

**Reporting Revenue by Governments:
the relationship between AAS 31.15.1 and AASB 101.81(a)**

The paragraphs referred to in the following, and other pertinent paragraphs, are reproduced in the appendix.

The introduction of AASB 101 *Presentation of Financial Statements* effective from 1 January 2005 raises the question of the relationship of its requirement in paragraph 81(a) to disclose revenue and the requirement to disclose aggregate revenue in paragraph 15.1 of AAS 31 *Financial Reporting by Governments*. The question particularly arises in view of the fact that the definition of revenue in AAS 31 differs from the definition of revenue (and income) that is relevant to AASB 101.

AAS 31 is due to be revised as part of the AASB's GAAP/GFS Convergence Project. However, until that occurs, the differences in definitions need to be considered.

There are various possible ways to interpret the requirement in AAS 31.15.1 to disclose aggregate revenue, including that it requires disclosure of aggregate:

- (a) revenue (required to be recognised in the statement of financial performance) as defined in AAS 31.22.1;
- (b) revenue (required to be recognised in the statement of financial performance) as defined in paragraph 7 of AASB 118 *Revenue* (which would exclude, for example, gains from sale of property, plant and equipment); and
- (c) income (required to be recognised in the statement of financial performance) as defined in the AASB *Framework for the Preparation and Presentation of Financial Statements* (which would include, for example, gains from sale of property, plant and equipment).

Consistent with the view expressed in the first AASB staff article "Performance Reporting by Governments: the relationship between AAS 31.15.1 and AASB 101.83", the AASB staff view is that AAS 31 requirements should be interpreted in light of subsequent standards relating to those requirements and that, to the extent that they are not different, AASB 101 gives guidance on what is meant by AAS 31.

Accordingly, AASB staff believe that the requirement in AASB 31.15.1 should be read in the context of the new terminology and definitions relating to "revenue" and "income" introduced in the Australian equivalents of International Financial Reporting Standards (IFRSs). In particular, the reference to aggregate revenues in paragraph 15.1 should be read as if it refers to income that is required to be recognised in the income statement under Australian equivalents of IFRSs. This is because, consistent with the notion of income in Australian equivalents of IFRSs, the notion of revenue in AAS 31 includes the effect of a disposal of property, plant and equipment, and Australian equivalents of IFRSs have effectively amended the way AAS 31 should treat proceeds from sale of fixed assets (that is, a gain on sale should be treated as income rather than proceeds from sale being treated as revenue).

To illustrate, in circumstances where revenue (not including the effect of selling property) is \$100 and property with a carrying amount of \$20 is sold for proceeds of \$30, the following could be presented on the face of the statement of financial performance:

Revenue	\$100
Other income: Gain on sale of property, plant and equipment	<u>10</u>
TOTAL INCOME	110

Appendix: Relevant extracts from AAS 31 and AASB 101

AAS 31.6.1:

“Subject to paragraph 6.2, the general purpose financial report of a government must be prepared in accordance with other Australian Accounting Standards, except to the extent that the requirements of this Standard differ from the requirements of other Standards, in which case the requirements of this Standard prevail.”

AAS 31.6.2:

“The general purpose financial report of a government need not be prepared in accordance with Australian Accounting Standards AAS 16 “Financial Reporting by Segments” and AAS 22 “Related Party Disclosures”. The applicability to governments of Australian Accounting Standards issued subsequent to this Standard will be evident from the application paragraphs of each of those Standards.”

AAS 31.6.2.1:

“At the time of issue of this Standard, the requirements of all Australian Accounting Standards, other than Australian Accounting Standards AAS 16 ... and AAS 22 ... must be applied by governments unless they are overridden by the requirements of this Standard. Paragraphs 15.3, 15.9, 15.10 and 21.3 detail the requirements of other existing Australian Accounting Standards which are overridden by this Standard.”

AAS 31.15.1:

“The operating statement must disclose revenues and expenses for the reporting period, in aggregate and classified according to their nature or type.”

AAS 31.22.1:

“*revenues* means inflows or other enhancements, or savings in outflows, of future economic benefits in the form of increases in assets or reductions in liabilities of the entity, other than those relating to contributions by owners, that result in an increase in equity during the reporting period.”

AASB 101.81(a):

“As a minimum, the face of the income statement shall include line items that present the following amounts for the period:

(a) revenue ...”

AASB 101.96(b)

“An entity shall present a statement of changes in equity showing on the face of the statement ... each item of income and expense for the period that, as required by other Australian Accounting Standards, is recognised directly in equity, and the total of these items.”

AASB 118.7:

“*Revenue* is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.”

AASB Framework.70(a)

“Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.”

AASB Framework.74

“The definition of income encompasses both revenue and gains.”