financial statements and notes prepared in accordance with this Standard. It also proposes to require disclosure of explanations of material budget variances between the original GGS budget and actual amounts; and

(m) transitional requirements, whereby the first financial report prepared in accordance with the proposals in this Exposure Draft would, with the exception of the requirement to disclose a reconciliation of previous GAAP to new GAAP, be prepared in accordance with the principles underlying AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* as if it were the GGS's first Australian-equivalents-to-IFRSs financial report. A consequence of this is that comparative period information, prepared as if this Standard had applied, is required to be presented in the first financial report.

[2] The AASB intends reviewing International Public Sector Accounting Standard IPSAS 18 *Segment Reporting* in due course with a view to releasing a Standard on segment reporting that is applicable to reporting entities that fall outside the scope of AASB 114 *Segment Reporting*, including GGSs. Some of the requirements relating to disclosures about functions may eventually be replaced by a Standard issued following the review of IPSAS 18.

GFS compared with GAAP Reporting by a Government of the GGS

For GFS reporting purposes a government is regarded as comprising three sectors: the GGS, the PNFC sector and the PFC sector. Given its non-market nature and its important role as the vehicle by which a government implements its fiscal policy, it is useful to distinguish the GGS from the other, more market-oriented, government sectors. The GGS consists of all government entities that have legislative, judicial, or executive authority over other units; provide goods and services to the community or to individuals on a non-market basis; make transfer payments to redistribute income and wealth; and which are financed mainly by means of taxes and other compulsory transfers. The PNFC and PFC sectors consist of government controlled entities that produce goods and services for the market as a source of profit or other financial gain to the government. They typically transact with outside consumers, frequently at arm’s length in contestable markets. The GGS of a government, rather than the PNFC or PFC sectors, is the focus of this Exposure Draft.

Current GAAP uses the concept of control as the basis for circumscribing the reporting entity, rather than the type of activities undertaken by an entity or its funding sources. It anticipates that sectors of a government may be disclosed in the whole of government financial report in the form of disaggregated information.

This Exposure Draft proposes that the GGS of a government is a reporting entity for which a GPFR should be prepared whereby only entities within the GGS (as defined in GFSM 2001) are within the scope of the entity.

GFS particularly focuses on the macro-economic impact of the GGS and fiscal policy decisions. Box 4.1 in GFSM 2001 identifies a number of core analytical measures for fiscal policy. They include:

(a) net operating balance, which equals GFS revenue minus GFS expenses. It is relevant to note that GFS revenue and GFS expenses only arise from transactions, defined as interactions between two units by mutual agreement or an action within a unit that is analytically useful to treat as a transaction. In a GAAP context, GFS net operating balance broadly corresponds with the operating result. GFS distinguishes transactions from other economic flows, defined as changes in the volume or value of an asset or liability that does not result from a transaction. In a GAAP context, other economic flows are often included as income or expenses, with some recognised in operating result and others recognised directly in equity;

(b) net lending/(borrowing), which equals the net operating balance minus the net acquisition of GFS non-financial assets. It also equals transactions in GFS financial assets minus transactions in GFS liabilities. In a GAAP context, it broadly corresponds with the change in net financial assets, minus revaluations, if that amount were to be separately disclosed; and

(c) cash surplus/(deficit), which equals GFS net cash inflow from operating activities minus the net cash outflow from investments in GFS non-financial assets. In a GAAP context, GFS net cash inflow from operating activities corresponds with cash flows from operating activities, and GFS net cash outflow from investments in non-financial assets corresponds with a component of cash flows from investing activities.

Although accrual accounting principles are applied under GFS in compiling statistics for the GGS, some of the definition, recognition, measurement, classification and presentation principles and rules differ from GAAP. This Exposure Draft proposes the manner in which the differences between GAAP and GFS should be treated. In limited cases, the Exposure Draft proposes that GAAP should be amended, resulting in a better alignment with GFS. In other cases, it proposes that GFS information be required or allowed to be presented in addition to GAAP information, together with reconciliations between the two frameworks.

Request for Comments

The AASB is especially aware of the controversial nature of the Exposure Draft's proposal to treat a GGS financial report that does not consolidate government controlled entities that are located outside the GGS as a GPFR and is particularly interested in constituents' comments on the issue. The AASB has some concern and notes the concern expressed by others that such an approach fundamentally undermines a key concept upon which Australian Accounting Standards are based. The AASB intends that, if the Exposure Draft's proposals are adopted, they would be considered by the Board in its review of the definitions of "reporting entity" and "general purpose financial report" in the *Conceptual Framework*. The AASB will consider the issue in the context of its review of comments made on the Exposure Draft's proposals.

Comments are invited on any of the proposals in the Exposure Draft by 21 October 2005. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are 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, whether they address all issues in this Exposure Draft or only one issue.

Specific Matters for Comment

The AASB would particularly value comments on:

(a) the proposal in paragraph 5 that the GGS (as defined in GFSM 2001) of a government is a reporting entity;

(b) the proposal, implicit in paragraph 5, that a GGS financial report prepared on a partial consolidation basis is a GPFR together with the proposal in paragraph 18 that the GGS should be prohibited from consolidating controlled entities in the PNFC sector and the PFC sector;

(c) the proposal in paragraphs 8 to 12 that, with limited significant exceptions, the GGS financial report should comply with other Australian Accounting Standards and, where it does not conflict with Australian Accounting Standards, GFSM 2001. The Board is particularly interested in comments on the proposal that where Australian Accounting Standards allow for optional treatments, only those treatments aligned with GFSM 2001 should be applied for the purposes of GGS financial reporting;

(d) the proposal in paragraphs 13 to 17 to require or allow disclosure of information in the GGS financial report that is determined in accordance with GFSM 2001 and, where it is determined in a different manner from corresponding information prepared in accordance with Australian Accounting Standards, provide a reconciliation to the GFS-related information;

(e) the proposals in paragraphs 19 to 23 that:

    (i) the GGS's equity investment in non-consolidated controlled entities should be measured at fair value where fair value is reliably measurable and at the government's proportional interest in the net assets of the controlled entities where fair value is not reliably measurable;

    (ii) where net assets is used as the basis of measurement, it is determined in a manner consistent with the net assets that are consolidated into the whole of government GPFR;

    (iii) changes in the carrying amount of the GGS's equity investment in non-consolidated controlled entities during a reporting period are treated in a manner consistent with the treatment of a change in fair value under AASB 139 even if the carrying amount is not fair value; and

(iv) specify the treatment of jointly controlled entities and associates;

(f) the proposals in paragraphs 26 to 31 relating to the format and content of the balance sheet and the treatment of convergence differences;

(g) the proposals in paragraphs 32 to 40 relating to the format and content of the operating statement and the treatment of convergence differences, including the proposal:

(i) to mandate the classification of income and expenses by nature on the face of the operating statement, with the classification aligned with the GFSM 2001 classification scheme to the extent appropriate;

(ii) to mandate a comprehensive income approach whereby all non-owner movements in equity are recognised in a single operating statement; and

(iii) that the option in AASB 119 *Employee Benefits* (December 2004) of partially deferring actuarial gains and losses on defined benefit superannuation plans using a "corridor approach" should be prohibited, and that the remaining options of recognising them in operating result or in the other non-owner movements in equity section of the operating statement should be allowed. The Board is particularly interested in comments on whether the Standard should remove options entirely, and in so doing, prohibit recognition directly in other non-owner movements in equity;

(h) the proposals in paragraphs 41 to 43 relating to the format and content of the cash flow statement. The Board is particularly interested in comments on whether the Standard should also require a distinction between cash flows relating to investing in financial assets for "policy" and "liquidity management" purposes on the face of the cash flow statement and whether such a distinction would be useful and could be made with sufficient rigour for GPFR purposes;

(i) the proposals in paragraphs 44 and 45 relating to additional information to be provided in the note containing the summary of significant accounting policies, illustrated in Appendix C. In particular, the Board is interested in comments on whether the proposed disclosures provide sufficient information to minimise the risk that users might perceive the GGS financial report as being a substitute for the whole of government GPFR;

(j) the proposals in paragraphs 46 to 48 relating to additional disclosures. The Board is particularly interested in comments on whether the proposal in paragraph 46(d) to require disclosure of explanations of key technical terms used in the financial report is useful;

(k) the proposals in paragraphs 49 to 52 relating to disclosures that provide disaggregated information about GAAP and GFS amounts on a functional basis, whereby functions are determined in accordance with GFSM 2001;

(l) the proposals in paragraphs 53 to 56 to specify principles for the presentation of performance indicators;

(m) the proposals in paragraphs 57 to 62 to require disclosure of:

  (i) the original budget, restated if necessary so that it is presented on a basis that aligns with the basis on which the financial statements and notes have been prepared (in accordance with the Standard); and

  (ii) an explanation of major variances between the original GGS budget and actual amounts;

(n) the proposals in paragraphs 63 to 67 relating to transitional requirements. In particular, the Board is interested in assessments of the costs and benefits of the approach proposed, compared with alternative approaches, including remaining silent in the Standard about transitional requirements, and thereby effectively requiring AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors to operate in its own right;

(o) the illustrated acceptable format for the financial statements and notes related to convergence differences in Appendix B. The Board is particularly interested in comments on:

  (i) the columnar approach illustrated for the balance sheet and operating statement. In addition to any criticisms of the columnar approach, respondents are invited to provide an alternative that is consistent with the Exposure Draft's proposals for the Board's consideration; and

  (ii) whether the illustration provides guidance that is helpful in implementing the proposals in the Exposure Draft, particularly those that adopt the requirements in AASB 101 as effectively amended by the proposals;

(p) whether it is appropriate for the Standard to cross-reference to GFSM 2001, given that GFSM 2001 is not prepared by the AASB and that there is a need for the AASB to consider whether amendments to the Standard are necessary each time GFSM 2001 is amended. The Board is also interested in comments on whether instead of GFSM 2001 the Standard should cross-reference to the GFS Manual published by the Australian Bureau of Statistics (ABS);

(q) whether there are any aspects of GFSM 2001 that you consider should be prohibited from forming part of the basis upon which the GGS's financial report is prepared; and

(r) whether, overall, the proposals result in financial reports that are useful to users.

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

AASB 10XX and IPSAS

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

At the date of issue, this Standard has no corresponding IPSAS relating specifically to financial reporting of general government sectors (GGSs) by governments. However, many of the issues addressed in this Standard are addressed in IPSASs. To the extent this Standard incorporates by cross-reference other Australian Accounting Standards, those Standards effectively provide a comparison of this Standard with IPSASs. In some significant respects, this Standard effectively amends the requirements of other Australian Accounting Standards for the purposes of GGS financial reports and thereby differs from the requirements in IPSASs. Differences relate to the specification of the entities to be consolidated, and the consequential accounting for investments in controlled entities that are not consolidated, and the content of the financial statements and notes, especially the operating statement. Differences also relate to the requirement of this Standard to disclose disaggregated information in contrast to the requirements in IPSAS 18 *Segment Reporting.*

The IPSASB has certain projects underway that have particular relevance to this Standard, including its projects on budget reporting and on GGS financial reporting.

AASB 10XX and IFRS

There is no specific standard issued by the International Accounting Standards Board (IASB) dealing with financial reporting of GGSs by governments.

Many of the issues addressed in this Standard are addressed in IASB standards. To the extent this Standard incorporates by cross-reference other Australian Accounting Standards, those Standards effectively provide a comparison of this Standard with IASB standards. In some significant respects, this Standard effectively amends the requirements of other Australian Accounting Standards for the purposes of GGS financial reports and thereby differs from the requirements in IASB standards. Differences relate to the specification of the entities to be consolidated, and the consequential accounting for investments in controlled entities that are not consolidated, and the content of the financial statements and notes, especially the operating statement.

ACCOUNTING STANDARD AASB 10XX

FINANCIAL REPORTING OF GENERAL GOVERNMENT SECTORS BY GOVERNMENTS

Objective

1. The objective of this Standard is to specify requirements for financial reports of the *general government sector* (GGS) of each *government* and contribute to the harmonisation of Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS). Financial reports prepared in accordance with this Standard provide users with information about the stewardship of each government in relation to its GGS and accountability for the resources entrusted to it; information about the financial position, performance and cash flows of each government's GGS; and information that facilitates assessments of the macro-economic impact of each government's GGS. To achieve this objective, this Standard incorporates by cross-reference the requirements in other Australian Accounting Standards, with limited significant exceptions, and the principles and rules contained in the International Monetary Fund's (IMF's) *Government Finance Statistics Manual 2001* (GFSM 2001). The Standard also prescribes the way in which remaining differences between Australian Accounting Standards and GFSM 2001 are to be treated.

Application

2. This Standard applies to each government that prepares a financial report for its GGS.

3. This Standard applies to annual reporting periods beginning on or after 1 July 2006.

4. This Standard may be applied to annual reporting periods beginning before 1 July 2006.

Reporting Entity

5. For the purpose of this Standard, the GGS of a government is a reporting entity and is required to prepare general purpose financial reports.

The GGS of a government

6. Consistent with GFSM 2001, for the purpose of this Standard, a government may be regarded as comprising three sectors: the GGS; the Public Non-Financial Corporations (PNFC) sector; and the Public Financial Corporations (PFC) sector. The focus of this Standard is the GGS of a government. The composition of the GGS of a government is determined in accordance with the principles and rules in GFSM 2001. Under GFSM 2001, GGS consists of all government entities that have legislative, judicial, or executive authority over other units; provide goods and services to the community or to individuals on a non-market basis; make transfer payments to redistribute income and wealth; and which are financed mainly by means of taxes and other compulsory transfers.

Compliance with Australian Accounting Standards and GFSM 2001

7. The financial report shall be prepared in accordance with this Standard.

8. Unless otherwise specified in this Standard, the financial report shall be prepared in accordance with other Australian Accounting Standards.

9. With limited significant exceptions, this Standard requires the definition, recognition, measurement, classification, presentation and disclosure requirements of other Australian Accounting Standards to be applied. This Standard will only require a different treatment from another Australian Accounting Standard when the requirements of this Standard directly conflict with the requirements of that other Standard. For example, in conflict with AASB 127 *Consolidated and Separate Financial Statements*, paragraph 18 of this Standard prohibits the consolidation of certain controlled entities and, in conflict with AASB 101 *Presentation of Financial Statements*, paragraph 32 prescribes an operating statement that includes all recognised non-owner movements in equity on its face and does not require a separate statement of changes in equity.

10. In satisfying paragraph 8 of this Standard, where compliance with GFSM 2001 would not conflict with Australian Accounting Standards, the principles and rules in GFSM 2001 shall be applied. In particular, certain Australian Accounting Standards allow optional treatments for items or issues within their scope. Only those options aligned with the principles or rules in GFSM 2001 shall be applied.

11. Examples of particular options in Australian Accounting Standards that paragraph 10 of this Standard has the effect of mandating include:

(a) borrowing costs that can be expensed or capitalised under AASB 123 *Borrowing Costs*. Because expensing all borrowing costs in determining operating result broadly aligns with GFSM 2001 principles and rules (which, depending on circumstances, may classify different components of borrowing costs as *transactions* or *other economic flows*), paragraph 10 of this Standard has the effect of requiring all borrowing costs to be expensed in determining the operating result;

(b) assets within the scopes of AASB 116 *Property, Plant and Equipment*; AASB 138 *Intangible Assets*; and AASB 140 *Investment Property*, which can be measured at cost or at fair value. For the purpose of GGS financial reports, those assets that are assets under GFS are required to be measured at fair value, which is accepted as a surrogate for market value, consistent with the principles and rules in GFSM 2001;

(c) certain financial instruments that can be measured at fair value or on another basis under AASB 139 *Financial Instruments: Recognition and Measurement*. For the purpose of GGS financial reports, those financial instruments are required to be measured at fair value to the extent that GFSM 2001 requires, as a surrogate for market value, such a measurement basis; and

(d) actuarial gains and losses relating to defined benefit superannuation plans can be recognised in full through operating result, recognised in full directly in accumulated results, or partially deferred using a “corridor approach” under AASB 119 *Employee Benefits* (December 2004). For the purpose of this Standard, the option to partially defer using a “corridor approach” would not be available. The other two options would continue to be available. However, the effect of paragraph 32 of this Standard is that the full amount would be recognised on the face of the GGS operating statement. The full amount could be included in the calculation of operating result, as illustrated in Appendix B, or in the other non-owner movements in equity section of the operating statement and therefore included in the calculation of GAAP comprehensive result. If it were included in the calculation of GAAP comprehensive result but not the operating result, information required by paragraph 97 of AASB 101 would not be presented on the face of the operating statement.

12. Certain Australian Accounting Standards do not specify particular rules for an item or an issue within their scope. Where a treatment of the item or issue aligns with the principles or rules in GFSM 2001 but does not conflict with Australian Accounting Standards, that treatment is adopted. An example of an Australian Accounting Standard that does not comprehensively specify particular rules for an issue is AASB 101. AASB 101 specifies only the minimum line items to be presented on the face of, for example, the balance sheet and requires additional line items, headings and subtotals to be presented on the face when such presentation is relevant to an understanding of the entity's financial position. GFSM 2001 specifies principles and rules for the presentation of a GGS balance sheet prepared for GFS purposes. To the extent that AASB 101 requirements are not specific and compliance with GFSM 2001 principles and rules would not conflict with AASB 101, the effect of paragraph 10 of this Standard is that GFSM 2001 principles and rules are required to be applied in the presentation of the balance sheet.

13. Where GFS-related information is included in the financial report because it is required by this Standard or a government elects to provide additional GFS disclosures, the principles and rules in GFSM 2001 shall be applied.

14. Where GFS information corresponds to, but is determined in a manner different from, information provided in accordance with paragraph 8 of this Standard, a reconciliation to the GFS-related information shall be provided.

15. This Standard requires certain information that is particularly relevant to an assessment of the macro-economic impact of a government's GGS to be included in the financial report (see, for example, paragraphs 27, 34 and 42, which require disclosure of certain key GFSM 2001 amounts) either on the face of the financial statements or in the notes. That information is not explicitly required or allowed to be included in the financial report by other Australian Accounting Standards. This Standard requires the information to be determined in accordance with principles and rules used in producing GFS. The source for those principles and rules is the GFSM 2001.

16. Examples where GFSM 2001 would conflict with Australian Accounting Standards in relation to definition, recognition, measurement and classification and therefore give rise to the need for a reconciliation to GFS-related information disclosed in the financial report include:

(a) doubtful debts – although GFSM 2001 recognises bad debts written off, it does not recognise write-downs of accounts receivable in relation to doubtful debts;

(b) provisions recognised as liabilities – in the absence of a counter-party recognising the related financial asset, GFSM 2001 does not recognise a liability arising from a constructive obligation;

(c) investments in jointly controlled entities and associates – rather than prescribe the equity method of accounting (see paragraph 23 of this Standard), paragraph 7.119 of GFSM 2001 requires shares and other equities to be measured, if possible, at their current prices on stock exchanges or other organised financial markets. It goes on to note that: "The value of shares in private corporations that are not traded regularly are estimated using the prices of quoted shares that are comparable in earnings, dividend history, and prospects. The prices may be adjusted downward to allow for the inferior marketability or liquidity of unquoted shares"; and

(d) classification to particular line items – GFSM 2001 and Australian Accounting Standards differ in the classification to particular line items in the financial statements.

The example in Appendix B of this Standard illustrates these and other possible circumstances where convergence differences arise.

17. A government may elect to make GFS-related disclosures that are additional to the requirements of this Standard. They are additional disclosures that do not conflict with Australian Accounting Standards if they are made in a way that does not detract from the information prescribed in this Standard. Examples of additional disclosures that may be made voluntarily include the classification of GFS other economic flows in accordance with Table 10.1 of GFSM 2001 and additional analytical measures such as those identified in Box 4.1 of GFSM 2001, which includes overall fiscal balance and net financial wealth position.

Presentation and Scope of GGS Financial Statements

18. A government shall present GGS financial statements in which it consolidates only entities that are within the GGS, using the consolidation procedures specified in AASB 127 *Consolidated and Separate Financial Statements*.

19. GGS equity investments in government controlled entities that are not within the GGS shall be recognised as assets. They shall be measured at:

(a) fair value, where fair value is reliably measurable. Any change in the fair value of the investment shall be treated in accordance with AASB 139; or

(b) the government's proportional share of the net asset value of the controlled entities, where fair value is not reliably measurable. The government's proportional share of the net asset value shall be determined in a manner consistent with the net assets that are consolidated into the whole of government general purpose financial report. Any change in the consequential carrying amount of the investment shall be treated as if the change in carrying amount is a change in fair value and therefore accounted for in a manner consistent with the requirements in AASB 139.

20. Consistent with GFSM 2001, entities that are controlled by the government but not within the GGS of the government, being entities that in accordance with GFSM 2001 are within the government's PNFC sector and PFC sector, are not consolidated in the GGS financial report. Instead, they are treated as investments in subsidiaries measured at, depending on circumstances, fair value or the carrying amount of the government's proportional share of net assets in accordance with paragraph 19 of this Standard.

21. Income from GGS investments in controlled entities in the PNFC sector and PFC sector is treated in accordance with AASB 118 *Revenue* and, if fair value is reliably measurable, AASB 139. Even if fair value is not reliably measurable, the carrying amount of the government's proportional interest in the net assets is treated as if it is fair value by virtue of paragraph 19(b) of this Standard, and therefore the principles in AASB 139 also apply in relation to the changes. Accordingly, dividends are classified as revenue and a change in the carrying amount of the equity interest over the reporting period that does not arise from a change in the government's proportional interest is classified as a gain or loss and included in the operating result or other non-owner movements in equity.

22. In relation to dividends, all distributions from post-acquisition surpluses or other reserves of controlled entities are revenue that is included in the determination of the GGS operating result. However, not all such distributions are transactions included in the determination of GFS *net operating balance*. This is because GFSM 2001 distinguishes between withdrawals of equity and dividends. Only

dividends, as determined under GFSM 2001 principles and rules, are included in the determination of GFS net operating balance. As noted in paragraph 5.85 of GFSM 2001, GFS dividends only exist when the board of directors or other managers of the corporation declare a dividend payable on their own volition. Furthermore, as stated in paragraph 5.87 of GFSM 2001: "Dividends are payments a corporation makes out of its current income, which is derived from its ongoing productive activities. A corporation may, however, smooth the dividends its (sic) pays from one period to the next so that in some periods it pays more in dividends than it earns from its productive activities. Such payments are still dividends. Distributions by corporations to shareholders of proceeds from privatization receipts and other sales of assets and large and exceptional one-off payments based on accumulated reserves or holding gains are withdrawals of equity rather than dividends". The difference between dividends included in the determination of GFS net operating balance and dividends included in the determination of operating result, if any, is disclosed as a convergence difference in accordance with paragraph 35 of this Standard.

23. For the purpose of this Standard, investments in jointly controlled entities and associates are treated as if the GGS financial statements are consolidated financial statements and not separate financial statements.

Components of a Financial Report

24. The financial report shall comprise:

(a) a balance sheet;

(b) an operating statement;

(c) a cash flow statement; and

(d) notes, comprising a summary of significant accounting policies and other explanatory notes.

A separate statement of changes in equity is not required.

25. As specified in paragraph 32 of this Standard, the GGS operating statement prescribed in this Standard effectively incorporates into a single statement the information that would otherwise be required by AASB 101 to be presented in two separate statements – the income statement and the statement of changes in equity.

Balance sheet

26. Subject to paragraph 10 of this Standard, the face of the balance sheet and notes thereto shall be presented in a manner consistent with the requirements in AASB 101 *Presentation of Financial Statements*.

27. The face of the balance sheet shall also include, at a minimum, *net worth* determined in accordance with GFSM 2001.

28. Differences may exist in the determination of amounts presented in accordance with paragraph 26 of this Standard and in the determination of corresponding amounts disclosed in accordance with paragraph 14 of this Standard. Where they exist, the differences shall be disclosed either:

(a) on the face of the balance sheet, but only if the related line items or subtotals determined in accordance with GFSM 2001 are on the face, with an explanation in the notes; or

(b) in the notes together with an explanation.

29. Consistent with paragraph 10 of this Standard, assets are presented on the face of the balance sheet in order of liquidity under the financial/non-financial classification as defined in Australian Accounting Standards. This satisfies the requirements for the presentation of assets in AASB 101. As noted in paragraph 31 of this Standard, convergence differences arising from classification differences, if any, are disclosed in accordance with paragraph 28 of this Standard.

30. An example of an acceptable balance sheet format that is in accordance with this Standard is provided in Appendix B of this Standard.

31. Convergence differences between the determination of amounts disclosed in accordance with paragraph 26 of this Standard and the determination of corresponding GFSM 2001 amounts may arise due to differences in the definition, recognition, measurement and classification principles applied under the two reporting frameworks, for example, differences in accounting for doubtful debts. A reconciliation between total equity and the GFSM 2001 amount described as net worth is provided either on the face or in the notes, identifying the items giving rise to the major differences.

Operating statement

32. The operating statement shall include all items of income and expense recognised in a period. Subject to paragraph 10 of this Standard, the face of the operating statement and notes thereto shall be presented in a manner consistent with the requirements for the income statement and statement of changes in equity in AASB 101.

33. All items recognised in the operating statement shall be classified according to their nature on the face of the operating statement.

34. The face of the operating statement shall also include, at a minimum, the following, determined in accordance with GFSM 2001:

(a) net operating balance;

(b) net change in non-financial assets, distinguishing between that attributable to transactions from that attributable to other economic flows;

(c) net change in financial assets, distinguishing between that attributable to transactions from that attributable to other economic flows;

(d) net change in liabilities, distinguishing between that attributable to transactions from that attributable to other economic flows;

(e) *net lending/(borrowing)*; and

(f) net other economic flows.

35. Differences may exist in the determination of amounts presented in accordance with paragraphs 32 and 33 of this Standard and in the determination of corresponding amounts disclosed in accordance with paragraph 13 of this Standard. Where they exist, the differences shall be disclosed either:

(a) on the face of the operating statement, but only if the related line items or subtotals determined in accordance with GFSM 2001 are on the face, with an explanation in the notes; or

(b) in the notes together with an explanation.

36. Although AASB 101 requires certain income and expenses to be included in the statement of changes in equity rather than the income statement, this Standard requires all recognised income and expenses to be included in a single statement that presents the GAAP comprehensive result. Despite this, the same level of information required in the income statement and the statement of changes in equity relating to income and expenses recognised for the period is required to be presented on the face of the operating statement or in the notes consistent with the requirements in AASB 101.

37. As noted in paragraph 11(d) of this Standard, actuarial gains and losses relating to defined benefit superannuation plans can be recognised in full either through operating result or directly in other non-owner movements in equity. If the latter option is adopted, consistent with paragraph 93B of AASB 119 (December 2004), the opening and closing balances of accumulated results and the changes during the period referred to in paragraph 97(b) of AASB 101 are not included on the face of the operating statement.

38. The requirements of paragraph 33 of this Standard and AASB 101 relating to the classification of items by nature are satisfied by adopting the economic classification of GFS expenses and the classification of GFS revenue as outlined in section B of chapters 5 and 6 respectively of GFSM 2001, to at least the two-digit level of classification. This classification is adopted despite the fact that GFS revenue and expense are narrower notions than the notions of income and expense recognised in the operating statement and included in the determination of GAAP comprehensive result. Where the GFSM 2001 classifications are not applicable to an item included in the determination of GAAP comprehensive result, the item is classified separately from GFSM 2001 classifications. This may be necessary where items included in the determination of GAAP comprehensive result are excluded from the determination of operating result. Separate classification may also be necessary in relation to gains and losses included in the determination of operating result.

39. Convergence differences between the determination of amounts disclosed in accordance with paragraphs 32 and 33 of this Standard and the determination of corresponding GFSM 2001 amounts disclosed in accordance with paragraph 13 of this Standard may arise due to differences in the definition, recognition, measurement and classification principles applied under the two reporting frameworks, for example, differences in accounting for doubtful debts. A reconciliation between operating result and the GFSM 2001 amount described as net operating balance is provided on the face or in the notes, identifying the items giving rise to the major differences.

40. An example of an acceptable operating statement format that is in accordance with this Standard is provided in Appendix B of this Standard.

Cash flow statement

41. Subject to paragraph 10 of this Standard, the face of the cash flow statement and notes thereto shall be presented in a manner consistent with the requirements in AASB 107 *Cash Flow Statements*.

42. The face of the cash flow statement shall also include, at a minimum, the cash surplus/(deficit) and its derivation, determined in accordance with GFSM 2001.

43. An example of an acceptable cash flow statement format that is in accordance with this Standard is provided in Appendix B of this Standard.

Notes

Summary of significant accounting policies

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

(a) an explicit statement that the GGS financial report is prepared in accordance with this Standard;

(b) a statement of the purpose for which the GGS financial report is prepared;

(c) a description of the GGS;

(d) a reference to the list of entities within the GGS and any changes thereto required to be disclosed by paragraph 46(a) of this Standard;

(e) a description of how the GGS financial report differs from the whole of government, fully consolidated, general purpose financial report;

(f) **a cross-reference to the whole of government general purpose financial report that has been prepared for the same period as the GGS financial report; and**

(g) **a reference to GFSM 2001 as being the basis for information that is pertinent to GFS included in the financial report.**

45. An example of the information to be included in the summary of significant accounting policies in accordance with paragraph 44 of this Standard is provided in Appendix C of this Standard.

Other explanatory notes

46. **In addition to the disclosures required to be made in other explanatory notes by other Australian Accounting Standards as a result of this Standard, the following disclosures shall be made:**

(a) **a list of entities within the GGS, and any changes to that list that have occurred since the previous reporting date and the reasons for those changes;**

(b) **information that corresponds to the information required to be disclosed by AASB 127 as if the financial statements are:**

(i) **consolidated financial statements to the extent they consolidate controlled entities; and**

(ii) **separate financial statements to the extent they do not consolidate controlled entities;**

(c) **information that corresponds to the information required to be disclosed by AASB 101, irrespective of the fact that, in relation to the operating statement, AASB 101 prescribes the preparation of two separate statements – an income statement and a statement of changes in equity; and**

(d) **explanations of key technical terms used in the financial report.**[3]

47. Key technical terms include:

(a) transactions;

(b) other economic flows;

[3] It is expected that the requirement in paragraph 46(d) will be removed once technical terms become better known in a GAAP context.

(c) GFS net operating balance;

(d) GFS net lending/(borrowing);

(e) financial assets;

(f) non-financial assets;

(g) GFS net worth;

(h) GFS cash surplus/(deficit);

(i) operating result; and

(j) GAAP comprehensive result.

An example of the disclosures required by paragraph 46(d) of this Standard is provided in Appendix B of this Standard.

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

Disaggregated information

49. In respect of each broad function of the GGS of a government identified in chapter 6 of GFSM 2001 for the purpose of classifying GFS expenses by function of government, the GGS financial report shall disclose by way of note:

(a) a description of that function;

(b) the carrying amount of recognised assets and liabilities, determined in accordance with Australian Accounting Standards, that are reliably attributable to that function;

(c) revenue included in operating result for the reporting period that is reliably attributable to that function, with component revenue from related grants disclosed separately as a component thereof;

(d) expenses, excluding losses, included in operating result for the reporting period that are reliably attributable to that function;

(e) **net gains/(losses) included in operating result for the reporting period that are reliably attributable to that function;**

(f) **GFS expenses that are reliably attributable to that function; and**

(g) **GFS net acquisitions of non-financial assets that are reliably attributable to that function.**

50. **The information provided by way of note in accordance with paragraph 49 of this Standard shall be aggregated and reconciled to agree with the related information in the financial statements.**

51. Paragraph 49 of this Standard requires disclosure of information about the recognised assets and liabilities included in net assets, and revenue, expenses and net gains/(losses) included in operating result of the GGS that are reliably attributable to the broad functions of the GGS determined to at least the GFSM 2001 three-digit level of classification. Disclosure of this information assists users in identifying the resources committed to particular functions of the GGS, the costs of service delivery that are reliably attributable to those functions, and the extent to which the GGS has recovered those costs from income included in the determination of the operating result that is reliably attributable to those functions. Given the nature of GGS revenue, for example taxes, it will often not be possible to reliably attribute revenue to functions. Functional classification of financial information, where it can be determined reliably, will also assist users in assessing the significance of any financial or non-financial performance indicators reported by the GGS.

52. AASB 114 *Segment Reporting* does not apply to GGS financial reports.[4] The bases used in GFSM 2001 for identifying functions of a GGS do not necessarily accord with the criteria for identifying segments contained in AASB 114. However, preparers of financial reports may find the guidance contained in AASB 114 is useful in identifying the revenue, expenses, net gains/(losses), assets and liabilities that are reliably attributable to each function of the GGS. An example of the disclosures required by paragraphs 49(b) to (g) of this Standard in respect of each function of the GGS is provided in Appendix B of this Standard.

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[4] Requirements relating to segment reporting by governments of GGSs may be revised as a result of the AASB considering the suitability of convergence with International Public Sector Accounting Standard IPSAS 18 *Segment Reporting*.

Performance Indicators

53. Where performance indicators are disclosed, they shall:

(a) satisfy the qualitative characteristics of relevance and reliability; and

(b) be presented in a manner that satisfies the qualitative characteristics of comparability and understandability.

54. The qualitative characteristics referred to in paragraph 53 of this Standard are explained in the *Framework for the Preparation and Presentation of Financial Statements.*

55. The principal objective of a government's GGS is to provide goods and services to members of the community, and not the generation of profits. Non-financial as well as financial measures of performance are relevant to assessments of the economy, efficiency and effectiveness of the GGS of a government in achieving its objectives. A government is encouraged to report performance indicators, including non-financial performance indicators, that best reflect the key indicators of performance for the reported activity and that describe and identify the outputs of goods and services (aggregated where appropriate) of the GGS in terms of quantity, quality, time, location and cost, that assist users in assessing the GGS's performance in achieving its objectives. Care is exercised to ensure that undue emphasis is not placed on easily measured dimensions.

56. Disclosure of financial and non-financial performance indicators assists a government to discharge its accountability for the GGS, particularly when budgeted performance indicators established by a formal process are disclosed against actual performance indicators determined on a consistent basis. Such disclosures are encouraged for a GGS, particularly because a government has a coercive power to obtain public funds through taxes or may obtain funds from a transferor for the provision of outputs to third parties.

Budgetary Information

57. The GGS financial report shall disclose for the period of the financial report:

(a) the original budget for the GGS, presented on a basis that is consistent with the basis prescribed for the GGS financial report by this Standard; and

(b) explanations of major variances between the original GGS budget and actual amounts.[5]

58. Comparative budgetary information in respect of the previous period need not be disclosed.

59. The original budget is the first budget adopted by parliament in respect of the reporting period. Amendments made to the budget by the executive are not reflected in the budgetary information that is disclosed under paragraph 57 of this Standard. The latest revised budget that is presented to parliament during the reporting period may be disclosed in addition to the original budget.

60. For the purpose of this Standard, governments are required to report financial information about their original GGS budgets for the reporting period. This facilitates users of financial reports (including taxpayers) making and evaluating decisions about the allocation of scarce resources and for assessing the discharge of a government's accountability for its GGS. 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.

61. The face of the financial statements includes information about the GGS determined in accordance with this Standard, being that required by other Australian Accounting Standards, as modified by this Standard, and GFSM 2001. To the extent the ex ante original GGS budget is not consistent with the information in the financial statements, the ex ante budget basis is restated for ex post budget disclosure purposes to align with the accounting basis. Because the ex post budget basis to be disclosed is consistent with the GGS accounting basis, budget information may be presented on the face of the financial statements.

62. Information required to be disclosed by paragraph 57 of this Standard may be disclosed on the face of the financial statements or in the notes. Where it is impracticable to fit across a page the number of columns that would be necessary to present budgetary information on the face of the financial statements together with other columns, presentation of a budget on a separate page satisfies the option in paragraph 57 of this Standard for budgetary information to be presented on the face of the financial statements.

[5] Requirements relating to ex post budgetary reporting may be revised as a result of the AASB considering the suitability of convergence with the results of the International Public Sector Accounting Standards Board's project on budgetary reporting.

Transitional Requirements

63. The first financial report prepared in accordance with this Standard shall be prepared, subject to the limitation of options in paragraph 10 of this Standard, in the same manner as if it is the GGS's first Australian-equivalents-to-IFRSs financial report under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* and shall be prepared in a manner consistent with that Standard, except for the requirements in paragraphs 38 to 46 of that Standard. For the purpose of this Standard, Australian equivalents to IFRSs referred to in AASB 1 are those Australian Accounting Standards incorporated by cross-reference into this Standard as amended by this Standard.

64. The first financial report prepared in accordance with this Standard is for the year ended 30 June 2007 or earlier, in accordance with paragraphs 3 or 4 of this Standard.

65. In the absence of paragraph 63 of this Standard, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* would apply, resulting in full retrospectivity of the requirements of this Standard. This would not allow any relief from full retrospectivity that is provided in AASB 1. However, the optional relief provided in AASB 1 is not fully available due to the effect of paragraph 10 of this Standard. For example, AASB 1 provides an optional exemption relating to fair value or revaluation as deemed cost. Consistent with GFSM 2001 fair value is adopted and therefore this option in AASB 1 is not available.

66. The transitional approach in this Standard also results in comparative period information being presented in the first financial report.

67. In addition, the approach adopted in this Standard results in the first report prepared in accordance with this Standard not needing to include disclosure of a reconciliation from the previous GAAP for the GGS to new GAAP.

APPENDIX A

DEFINED TERMS

This appendix is an integral part of the Standard.

General Government Sector (GGS)	consists of all *government units* and all non market *non profit institutions* (NPIs) that are controlled and mainly financed by government units. Only resident government units and NPIs are included in the general government sector, but it can be assumed that all government units and NPIs controlled by government are residents. Defined in GFSM 2001 (paragraph 2.28).
government	the Australian Government, the Government of the Australian Capital Territory, New South Wales, the Northern Territory, Queensland, South Australia, Tasmania, Victoria or Western Australia.
government units	institutional units that carry out the functions of government as their primary activity. Defined in GFSM 2001 (paragraph 2.20).
institutional unit	an economic entity that is capable, in its own right, of owning GFS assets, incurring GFS liabilities and engaging in economic activities and in transactions with other entities. Defined in GFSM 2001 (paragraph 2.11).
net lending/(borrowing)	net operating balance minus the net acquisition of GFS non-financial assets. It is also equal to transactions in the net acquisition of GFS financial assets minus the net incurrence of GFS liabilities. It indicates the extent to which government is either putting financial resources at the disposal of other sectors in the economy or utilising the financial resources generated by other sectors. It is an indicator of the financial impact of government activity on the rest of the economy. Defined in GFSM 2001 (Box 4.1 & paragraph 4.17).

net operating balance	GFS revenue minus GFS expenses. It is a summary measure of the ongoing sustainability of government operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of GFS 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. Defined in GFSM 2001 (Box 4.1 & paragraph 4.16).
net worth	the difference between the total value of all GFS assets and the total value of all GFS liabilities. Defined in GFSM 2001 (paragraph 7.140).
non-profit institutions	legal or social entities created for the purpose of producing or distributing goods and services, but they cannot be a source of income, profit or other financial gain for the institutional units that establish, control or finance them. Defined in GFSM 2001 (paragraph 2.19).
other economic flow	a change in the volume or value of a GFS asset or GFS liability that does not result from a transaction. Defined in GFSM 2001 (paragraph 3.25).
transaction	an interaction between two institutional units by mutual agreement or an action within a unit that is analytically useful to treat as a transaction. Defined in GFSM 2001 (paragraph 3.5).

APPENDIX B

ILLUSTRATION OF AN ACCEPTABLE FORMAT AND CONTENT OF FINANCIAL STATEMENTS AND EXPLANATIONS OF CONVERGENCE DIFFERENCES, EXPLANATIONS OF KEY TECHNICAL TERMS AND DISAGGREGATED INFORMATION

This appendix accompanies, but is not part of, the Standard.

This Appendix provides an illustration of an acceptable format for the financial statements of a government's General Government Sector (GGS) that is consistent with the requirements of the Standard. It also illustrates an acceptable style and format for notes to the financial statements on convergence differences, disaggregated financial information and explanations of key technical terms. The style and format illustrated are not mandatory. Other styles and formats may be equally appropriate so long as they meet the disclosure requirements of both GAAP and GFSM 2001 as outlined in the Standard.

The illustration does not purport to identify all possible convergence differences, nor to present on the face of the financial statements all the line items as might be required under particular circumstances. Additionally, it does not illustrate the disclosure of comparative period information, notes required by paragraphs 44[6] and 46 of the Standard, performance indicators (paragraphs 53 to 56 of the Standard), budgetary information (paragraphs 57 to 62 of the Standard), nor all the disclosures required by other Australian Accounting Standards.

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

6 Appendix C provides an example of the information to be included in the summary of significant accounting policies in accordance with paragraph 44 of this Standard.

Operating Statement for the General Government Sector of the ABC Government for the Year Ended 30 June 200X

		GFS			GAAP
		Transactions	Other Economic Flows	Convergence Differences	Comprehensive Result
	Notes	$m	$m	$m	$m
Revenue					
Taxes		209,178			209,178
Other revenue					
Interest	1	1,304	340	1,572	3,216
Dividends	2	3,900		299	4,199
Sales of goods and services		4,314			4,314
Miscellaneous and unidentified revenue		2,684			2,684
Total Revenue					**223,591**
Expenses Excluding Losses					
Compensation of employees					
Wages and salaries		(14,178)			(14,178)
Social contributions		(2,069)			(2,069)
Use of goods and services	3	(39,983)		2,085	(37,898)
Consumption of fixed capital	4	(1,562)	(75)	(2,110)	(3,747)
Interest	5	(4,201)		(1,572)	(5,773)
Subsidies		(5,742)			(5,742)
Grants	6	(70,072)		380	(69,692)
Social benefits	7	(71,762)		(94)	(71,856)
Other expenses					
Property expense attributed to insurance policyholders		(4,898)			(4,898)
Total Expenses Excluding Losses					**(215,853)**

Gains/(Losses)					
Net foreign exchange gains			599		599
Net gain on sale of non-financial assets			200		200
Net gain on financial assets or liabilities at fair value through operating result	8		3,220	(880)	2,340
Net gain on equity investments in unconsolidated subsidiaries measured at proportional share of net assets/(liabilities)	9		1,462	(390)	1,072
Share of net profit/(loss) from associates	10			(50)	(50)
Net actuarial gains[1]			840		840
Total Gains/(Losses)					**5,001**
Operating Result					**12,739**
Other Non-Owner Movements in Equity					
Revaluations	11		2,547	(995)	1,552
GFS Net Operating Balance		**6,913**			
GFS Net Other Economic Flows			**9,133**		
Convergence Differences				**(1,755)**	
GAAP Comprehensive Result					**14,291**
Less: Net increase in GFS non-financial assets		685	3,229		
GFS Net Lending/(Borrowing)		**6,228**			
Net increase in GFS financial assets		4,641	3,325		
Net decrease in GFS liabilities		1,587	2,579		

Refer to note 22 to the financial statements for explanations of key technical terms used in this statement.

Note on Preparation of Operating Statement:

[1]As noted in paragraph 11(d) 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* (December 2004)] 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 the opening and closing balances of accumulated surplus/(deficit) and the changes during the period (referred to in paragraph 97(b) of AASB 101 *Presentation of Financial Statements*).

Balance Sheet for the General Government Sector of the ABC Government as at 30 June 200X

	Notes	GFS	Convergence Differences	GAAP
		$m	$m	$m
Assets				
Financial Assets				
Currency and deposits		1,591		1,591
Other accounts receivable	12	18,548	(1,800)	16,748
Securities other than shares		24,188		24,188
Loans		18,060		18,060
Shares and other equity				
Investments accounted for using equity method	13	401	(36)	365
Other	14	49,159	(900)	48,259
Total Financial Assets		111,947		109,211
Non-Financial Assets				
Inventories		4,832		4,832
Fixed assets				
Machinery and equipment	15	8,122	30,745	38,867
Buildings and structures		14,152		14,152
Intangible fixed assets	16	1,000	250	1,250
Valuables		6,442		6,442
Non-produced assets				
Land		5,196		5,196
Non-produced intangibles		747		747
Total Non-Financial Assets		40,491		71,486
Total Assets		**152,438**		**180,697**

Liabilities				
Currency and deposits		364		364
Other accounts payable	17	33,253	(28,000)	5,253
Provisions	18		28,094	28,094
Securities other than shares		60,650		60,650
Loans		6,246		6,246
Insurance technical reserves		88,540		88,540
Total Liabilities		**189,053**		**189,147**
Net Assets/(Liabilities)				**(8,450)**
Equity				
Accumulated surplus/(deficit)				(43,752)
Other reserves				35,302
Total Equity				**(8,450)**
GFS Net Worth		**(36,615)**		

Refer to note 22 to the financial statements for explanations of key technical terms used in this statement.

Cash Flow Statement for the General Government Sector of the ABC Government for the Year Ended 30 June 200X

	Notes	$m
Cash Flows from Operating Activities		
Cash Receipts from Operating Activities		
Taxes		206,343
Sales of goods and services		4,314
Interest, excluding swap interest		1,304
Dividends		3,900
Other receipts		2,935
		218,796
Cash Payments for Operating Activities		
Compensation of employees		(16,247)
Purchases of goods and services	19	(37,898)
Interest, excluding swap interest		(4,201)
Subsidies		(5,742)
Grants		(69,692)
Social benefits		(70,723)
Other payments		(2,134)
		(206,637)
Net cash inflow from operating activities		**12,159**
Cash Flows from Investing Activities		
Investing in Non-Financial Assets		
Cash Received		
Sales of non-financial assets		1,734
Cash Paid		
Purchases of non-financial assets	19	(4,504)
Net cash outflow investing in non-financial assets		(2,770)

Investing in Financial Assets		
Cash Received		
Dividends received		300
Cash Paid		
Purchase of investments		(4,641)
Net cash outflow investing in financial assets		(4,341)
Net cash outflow from investing activities		**(7,111)**
Cash Flows from Financing Activities		
Cash Received		
Advances received		356
Borrowing		13,241
Deposits received		899
Swap interest		1,912
Other financing		233
		16,641
Cash Paid		
Advances paid		(312)
Borrowing		(14,720)
Deposits paid		(213)
Swap interest		(1,572)
Other financing		(765)
		(17,582)
Net cash outflow from financing activities		**(941)**
Net Increase in Cash and Cash Equivalents		**4,107**
Cash and cash equivalents at beginning of year		(2,516)
Cash and Cash Equivalents at End of Year		**1,591**

GFS Key Fiscal Aggregates		
Net cash from operating activities	20	10,074
Net cash from investments in non-financial assets	21	(685)
GFS Cash Surplus/(Deficit)		**9,389**

Refer to note 22 to the financial statements for explanations of key technical terms used in this statement.

EXPLANATIONS OF CONVERGENCE DIFFERENCES

Convergence Difference Notes to the Operating Statement

1 Revenue – Other Revenue – Interest

The convergence difference of $1,572m arises because Government Finance Statistics (GFS) treats net swap interest received of $340m as an other economic flow (OEF), compared with the separate recognition of gross swap interest revenue of $1,912m and gross swap interest expense of -$1,572m in the calculation of GAAP comprehensive result. The convergence difference for interest revenue is therefore $1,572m, being $1,912m less $340m (refer Note 5).

2 Revenue – Other Revenue – Dividends

The convergence difference of $299m comprises:

$300m: GFS classifies $300m of the distributions from unconsolidated subsidiaries as a transaction in financial assets (that is, as a withdrawal of equity), compared with it being included as dividend revenue in the calculation of GAAP comprehensive result (refer Note 9); and

-$1m: GFS treats dividends from associates as revenue whereas they are not included in the calculation of GAAP comprehensive result under the equity method of accounting (refer Note 10).

3 Expenses – Use of Goods and Services

The convergence difference of $2,085m comprises:

$2,040m: GFS treats defence weapons and, by extension, their platforms as single-use goods and writes them off upon acquisition. However, the defence weapons are not recognised as use of goods and services expense in the calculation of GAAP comprehensive result, because they are capitalised as assets upon acquisition; and

$45m: GFS writes off certain development costs as expenses. However, the development costs are not recognised as development expenses in the calculation of GAAP comprehensive result 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 expense, rather than as acquisitions of intangible fixed assets even though some development activities may bring benefits for more than one year.

4 Expenses – Consumption of Fixed Capital

The convergence difference of -$2,110m comprises:

-$2,104m: GFS does not recognise depreciation on defence weapons, which is recognised as an expense in the calculation of GAAP comprehensive result (refer Note 3); and

-$6m: GFS recognises a smaller amortisation of produced intangibles than is recognised as an expense in the calculation of GAAP comprehensive result. GFS treats goods and services used for research and development as use of goods and services expense, rather than as acquisitions of intangible fixed assets even though some development activities may bring benefits for more than one year (refer Note 3).

5 Expenses – Interest

The convergence difference of -$1,572m arises because GFS treats net swap interest received of $340m as an OEF, compared with the separate recognition of gross swap interest revenue of $1,912m and gross swap interest expense of -$1,572m in the calculation of GAAP comprehensive result (refer Note 1).

6 Expenses – Grants

The convergence difference of $380m arises because GFS recognises the mutually agreed inter-governmental bad debts written off as expenses and classifies them as grants whereas, in the calculation of GAAP comprehensive result they are classified as losses on financial assets at fair value through operating result (refer Note 8).

7 Expenses – Social Benefits

The convergence difference of -$94m 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 that is recognised in the calculation of GAAP comprehensive result.

8 Gains/(Losses) – Net Gain on Financial Assets or Liabilities at Fair Value Through Operating Result

The convergence difference of -$880m comprises:

-$500m: GFS does not recognise an expense associated with the provision for doubtful debts, however, it does recognise the amounts written off for which there is mutual agreement with debtors as an expense, and recognises those written off unilaterally by the government as other economic flows; and

-$380m: GFS recognises bad debts written off by mutual agreement as expenses and classifies them as capital grants (refer Note 6).

9 Gains/(Losses) – Net Gain on Equity Investments in Unconsolidated Subsidiaries Measured at Proportional Share of Net Assets/(Liabilities)

The convergence difference of -$390m comprises:

-$90m: The net asset value of unconsolidated subsidiaries determined under GFS principles and rules differs from the net asset value of the subsidiaries used in the calculation of GAAP comprehensive result (being the net asset value that is consolidated into the whole of government general purpose financial report); and

-$300m: GFS treats this amount as a distribution from unconsolidated subsidiaries classified as a transaction in financial assets (ie as a withdrawal of equity), compared with it being treated as dividend revenue in the calculation of GAAP comprehensive result (refer Note 2 also). Under GFS, the holding gain on unconsolidated subsidiaries is determined after taking into account additions to and withdrawals from equity that have occurred.

10 Gains/(Losses) – Share of Net Profit/(Loss) from Associates

The convergence difference of -$50m arises because GFS does not recognise as an expense the share of the associate's loss that is recognised as an expense of -$50m in GAAP comprehensive result. GFS recognises the decrease in the market value of investments in associates of -$55m as an OEF (refer Note 11), and the dividends on such investments of $1m as dividend revenue (refer Note 2).

11 Other Non-Owner Movements in Equity – Revaluations

The convergence difference of -$995m comprises:

-$920m: GFS does not recognise the net decrease in the fair value of defence weapons (resulting from revaluations and impairments) that is recognised in GAAP comprehensive result. GFS treats defence weapons expenditures as expenses rather than assets;

$55m: GFS recognises the net decrease in the market value of investments in associates of -$55m as an OEF whereas it is not recognised in the calculation of GAAP comprehensive result. For the calculation of GAAP comprehensive result, the share of the associate's loss of -\$50m is recognised as a loss (refer Note 10); and

-\$130m: GFS recognises the net increase in the revalued intangible assets as an OEF whereas it is not recognised in the calculation of GAAP comprehensive result. In accordance with paragraph 81 of AASB 138 *Intangible Assets*, the intangible assets are not revalued because there is no active market for them.

Convergence Difference Notes to the Balance Sheet

12 Assets – Financial Assets – Other Accounts Receivable

The convergence difference of -\$1,800m arises because GFS does not recognise the provision for doubtful debts that is included in the calculation of net assets.

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

The convergence difference of -\$36m arises because GFS recognises the net decrease in the market value of investments in associates, that are accounted for using the equity method in the calculation of net assets/(liabilities).

14 Assets – Financial Assets – Shares and Other Equity – Other

The convergence difference of -\$900m arises in relation to the measurement of equity investments in unconsolidated subsidiaries 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.

15 Assets – Non-Financial Assets – Fixed Assets – Machinery and Equipment

The convergence difference of \$30,745m arises because GFS expenses defence weapons upon acquisition whereas the defence weapons are capitalised and expensed over time through depreciation and subject to revaluation and impairment in the calculation of net assets/(liabilities).

16 Assets – Non-Financial Assets – Fixed Assets – Intangible Fixed Assets

The convergence difference of \$250m comprises:

$400m: GFS treats research and development costs as use of goods and services expense, rather than as acquisitions of intangible fixed assets even though some development activities may bring benefits for more than one year; and

-$150m: GFS recognises the revaluation of certain intangible assets, whereas those intangible assets have not been revalued in the determination of net assets/(liabilities) because there is no active market (in accordance with paragraph 81 of AASB 138).

17 Liabilities – Other Accounts Payable

The convergence difference of -$28,000m arises because of a classification difference in that GFS classifies the $28,000m of provisions as other accounts payable (refer Note 18).

18 Liabilities – Provisions

The convergence difference of $28,094m comprises:

$94m: GFS does not recognise certain provisions as liabilities (for example to the extent that they arise from constructive obligations for which there is no counterparty recognising the related financial asset); and

$28,000m: GFS classifies this amount as other accounts payable (refer Note 17).

Convergence Difference Notes to the Cash Flow Statement

19 Cash Flows from Operating Activities – Purchases of Goods and Services

An amount of $37,898m has been recognised as payments for purchases of goods and services from operating activities. 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 – investing activities in the cash flow statement; and

$45m: capitalised development costs that are classified as purchases of non-financial assets – investing activities in the cash flow statement.

20 Reconciliation to GFS Net Cash from Operating Activities

	$m
Net cash inflow from operating activities	12,159
Less: Defence weapons purchased and capitalised (refer Note 19)	2,040
Development costs capitalised (refer Note 19)	45
GFS net cash from operating activities	10,074

21 Reconciliation to GFS Net Cash from Investments in Non-Financial Assets

Net cash outflow investing in non-financial assets	2,770
Less: Defence weapons purchased and capitalised (refer Note 19)	2,040
Development costs capitalised (refer Note 19)	45
GFS net cash inflow from investments in non-financial assets	685

KEY TECHNICAL TERMS USED IN THE FINANCIAL REPORT

22 Selected Key Technical Terms Used in the Financial Report

The explanations in this Note comprise mainly GFS explanations. The corresponding terminology for a particular GFS item may be different under GAAP. For example, the corresponding GAAP term for the GFS term of 'consumption of fixed capital' is 'depreciation'.

Consumption of fixed capital is the decline in the value of the stock of GFS fixed assets during the accounting period as a result of physical deterioration, normal obsolescence, and normal accidental damage. It is valued in the average prices of the period. (GFSM 2001, paragraphs 4.28 and 6.33).

Convergence difference is the difference between the amounts recognised for an item for GFS purposes compared with GAAP purposes as a result of differences in definition, recognition, measurement and classification principles and rules.

GAAP comprehensive result is the net result of all items of income and expense recognised for the period. It is the aggregate of operating result and other non-owner movements in equity.

GAAP 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. (AASB 132 *Financial Instruments: Disclosure and Presentation*, paragraph 11).

GFS cash surplus/(deficit) is GFS net cash inflow from operating activities minus the GFS net cash outflow from investments in non-financial assets. (GFSM 2001, Box 4.1).

GFS net lending/(borrowing) is GFS net operating balance minus the net acquisition of GFS non-financial assets. It is also equal to transactions in the net acquisition of GFS financial assets minus the net incurrence of GFS liabilities. It indicates the extent to which the government's GGS is either putting financial resources at the disposal of other sectors in the economy or utilising the financial resources generated by other sectors. It is an indicator of the financial impact of government activity on the rest of the economy. (GFSM 2001, Box 4.1 & paragraph 4.17).

GFS net operating balance is GFS revenue minus GFS expenses. It is a summary measure of the ongoing sustainability of government operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of GFS 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. (GFSM 2001, Box 4.1 & paragraph 4.16).

GFS net other economic flows is the net change in the volume or value of GFS assets and GFS liabilities that does not result from a transaction. (GFSM 2001, paragraph 3.25).

GFS net worth is total GFS assets less total GFS liabilities. Under GFS, the change in GFS net worth is the preferred measure for assessing the sustainability of fiscal activities. (GFSM 2001, paragraph 4.52).

Government Finance Statistics (GFS) enable policymakers and analysts to study developments in the financial operations, financial position, and liquidity situation of the GGS. (GFSM 2001, paragraph 1.7).

Insurance technical reserves consist of the net equity of households in pension funds and life insurance reserves, prepaid premiums, and reserves against outstanding claims. (GFSM 2001, paragraph 7.120).

Miscellaneous and unidentified revenue includes all revenues that do not fit into any other category of revenue. Items that might appear here are sales of used military and other goods that were not classified as GFS assets, sales of scrap, non-life insurance claims against insurance corporations, non-life insurance premiums of government-operated insurance schemes, payments received for damage to government property other than payments from a judicial process, and any GFS revenues for which adequate information is not available to permit their classification elsewhere. (GFSM 2001, paragraph 5.107).

Mutually agreed bad debts are financial assets written off by the government where there was prior knowledge and consent by the counterparties. (Based on GFSM 2001, paragraph 3.5 and Appendix 2, paragraphs 4 to 13).

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

Net gain on equity investments in unconsolidated subsidiaries measured at proportional share of net assets/(liabilities) shows the net gains relating to the equity held by the GGS in an unconsolidated subsidiary. It arises from a change in the net asset value of the subsidiary. The net gains are measured based on the GGS's proportional share of the subsidiary's net assets/(liabilities).

Net increase in GFS non-financial assets refers to changes arising from two components – transactions and other economic flows. The transactions component includes net acquisition of GFS non-financial assets (which equals gross fixed capital formation, less depreciation, plus changes in inventories), plus other transactions in non-financial assets. The other economic flows component includes movements in GFS non-financial assets occurring as a result of revaluations and other changes in the volume of assets. (Based on GFSM 2001, paragraph 4.36 and Chapters 8 and 10).

Non-financial assets 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. (GFSM 2001, paragraph 4.40).

Non-produced intangibles are intangible assets needed for production that have not themselves been produced. They include constructs of society such as patents (GFSM 2001, paragraphs 4.40 and 7.21).

Operating result is a measure of financial performance of the operations of the GGS 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 economic flows – see definition of 'GFS net other economic flows' above.

Property expense attributed to insurance policyholders is equal to the increase in the GGS's defined benefit superannuation plan liability resulting from the passage of time, which occurs because the future benefits are discounted over fewer accounting periods. (GFSM 2001 paragraph 6.79). A broader discussion of "property expense attributed to insurance policyholders" is contained in GFSM 2001, paragraphs 6.76 to 6.80.

Securities other than shares are negotiable financial instruments serving as evidence that the GGS has 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. (GFSM 2001, paragraph 7.104).

Social benefits are payments in cash or in kind by the GGS 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. (GFSM 2001, Annex to Chapter 2, paragraph 1).

Social contributions are payments, actual or imputed, made by the GGS to social insurance schemes to obtain entitlement to social benefits for their employees, including pensions and other retirement benefits. (GFSM 2001, paragraph 6.15). Actual social contributions consist of contributions payable to insurance enterprises, social security funds, or other institutional units responsible for the administration and management of social insurance schemes, including general government units operating non-autonomous pension funds. (GFSM 2001, paragraph 6.17). Imputed social contributions arise where governments provide social benefits directly to their employees, former employees, or dependents out of their own resources without involving an insurance enterprise or an autonomous or non-autonomous pension fund. In this situation, social contributions equal in value to the amount of social contributions that would be needed to secure the de facto entitlements are imputed. (GFSM 2001, paragraph 6.18).

Transactions are interactions between two units by mutual agreement or an action within a unit that is analytically useful to treat as a transaction. (GFSM 2001, paragraph 3.5).

Unilaterally determined bad debts are financial assets written off by the government without an agreement with the debtor in cases such as bankruptcy of the debtor. The write off is recognised as an other economic flow. (GFSM 2001, Appendix 2, paragraph 12).

Use of goods and services is the total value of goods and services purchased by the GGS 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. (GFSM 2001, paragraph 4.27).

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. (GFSM 2001, paragraphs 7.20 and 7.67).

Wages and salaries consist of all uncapitalised compensation of GGS employees except for “social contributions”. It includes pay in cash or in kind. (GFSM 2001, paragraph 6.10).

DISAGGREGATED INFORMATION

23 Functional Classification

	Defence	Public Order and Safety	Economic Affairs	Environmental Protection	Housing and Community Amenities	Health
	$m	$m	$m	$m	$m	$m
Expenses, excluding losses, included in operating result	(13,018)	(2,401)	(14,313)	(252)	(1,393)	(31,971)
Revenue, which excludes gains, included in operating result	95	232	1,241	22	384	120
Net gains/(losses) included in operating result	799	49	(250)	101	63	22
Operating result						
GAAP assets	55,759	3,991	7,267	1,430	2,522	1,430
GAAP liabilities	25,000	5,649	12,099	6,872	7,420	13,025
GFS expenses	(12,931)	(2,385)	(14,217)	(250)	(1,384)	(31,756)
GFS net acquisition of non-financial assets	41	8	45	1	4	101

[1] The Public Debt Transactions sub-function, as defined in the Annex to Chapter 6 of GFSM 2001, covers interest payments and outlays for underwriting and floating government loans.

[2] The Other General Public Services sub-function covers the General Public Services function, as defined in the Annex to Chapter 6 of GFSM 2001, excluding the sub-function of Public Debt Transactions.

[3] This column comprises unallocated "head office" activities and other activities that are not reliably attributable elsewhere.

Recreation, Culture and Religion	Education	Social Protection	Public Debt Transactions [1]	Other General Public Services [2]	Unallocated [3]	**Total**
$m	$m	$m	$m	$m	$m	**$m**
(2,182)	(13,482)	(80,607)	(5,573)	(20,663)	(30,000)	**(215,853)**
302	3	125	7,415	1,790	211,862	**223,591**
(35)	80	(80)	-	-	4,253	**5,001**
						12,739
2,145	6,175	2,899	76,447	7,149	10,921	**180,697**
6,535	8,220	20,000	66,896	7,083	10,346	**189,147**
(2,167)	(13,391)	(80,066)	(4,001)	(51,919)	-	**(214,467)**
7	43	256	-	178	-	**685**

APPENDIX C

EXTRACT FROM THE NOTE CONTAINING THE SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This appendix accompanies, but is not part of, the Standard.

The following is an example of an extract from Note 1 of a financial report for a year (2007/08) subsequent to the first year of adoption of the Standard, consistent with the requirements of paragraphs 44(a) to (g) of the Standard:

This financial report of the General Government Sector (GGS) of *[name of government]* has been prepared in accordance with AASB 10XX *Financial Reporting of General Government Sectors by Governments*, which requires compliance with all Australian Accounting Standards except those identified below. Its purpose is to provide users with information about the stewardship of the government in relation to its GGS and accountability for the resources entrusted to it; information about the financial position, performance and cash flows of the government's GGS; and information that facilitates assessments of the macro-economic impact of the government's GGS.

The GGS of *[name of government]* is a component of the Whole of Government of *[name of government]*. The GGS is determined in accordance with the principles and rules contained in the International Monetary Fund's *Government Finance Statistics Manual 2001* (IMF's GFSM 2001). Under GFSM 2001, the GGS consists of all government entities that have legislative, judicial, or executive authority over other units; provide goods and services to the community or to individuals on a non-market basis; make transfer payments to redistribute income and wealth; and which are financed mainly by means of taxes and other compulsory transfers. A list of entities within the Sector and changes that occurred during the year, and the reasons for the changes, is provided in Note *[X]*.

The Standard under which the GGS financial report is prepared does not require full application of AASB 127 *Consolidated and Separate Financial Statements* and AASB 139 *Financial Instruments: Recognition and Measurement*. Assets, liabilities, income, expenses and cash flows of government controlled entities that are in the public corporations sector are not separately recognised in the GGS of *[name of government's]* financial statements. Instead, the GGS financial statements recognise an asset, being the controlling equity investment in those entities, and recognise a gain or loss relating to changes in the carrying amount of that asset, measured in accordance with AASB 10XX. Readers are referred to the Whole of Government general purpose financial report of *[name of government]* for the year ended 30 June 2008 for financial information that separately recognises assets, liabilities, income, expenses and cash flows of all entities under the control of the *[name of government]*.

The Standard under which the GGS financial report is prepared modifies the manner in which AASB 101 *Presentation of Financial Statements* is applied by effectively combining the statement of changes in equity with the income statement into a comprehensive operating statement.

The IMF's GFSM 2001 also provides the basis upon which information that is pertinent to Government Finance Statistics (GFS) that is contained in the financial report is prepared. In particular, concepts of net worth, net operating balance, transactions, other economic flows and cash surplus/(deficit) are GFS concepts determined using the principles and rules in the IMF's GFSM 2001.