

Australian Accounting Standard

**AAS 29**  
June 1998

# **Financial Reporting by Government Departments**

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<p>Defined words appear in <i>italics</i> the first time they appear in a section. The definitions are in Section 17. Standards are printed in <b>bold</b> type and commentary in light type.</p>
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## **MAIN FEATURES OF THE STANDARD**

The Standard requires government departments that are reporting entities to prepare general purpose financial reports that are useful to users for making and evaluating decisions about the allocation of scarce resources and which assist government departments to discharge their accountability obligations. It is considered that such information will also be useful to the management of government departments for administrative and decision making purposes.

The Standard does not preclude the preparation of special purpose financial reports which government departments may be required to prepare for detailed compliance reporting or other purposes.

### **Major Requirements**

#### **The Government Department Reporting Entity**

The Standard requires government departments to prepare consolidated financial reports in accordance with Australian Accounting Standard AAS 24 “Consolidated Financial Reports”. This will enable users to obtain an overview of the performance, financial position and financing and investing activities of government departments.

The Standard also allows disaggregated reporting by government departments and recognises that some individual entities that are included in the government department reporting entity may be reporting entities in their own right. In addition, the Standard requires disclosure of items administered, but not controlled, by government departments since information about these items may be useful for assessing performance and accountability.

#### **Accrual Basis of Accounting**

The Standard requires the accrual basis of accounting to be adopted in the preparation of the general purpose financial reports of a government department. Accordingly, the assets, liabilities, revenues and expenses of a government department are required to be recognised in the reporting periods to which they relate regardless of when cash is received or paid. This will assist in ensuring that government departments are accountable for all the assets they control, the liabilities they incur and the effects of the operations for the reporting period on those items.

## **Compliance with Australian Accounting Standards**

The Standard requires the general purpose financial reports of government departments to comply with Australian Accounting Standards other than Australian Accounting Standards AAS 16 “Financial Reporting by Segments” and AAS 22 “Related Party Disclosures”. The Standard also contains a number of specific requirements which override the requirements of applicable Australian Accounting Standards.

In particular, the Standard acknowledges that government departments are primarily service-oriented entities, and requires the preparation of general purpose financial reports that are consistent with government departments’ service delivery objectives. For example, the Standard allows the preparation of operating statements which focus on the cost of service delivery and the direct cost recoveries therein.

## **Contents of the Financial Report**

The Standard requires each government department to prepare an operating statement, a statement of financial position and a statement of cash flows. The Standard also requires the general purpose financial report of a government department to disclose:

- (a) revenues and expenses reliably attributable to the government department's programs
- (b) in summary form, the extent of compliance with parliamentary appropriations and other financial directives.

## **Recognition and Depreciation of Assets**

The Standard requires all assets that satisfy the recognition criteria to be recognised in the statement of financial position. Those assets include so-called “infrastructure”, “heritage” and “community” assets.

The Standard also requires all non-current assets with limited useful lives to be depreciated in accordance with Australian Accounting Standard AAS 4 “Depreciation”.

## **Relationship of Financial Reports to Various Models of Financial Management**

The Standard provides a framework for general purpose financial reporting by government departments irrespective of the model of financial management and budgeting adopted within particular jurisdictions.

## AUSTRALIAN ACCOUNTING STANDARD

### AAS 29 “FINANCIAL REPORTING BY GOVERNMENT DEPARTMENTS”

#### 1 Application

- 1.1 **This Standard applies to *general purpose financial reports* of each *government department* that is a *reporting entity* and to which Accounting Standards operative under the Corporations Law or the equivalent Australian Accounting Standards do not apply.**
- 1.2 **This Standard also applies to financial reports that are held out to be general purpose financial reports by a *government department* which is not a reporting entity.**
  - 1.2.1 The standards specified in this Standard apply to the financial report where information resulting from their application is material. This requirement is set out in Australian Accounting Standard AAS 5 “Materiality” which provides guidance on the role of materiality in making judgements in the preparation and presentation of financial reports.

#### 2 Operative Date

- 2.1 **This Standard applies to reporting periods ending on or after 30 June 1998.**
- 2.2 **This Standard may be applied to reporting periods ending before 30 June 1998.**
  - 2.2.1 Australian Accounting Standard AAS 29 “Financial Reporting by Government Departments”, as issued in October 1996, continues to apply to reporting periods that end before 30 June 1998. However, where an *entity* elects to apply this Standard early in accordance with paragraph 2.2 it will not also be obliged to comply with AAS 29, as issued in October 1996, for the reporting periods to which the election applies.
- 2.3 **When operative, this Standard supersedes Australian Accounting Standard AAS 29 “Financial Reporting by Government Departments” as issued in October 1996.**

### **3 Purpose of Standard**

**3.1 The purpose of this Standard is to prescribe the form and content of *general purpose financial reports of government departments*.**

3.1.1 Statement of Accounting Concepts SAC 2 “Objective of General Purpose Financial Reporting” states that general purpose financial reports provide information useful to users for making and evaluating decisions about the allocation of scarce resources and which will assist the management of an *entity* to discharge their accountability obligations. In making decisions about the allocation of scarce resources, users are likely to assess the performance, financial position, financing and investing and compliance of the *reporting entity*. Preparing general purpose financial reports in accordance with this Standard will assist users in making these assessments by providing relevant, reliable, comparable and understandable information about government departments.

### **4 General Purpose Financial Reports to be Prepared in Accordance with Australian Accounting Standards and to Disclose the Regulatory Framework**

#### **Compliance with Australian Accounting Standards**

**4.1 The *general purpose financial report of a government department* must be prepared in accordance with Australian Accounting Standards, other than Australian Accounting Standards AAS 16 “Financial Reporting by Segments” and AAS 22 “Related Party Disclosures”. To the extent that the requirements of this Standard differ from the requirements of other applicable Australian Accounting Standards, the requirements of this Standard must be applied.**

4.1.1 This Standard requires the application of the requirements of all applicable Australian Accounting Standards, except where the requirements of this Standard differ from the requirements of other applicable Australian Accounting Standards. This Standard also requires compliance with any requirements of this Standard which are additional to the requirements of other applicable Australian

Accounting Standards. Such application will assist in ensuring that the general purpose financial report of a government department contains information which is useful for economic decision making and which assists the discharge of accountability obligations.

- 4.1.2 The applicability to government departments of Australian Accounting Standards issued subsequent to this Standard will be apparent from the application paragraphs of each subsequent Standard.

### **Compliance with Legislation or Other Authority**

- 4.2 The general purpose financial report of a government department must disclose the identity of any legislation or authority pursuant to which the general purpose financial report has been prepared.**

- 4.2.1 Legislation or other authority may require a government department to disclose information additional to that required by this Standard. That information may relate to particular aspects of a government department's operations. For example, disclosures may be required in respect of compliance with particular spending mandates, the achievement of particular operating objectives, the satisfactory discharge of the fiduciary responsibilities of management, or anticipated expenditures and financial commitments. This Standard requires disclosure of the identity of the legislation or other authority with which the general purpose financial report is required to comply. Such disclosure will assist users of a government department's general purpose financial report to identify the reporting framework within which the financial report has been prepared, the purpose of particular disclosures, and therefore their relevance to economic decision making, including assessments of the discharge of accountability obligations.
- 4.2.2 Legislation or other authority may require government departments to comply with financial reporting requirements which differ from the requirements of this Standard. Such requirements would apply in addition to, and not instead of, the requirements of this Standard.

## **5 The Government Department Reporting Entity**

- 5.1 Each government department that is a reporting entity must prepare general purpose financial reports.**

- 5.1.1 A reporting entity is an entity in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for information useful for economic decision making purposes, including assessments of accountability. General purpose financial reports are reports intended to meet the financial information needs common to a potentially wide range of users who are unable to command the preparation of reports tailored to their individual needs.
- 5.1.2 Determining whether a particular government department is a reporting entity is a matter of judgement. Statement of Accounting Concepts SAC 1 “Definition of the Reporting Entity” identifies factors to be considered in determining whether a reporting entity exists. Consistent with SAC 1, this Standard adopts the view that most, if not all, government departments are reporting entities and should prepare general purpose financial reports in respect of each reporting period.
- 5.1.3 Many users are likely to require financial information about government departments to assist them in making and evaluating decisions about the allocation of scarce resources. In addition, government departments are accountable to a wide range of users for the resources they control and the results of the deployment of those resources.
- 5.1.4 Parliament is likely to be the primary user of the general purpose financial reports of government departments. Other potential users of the general purpose financial reports of government departments include:
- (a) those who provide the resources that are controlled by government departments, for example, taxpayers and creditors
  - (b) those who receive goods and services or otherwise benefit from the activities of government departments, for example, consumers
  - (c) those who perform oversight or review services on behalf of members of the community, for example, regulators, community groups and the media

Many of these users are unable to command the preparation of the financial information they require. They are dependent on general purpose financial reports prepared by government departments to satisfy their information needs.

- 5.1.5 The general purpose financial reports of government departments should disclose information relevant to the information needs of users for economic decision making purposes. General purpose financial reports should also present that information in a manner which assists in the discharge of accountability obligations. However, it is unlikely that general purpose financial reports will provide all the information required for economic decision making purposes, or for the discharge of accountability obligations. The primary responsibility of government departments is usually the achievement of service delivery objectives within certain financial constraints. Accordingly, decisions about the allocation of scarce resources to government departments will be influenced by past achievements in, and future requirements for, the delivery of services of a particular type, quality and volume. Therefore, both financial and non-financial information will be required by users for economic decision making, including assessments of accountability.
- 5.1.6 This Standard requires government departments which are reporting entities to prepare general purpose financial reports. SAC 1 distinguishes general purpose financial reports from special purpose financial reports. General purpose financial reports are intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs. In contrast, special purpose financial reports are prepared to meet the individual or special needs of particular users, many of who possess the authority to command the disclosure of the information they require. Special purpose financial reports may be prepared to disclose detailed information about particular transactions and events specific to the needs of users such as management, a Minister or the Australian Bureau of Statistics. The information to be disclosed in special purpose financial reports is beyond the scope of this Standard.

### **Boundaries of the Reporting Entity**

- 5.2 The general purpose financial report of a government department must encompass all entities *controlled* by the government department.**
- 5.2.1 Government departments may conduct activities through a variety of administrative and organisational structures. For example, they may manage commercial activities separately from non-commercial activities, may operate one or more trust accounts and may undertake a number of activities. This Standard requires that the general purpose financial report of a government department include financial information which encompasses all entities controlled by the government department. This form of reporting is necessary to

enable users to obtain an overview of the government department's performance, financial position and financing and investing activities, including compliance with appropriations and other legislation, regulation or directives.

- 5.2.2 The individual entities that comprise the government department reporting entity may also be separate reporting entities in their own right. This may be because of factors such as particular accountability obligations which attach to them, regional interests in their activities, their commercial objectives or their general economic significance. This Standard does not preclude the preparation of separate general purpose financial reports in respect of the individual entities included in a government department's general purpose financial report. In addition, this Standard does not preclude alternative forms of presentation of the financial report. For example, the operating statement, statement of financial position and statement of cash flows may be presented in columnar form disclosing results for the *economic entity*, the *parent entity* and its *subsidiaries*. Similarly, the notes in the financial report may be presented by disaggregating the economic entity into individual entities or other components which may be relevant to users of the financial report.
- 5.2.3 A government department often operates a number of trust accounts and acts as a trustee for a range of trusts whereby the government department *controls* the *assets* of the trust and can deploy those assets to meet its objectives. Examples of such trusts are those established to manage the commercial activities of a government department and trusts established and funded by, or in conjunction with, other governments or other entities for emergency relief where the government department is charged with the responsibility for the allocation of those funds. Trusts controlled by a government department form part of the government department reporting entity.
- 5.2.4 In other instances, a government department may have legal custody of resources without controlling them. That is, the government department would be unable to deploy those resources to meet its objectives. This would be the case where a government department holds monies in trust for private individuals, acts as a collector or distributor of monies for other government entities, or acts as trustee for disaster relief or other funds but where other entities ultimately control the deployment of those funds. Trusts and other resources not controlled by a government department do not form part of the government department reporting entity.
- 5.2.5 The operating statement, statement of financial position and statement of cash flows included in the general purpose financial

report of a government department disclose information about resources controlled by that government department. Items *recognised* in the statement of financial position will include the assets and *liabilities* of the trusts that the government department controls and can deploy to meet its objectives. Information about resources which the government department collects or distributes on behalf of another *entity*, and resources that the government department has legal custody over but does not control, may be relevant for performance evaluation purposes and can be included as supplementary disclosures in the general purpose financial report. However, such resources should not be recognised in the government department's operating statement, statement of financial position or statement of cash flows.

- 5.2.6 Additional reporting requirements may exist in respect of trusts which the government department administers but does not control. Consistent with those reporting requirements, special purpose financial reports may be prepared to discharge the government department's accountability obligations to nominated users.

### **Consolidated Financial Reports**

**5.3 The general purpose financial report of a government department must be prepared in accordance with the requirements of Australian Accounting Standard AAS 24 "Consolidated Financial Reports".**

- 5.3.1 Consistent with the requirements of paragraph 5.2, the government department reporting entity encompasses the government department and all entities it controls. Where the general purpose financial report of the government department is prepared by combining the individual financial reports of trusts or other entities controlled by the government department, the government department's financial report will be a consolidated financial report and is to be prepared in accordance with Australian Accounting Standard AAS 24 "Consolidated Financial Reports".
- 5.3.2 Consistent with the requirements of AAS 24, where the general purpose financial report of a government department has been prepared by combining the financial reports of other entities, the general purpose financial report of the government department includes the following:
- (a) a consolidated operating statement
  - (b) a consolidated statement of financial position

- (c) a consolidated statement of cash flows
  - (d) other disclosures, including disclosure of the identity of controlled entities.
- 5.3.3 This Standard is concerned with financial reporting by government departments and the application of AAS 24 in circumstances where a government department controls other entities. It does not address whether a general purpose financial report for the budget or other sectors of government should be prepared. Similarly, this Standard does not address whether a general purpose financial report should be prepared for the “Crown”, or other similar entity, to report the assets, liabilities, *revenues* and *expenses* of the budget or other sectors which are not recognised by government departments.

## 6 Contents of Financial Reports

6.1 **The *general purpose financial report* of a government department must include:**

- (a) **an operating statement which reports the revenues and expenses of the government department for the reporting period and which is, subject to paragraph 6.2, prepared in accordance with Australian Accounting Standard AAS 1 “Profit and Loss or other Operating Statements”**
- (b) **a statement of financial position which reports the assets, liabilities and equity of the government department as at the reporting date**
- (c) **a statement of cash flows which reports the cash flows of the government department for the reporting period and which is, subject to paragraph 6.3, prepared in accordance with Australian Accounting Standard AAS 28 “Statement of Cash Flows”.**

6.2 **The requirement of Australian Accounting Standard AAS 1 “Profit and Loss or other Operating Statements” to disclose the aggregate amount of transfers to and from reserves which affect the accumulated surplus (deficiency), need not be applied in preparing the operating statement of a government department.**

6.3 **The requirement of Australian Accounting Standard AAS 28 “Statement of Cash Flows” to disclose a reconciliation of cash**

**flows from operating activities to the operating result, must not be applied in preparing the statement of cash flows of a government department where the format of the operating statement highlights the net cost of services for the reporting period. Where the format of the operating statement highlights the net cost of services for the reporting period, a reconciliation of cash flows from operating activities to the net cost of services as reported in the operating statement must be disclosed.**

- 6.3.1 Statement of Accounting Concepts SAC 2 “Objective of General Purpose Financial Reporting” states that general purpose financial reports shall provide information useful to users for making and evaluating decisions about the allocation of scarce resources, and be presented in a manner which assists in discharging the accountability obligations of the *reporting entity's* management.
- 6.3.2 To provide information useful for the purposes identified in SAC 2, the general purpose financial report of a government department reports the government department's assets, liabilities, equity, revenues, expenses and cash flows and discloses other information, for example, about the government department's compliance with spending mandates.
- 6.3.3 The Appendix to this Standard provides an example of a general purpose financial report of a government department prepared in conformity with the accounting standards set out in this Standard. The method of presentation employed in the Appendix is not mandatory for government departments, as other methods of presentation may comply with this Standard.

### **Operating Statement**

- 6.3.4 The operating statement reports the revenues and expenses of a government department for the reporting period. This information is relevant to an assessment of the government department's performance for the reporting period and can be used as input to decisions about the resources that should be provided to support the government department's operations in future periods. The operating statement enables users to identify the cost of goods and services provided during the reporting period, the extent to which that cost was recovered from revenues during the reporting period, the sources of those revenues and the change in the resources controlled during the reporting period as a result of operations.
- 6.3.5 There are a number of alternative formats available for the display of information in the operating statement of a government department. They include:

- (a) a format which highlights the net cost of services for the reporting period
- (b) an operating statement which highlights the operating result for the reporting period.

Examples of these formats are included in the Appendix to this Standard.

- 6.3.6 This Standard does not require transfers to and from reserves to be disclosed in the operating statement as required by Australian Accounting Standard AAS 1 “Profit and Loss or other Operating Statements”. Consistent with the disclosure requirements identified in paragraph 12.5 of this Standard, transfers to and from reserves may be disclosed by way of note.

### **Statement of Financial Position**

- 6.3.7 Information about the assets *controlled* and liabilities incurred by a government department is useful for assessing the resources controlled by the government department, its financial structure and capacity for adaptation. Information about financial structure and capacity for adaptation can be used as input to decisions about the allocation of scarce resources in the future and the methods used to deliver services.
- 6.3.8 To facilitate assessment of financial structure, relevant classes of assets and liabilities can be identified and separately disclosed. For example, assets which cannot be liquidated to meet liabilities or fund future activities may be separately disclosed. Similarly, different classes of physical assets may be separately disclosed; for example, land and buildings, and plant and equipment.

### **Statement of Cash Flows**

- 6.3.9 The statement of cash flows identifies the sources of cash inflows during the reporting period, the purposes for which cash was expended during the reporting period and, where government departments can retain cash balances, the cash balance as at the reporting date. The information disclosed in a cash flow statement will be relevant to assessments of the future cash flow needs of the government department and to the discharge of accountability obligations.
- 6.3.10 Where the net cost of services format is adopted for the operating statement, this Standard overrides the requirements of Australian

Accounting Standard AAS 28 “Statement of Cash Flows” and requires disclosure of a reconciliation of cash flows from operating activities to the net cost of services. However, where a conventional format is adopted for the operating statement, a reconciliation of cash flows from operating activities to the operating result for the period is required, in accordance with AAS 28.

### **Items Not Recognised in the Financial Reports of Government Departments**

- 6.3.11 Items such as taxes, fines, fees and other amounts which the government department collects but does not control are not *recognised* as assets or revenues in the financial report of the government department. If these amounts were to be recognised as assets or revenues by the collecting government department, users could incorrectly assume that these amounts were available for the government department's use. Nevertheless, this Standard requires information about such taxes and other collections to be disclosed elsewhere in the general purpose financial report of the government department responsible for their collection. This is because such information may be relevant for performance assessments, including assessments of accountability. Even though a government department does not control such items, the effective and efficient administration of these items is an important role of the government department.
- 6.3.12 Similarly, a government department does not recognise as revenues and expenses amounts which the government department is responsible for transferring to eligible beneficiaries, consistent with legislation or other authority, but which the government department does not control. If these amounts were recognised as revenues on receipt by the government department and as expenses on payment by the government department, users could incorrectly assume that the government department controlled these amounts. Nevertheless, this Standard requires such amounts to be disclosed elsewhere in the general purpose financial report because that information may be relevant to performance assessments, including assessments of accountability. Even though a government department does not control such items, their effective and efficient administration is an important role of the government department. The manner in which administered transactions are to be disclosed is discussed in paragraphs 12.9 to 12.9.6.

## 7 Assets

### Recognition of Assets

**7.1 An asset of a government department must be recognised in the statement of financial position when and only when:**

- (a) it is probable that the future economic benefits embodied in the asset will eventuate**
- (b) the asset possesses a cost or other value that can be measured reliably.**

7.1.1 Government departments are created to provide goods and services consistent with government policies. The objective of *general purpose financial reporting* is to disclose information for economic decision making, including information which will assist in the discharge of accountability obligations. For these purposes users are likely to require information about the resources controlled by the government department, changes in those resources as a result of the reporting period's operations and the government department's performance in using those resources for the achievement of its objectives. The recognition of assets in the statement of financial position results in users being informed of the amount and types of future economic benefits deployed by the government department to meet its service delivery objectives. This information, together with information about *liabilities, revenues, expenses* and cash flows, is useful for assessing the government department's ability to continue to provide goods and services at a given level, and the level of resources that may need to be provided to the government department in the future so that it may continue to provide goods and services. Accordingly, this Standard requires all assets that satisfy the asset recognition criteria specified in paragraph 7.1 to be recognised in the statement of financial position, including the following:

- (a) infrastructure assets, for example, transport systems
- (b) heritage assets, for example, historical buildings and monuments
- (c) community assets, for example, parks and recreational reserves

- (d) other assets which provide services or economic benefits over long periods of time, for example, buildings and items of plant and equipment.

7.1.2 Some items that satisfy the definition of an asset may not be recognised in the statement of financial position. This would occur where it was not probable that the future economic benefits would flow to the government department, or where the cost or other value of the asset could not be reliably measured. This may be the case in respect of expenditures on research and development where, as at the *reporting date*, it is not possible to establish that future economic benefits will flow to the government department as a result of the expenditure. Similarly, natural resources which qualify as assets of a government department but in respect of which it is not possible to reliably determine a cost or other value will not be recognised in the statement of financial position of the government department. In some cases, it may be possible to reliably determine a cost or other value for an asset which could not be reliably measured in previous reporting periods. Accordingly, some assets currently not recognised in the statement of financial position because of an inability to reliably measure them may qualify for recognition at future reporting dates.

### Measurement of Assets

- 7.2 **Subject to paragraph 7.3, an acquisition of an asset which involves a cost of acquisition must be accounted for in accordance with Australian Accounting Standard AAS 21 “Accounting for the Acquisition of Assets (including Business Entities)”.**
- 7.3 **Subject to paragraph 7.4, an asset acquired at no cost or for nominal consideration must initially be recognised at *fair value* as at the acquisition date.**
- 7.4 **An asset acquired at no cost or for nominal consideration as a consequence of a restructuring of administrative arrangements need not be recognised at fair value and may be recognised at the amount at which the asset was recognised by the transferor government department immediately prior to the restructuring of administrative arrangements.**
- 7.4.1 This Standard prescribes a general requirement that an asset which satisfies the recognition criteria in paragraph 7.1 and which is acquired at no cost or for nominal consideration is initially to be recognised at fair value. An asset acquired for nominal consideration is not recognised initially at that nominal

consideration because it does not provide users with relevant information about the asset acquired. The specialised nature of an asset or the absence of an orderly market may mean that fair value needs to be approximated by reference to the lower of the replacement or reproduction cost of the service potential embodied in the asset. Guidance provided in Statement of Accounting Practice SAP 1 “Current Cost Accounting” may assist in determining the replacement or reproduction cost of an asset.

- 7.4.2 An exception to the requirement to initially recognise assets acquired at no cost or for nominal consideration at fair value applies to assets acquired by a government department as a consequence of a restructure of administrative arrangements. In accordance with paragraph 7.4, these assets may initially be recognised at the amounts at which they were recognised by the transferor government department at the date of the transfer. This exception to the general requirement acknowledges that the timing and scale of the reorganisation of government departments may mean that the costs of remeasuring the acquired assets at their fair values are greater than the benefits.
- 7.4.3 This Standard does not prescribe the basis on which a government department's assets that have not previously been recognised in the statement of financial position are to be initially recognised. This Standard encourages the initial recognition of such assets at written-down current cost, identifying separately, where possible, current cost and any accumulated depreciation. However, this Standard does not preclude recognition of such assets at an amount based on their initial acquisition cost or on another basis as assessed by management or an independent valuer.
- 7.4.4 In accordance with Australian Accounting Standard AAS 4 “Depreciation”, when a *depreciable asset* that has not previously been recognised in the statement of financial position of a government department is first recognised in that statement, its initial carrying amount is determined after taking into account any expired portion of the asset's useful life.

### ***Infrastructure, Heritage and Community Assets***

- 7.4.5 The creation or acquisition of infrastructure assets usually involves significant financial resources. Many infrastructure assets are likely to have very long productive lives and their historical costs may bear little relationship to their current acquisition costs or current selling prices. In addition, the nature of the services provided by such assets tends to be entity specific. Consequently, the current market selling price of such assets may bear little relationship to their

current replacement cost. The valuation of infrastructure assets acquired in the past but not previously recognised in the statement of financial position gives rise to a number of practical issues. Those issues involve, for example, identifying the assets, confirming that they represent future economic benefits, establishing the historical cost or other value of those future economic benefits and, given their longevity, determining whether they should be revalued periodically.

- 7.4.6 Similarly, the historical cost of heritage assets or community assets may bear little relationship to their current replacement cost or net market value. Therefore, the recognition of such assets in the statement of financial position, as required by this Standard, will also require the resolution of practical problems related to their identification and measurement.
- 7.4.7 Given the longevity of most infrastructure and heritage assets, their historical cost or other initial carrying value is unlikely to remain relevant for economic decision making, including assessments of accountability, over the life of those assets. Therefore, this Standard encourages government departments to regularly revalue infrastructure, heritage and community assets to their written-down current cost. Practical difficulties in identifying and reliably measuring a carrying amount for some infrastructure, heritage and community assets may preclude their recognition in the statement of financial position on initial application of this Standard. This Standard includes transitional provisions which provide time for government departments and regulators to address those difficulties.

#### ***Determining Written-Down Current Cost***

- 7.4.8 Paragraph 7.4.3 encourages the initial recognition of certain assets at their written-down current cost, and paragraph 7.4.7 encourages government departments to regularly revalue certain assets to their written-down current cost. Written-down current cost is determined by reference to current market buying prices of the remaining future economic benefits embodied in the asset or, where such prices are not available, an estimation thereof. Statement of Accounting Practice SAP 1 “Current Cost Accounting” and the “Working Guide for Statement of Accounting Practice SAP 1” may be of assistance in determining the written-down current cost of an asset where market buying prices are not available.

#### **Revaluation of Non-Current Assets**

- 7.5 Subject to paragraph 15.5, the revaluation of non-current assets must be accounted for in accordance with Australian**

**Accounting Standard AAS 10 “Accounting for the Revaluation of Non-Current Assets”.**

### **Depreciation of Non-Current Assets**

**7.6 All non-current assets with limited useful lives must be depreciated in accordance with Australian Accounting Standard AAS 4 “Depreciation”.**

7.6.1 Depreciation is the expense associated with the consumption or loss, during the reporting period, of future economic benefits embodied in non-current assets with limited useful lives. It is necessary that depreciation be recognised if there is to be faithful representation of the cost of a government department's operations for the reporting period, and the extent to which that cost has been recovered from revenues for the reporting period. Furthermore, the recognition of depreciation is necessary if the future economic benefits of depreciable assets controlled by a government department as at the reporting date are not to be overstated. Accordingly, this Standard requires that all non-current assets with limited useful lives be depreciated in accordance with Australian Accounting Standard AAS 4 “Depreciation”.

## **8 Liabilities**

### **Recognition of Liabilities**

**8.1 A liability of a government department must be recognised in the statement of financial position when and only when:**

- (a) it is probable that the future sacrifice of economic benefits will be required**
- (b) the amount of the liability can be measured reliably.**

8.1.1 Recognition of liabilities is necessary if the financial report is to represent faithfully the obligations incurred by a government department and the resources that will be required to be transferred to other entities to settle those obligations. Where the incurrence of a liability involves the concomitant incurrence of an *expense*, omission of that liability from the statement of financial position causes relevant information about the costs of operations, and therefore performance of the government department, to be omitted from the operating statement.

- 8.1.2 The recognition and appropriate classification of liabilities in the statement of financial position informs users of the amount and, in broad terms, the timing of future sacrifices of economic benefits that the government department is presently obliged to make to other entities. This information is useful in assessing whether the government department can meet its obligations as they fall due and without additional funding.
- 8.1.3 Liabilities of a government department can include amounts payable to:
- (a) suppliers of goods and services
  - (b) employees in respect of wages, salaries and other employee entitlements
  - (c) lenders where the government department has the obligation to repay loan funds
  - (e) other entities that the government department is presently obliged to pay as a result of past transactions or other past events.
- 8.1.4 Where it is intended that a government department will make payments to other parties, whether as a result of government budget policy, election promises or a statement of intent, this does not of itself create a present obligation which is binding on the government department. A liability would be recognised only where the government department is committed in the sense that it has little or no discretion to avoid the sacrifice of future economic benefits. For example, a government department does not have a present obligation to sacrifice future economic benefits under multi-year public policy grant agreements until the grantee meets conditions, such as grant eligibility criteria, or has provided the services or facilities required by the grant agreement. In such cases, only amounts outstanding in relation to current or previous periods satisfy the definition of liabilities.

### **Liabilities Assumed by Other Entities**

- 8.2 A liability of a government department which is assumed by the government or other *entity* must be accounted for as follows:**
- (a) **on initial incurrence of the liability by the government department, the government department must recognise a liability and an expense**

- (b) **on assumption of the liability by the government or other entity and where the assumption is not in the nature of a *contribution by owners*, the government department must extinguish the liability and recognise revenues of an amount equivalent to the liability assumed**
- (c) **where the assumption of the liability is in the nature of a contribution by owners, the government department must extinguish the liability and make a direct adjustment to *equity* of an amount equivalent to the liability assumed.**

- 8.2.1 The obligation to make payments to employees in respect of long-service leave and other employee entitlements may rest with the government, a central agency or other entity. However, the costs of long-service leave and other employee entitlements are part of the cost of the goods and services provided by the government department for which those employees work. Employment contracts or employment arrangements may be such that the government or other entity, rather than the government department, directly incurs the obligation to settle liabilities that arise in respect of employee entitlements. Alternatively, it may be that the government department initially incurs the obligation to settle such liabilities, and the government or other entity then assumes that obligation.
- 8.2.2 As noted in paragraph 11.2.4, under the model of financial management that has generally been adopted for government departments in Australian jurisdictions to date, it is unlikely that the assumption of a government department's liabilities by the government or other entity will be in the nature of a contribution by owners. However, where such an assumption is in the nature of a contribution by owners, the government department extinguishes the liability and recognises a direct adjustment to equity of an amount equivalent to the liability assumed.
- 8.2.3 A government or other entity may initially incur, and then settle, obligations in respect of the wages, salaries and other costs of the employees of a government department during the reporting period. Similarly, other expenses of operating the government department during the reporting period, such as building occupancy expenses, may be incurred and settled by the government or other entity. In such cases, the government department does not recognise a liability when the expenses are initially incurred. Rather, the government department recognises revenues equivalent to the *fair value* of the employee services or other *assets* it receives, and recognises expenses of the same amount to reflect that the economic benefits

represented by those employee services or other benefits have been consumed by the government department.

- 8.2.4 Where an employee transfers from one government department to another government department, the liability in respect of employee entitlements accrued up to the transfer date is usually transferred to the transferee government department. In such cases, the transferor government department may make a payment to the transferee government department for the employee's accrued entitlements. Where an employee transfers from one government department to another government department:
- (a) the transferor government department extinguishes any liability for employee entitlements recognised in respect of the employee, and recognises revenues equivalent to the liability extinguished. Where a payment is made or is to be made by the transferor government department in consideration for the assumption of the liability by the transferee government department, the transferor government department extinguishes the liability and recognises a decrease in assets (cash) or an increase in liabilities (cash payable). Where the payment is less than the total amount of the liability, the transferor government department recognises revenue equal to the amount of that shortfall
  - (b) the transferee government department recognises an expense and a liability in respect of any present obligations to pay accrued employee benefits in the future that are assumed as a consequence of the transfer. Where a payment is made or is to be made to the transferee government department in consideration for the assumption of the liability, the transferee government department recognises the liability assumed and an increase in assets (cash or cash receivable). Where the payment is less than the total amount of the liability for employee entitlements assumed, the transferee government department recognises an expense equal to the amount of that shortfall.
- 8.2.5 As noted in paragraphs 8.2.1 to 8.2.3, the government may initially incur or subsequently assume all obligations to make payments to employees of a government department in respect of long-service leave and other employee entitlements. In such cases, the transfer of employees between government departments will not give rise to the need for the transferee government department to recognise expenses and liabilities or for the transferor government department

to extinguish liabilities and recognise revenues as outlined in paragraph 8.2.4.

## **9 Agreements Equally Proportionately Unperformed**

- 9.1 Subject to paragraph 9.2, *assets and liabilities* arising from agreements equally proportionately unperformed need not be *recognised* in the statement of financial position of a government department.**
- 9.2 Where another Australian Accounting Standard sets out requirements for the recognition of assets and liabilities arising from agreements equally proportionately unperformed, the requirements of that Standard must be applied.**
- 9.2.1 In practice, assets and liabilities arising from agreements equally proportionately unperformed have usually been recognised only in respect of particular types of such agreements. This is because substantial difficulties often arise in determining a reliable and appropriate measure for the assets and liabilities arising from these agreements. Consequently, significant uncertainty often exists as to whether the definitions and recognition criteria are satisfied. Accordingly, subject to paragraph 9.2, government departments need not recognise assets and liabilities arising from agreements equally proportionately unperformed.
- 9.2.2 A requirement in an Australian Accounting Standard for the recognition of assets and liabilities in respect of agreements equally proportionately unperformed continues to apply. An example of a Standard which sets out requirements in respect of the recognition of assets and liabilities arising from a type of agreement that is equally proportionately unperformed is Australian Accounting Standard AAS 17 “Accounting for Leases”.
- 9.2.3 Government departments are encouraged to disclose the nature of assets and liabilities arising from agreements equally proportionately unperformed as this information is useful to users for assessing the financial position of a government department. Government departments are also encouraged to disclose the amounts involved in each of these agreements to the extent that these amounts can be measured reliably.

## 10 Revenues and Expenses

### Recognition of Revenues and Expenses

- 10.1 **A revenue of a government department must be recognised in the operating statement when and only when:**
- (a) **it is probable that the inflow or other enhancement or saving in outflows of future economic benefits has occurred**
  - (b) **the inflow or other enhancement or saving in outflows of future economic benefits can be measured reliably.**
- 10.2 **An expense of a government department must be recognised in the operating statement when and only when:**
- (a) **it is probable that the consumption or loss of future economic benefits resulting in a reduction in *assets* or an increase in *liabilities* has occurred**
  - (b) **the consumption or loss of future economic benefits can be measured reliably.**
- 10.3 **Revenues and expenses arising from the sale or disposal of non-current assets may be disclosed in the operating statement on a net basis.**
- 10.3.1 Recognition of a government department's revenues and expenses for the reporting period provides users with relevant information for assessing that government department's performance during the reporting period. This information is useful for identifying the cost of goods and services provided by the government department during the reporting period, the inflows of financial resources received by the government department in respect of its outputs during the reporting period, the extent to which costs were recovered during the reporting period and the sources of those cost recoveries. This information is useful for assessing the *efficiency* of service delivery, the resources necessary to enable the government department to continue to provide goods and services in the future and the likely cost of those goods and services. Such information is also necessary for accountability purposes and is relevant to decisions about the future funding requirements of the government department.

- 10.3.2 Revenues of a government department include the proceeds of user charges, fines and fees that the department gains control of during the reporting period, whether that control arises by virtue of annotated appropriations or by other authority. Consistent with the definition of revenues in paragraph 17.1, revenues also include all other inflows, other than contributions by owners, which increase the net assets of the government department. These other inflows could include:
- (a) recurrent, capital and other parliamentary appropriations over which the government department gains control during the reporting period
  - (b) resources transferred from other entities where such resources are controlled by the government department, including resources transferred from governments other than the one which controls the government department
  - (c) amounts equivalent to any of the government department's liabilities assumed by other entities
  - (d) *contributions* to the department such as grants and gifts
  - (e) payments received or receivable for providing agreed outputs, services or facilities.
- 10.3.3 Whether the provision of funds, or the assumption or forgiveness of liabilities, by a government in relation to a government department is revenue or a *contribution by owners* is a question of fact. That question is resolved by reference to the nature of the relationship between the recipient government department and the government, and the existence of any ownership rights that result from the contribution. As noted in paragraph 11.2.4, under the model of financial management that has generally been adopted for government departments in Australian jurisdictions to date, parliamentary appropriations and assumptions of government department liabilities by the government are unlikely to be contributions by owners.
- 10.3.4 Expenses of government departments typically include wages, salaries and other employee entitlements, rental charges, and the cost of assets consumed in the provision of goods and services, for example, supplies and depreciation.
- 10.3.5 This Standard allows proceeds and reductions in the carrying amount of non-current assets arising from the sale or disposal of non-current assets to be disclosed in the operating statement on a net

basis where this information will enhance assessments of the performance of a government department.

### **User Charges, Fines and Fees**

**10.4 Subject to paragraph 10.1, user charges, fines and fees levied by a government department must be recognised as revenues when and only when the government department obtains *control* of the assets that result from them.**

10.4.1 Some government departments charge users for the provision of particular goods and services, and levy fines and fees. Consistent with the definition of revenues in paragraph 17.1, a government department recognises the user charges, fines and fees which it controls as revenues in the reporting period during which that control arises. Control usually arises when goods and services are provided or when fines and fees are levied.

10.4.2 A government department's ability to control all, or a portion of, the proceeds of the user charges, fines and fees it levies may be subject to complex arrangements. Consistent with those arrangements, where a government department does not control any of the proceeds of the user charges, fines and fees which it levies, it does not recognise any of the proceeds of those user charges, fines and fees as revenues. Similarly, where, as a result of automatic appropriations or other authority, a government department controls some but not all of the proceeds of user charges, fines and fees, the department recognises as revenues only those amounts which it controls.

### **Parliamentary Appropriations**

**10.5 Parliamentary appropriations over which a government department gains control during the reporting period must be recognised as:**

- (a) **revenues of that reporting period where the appropriation:**
  - (i) **satisfies the definition of revenues contained in paragraph 17.1 of this Standard**
  - (ii) **satisfies the recognition criteria for revenues contained in paragraph 10.1 of this Standard**

- (b) **a direct adjustment to *equity* where the appropriation satisfies the definition of a contribution by owners**
- (c) **a liability of the government department where the appropriation:**
  - (i) **satisfies the definition of liabilities contained in paragraph 17.1 of this Standard**
  - (ii) **satisfies the recognition criteria for liabilities contained in paragraph 8.1 of this Standard.**

10.5.1 Parliamentary appropriations may be designated as recurrent appropriations, capital or works and services appropriations or other appropriations. Irrespective of the designation given to a parliamentary appropriation, its recognition as revenue, a contribution by owners or a liability requires an evaluation of the characteristics of the parliamentary appropriation by reference to the definitions of revenues, contributions by owners and liabilities respectively. This ensures that the substance, rather than the form, of the parliamentary appropriation is reported.

***Parliamentary Appropriations as Contributions by Owners***

10.5.2 Whether parliamentary appropriations are in the nature of contributions by owners depends on the model of financial management adopted by the controlling government. Section 11 of this Standard provides further guidance on evaluating whether the transactions or other events of a government department are in the nature of contributions by owners.

***Parliamentary Appropriations as Liabilities***

10.5.3 Under the model of financial management that has generally been adopted for government departments in Australian jurisdictions to date, parliamentary appropriations in the nature of liabilities do not usually occur. However, if a government adopts an “owner / purchaser” or similar model of financial management for its government departments, then parliamentary appropriations in the nature of liabilities may occur. It will normally be evident where a parliamentary appropriation satisfies the definition of and recognition criteria for liabilities because, for example, such an appropriation will be in the nature of a loan which is both required and expected to be repaid.

### ***Parliamentary Appropriations as Revenue***

- 10.5.4 Parliamentary appropriations are often in the nature of revenues. Consistent with the definition of revenues in paragraph 17.1, parliamentary appropriations that give rise to assets which the government department controls, other than contributions by owners, and which result in an increase in net assets during the reporting period are revenues of the recipient government department.
- 10.5.5 Control of amounts appropriated arises when the government department can benefit from funds appropriated to it and deny or regulate the access of others to those benefits. Therefore, control arises when, for example, government departments can use appropriated funds to purchase goods and services or retain those funds for future purchases.
- 10.5.6 The parliamentary appropriation process currently adopted in most jurisdictions in Australia is such that government departments do not gain control of funds appropriated for their use until obligations are incurred or expenditures are made by the government department. In these jurisdictions, appropriations recognised as revenues are in the nature of a recovery of costs incurred for the acquisition of goods and services or for amounts otherwise expended. As such, a government department usually only controls amounts appropriated by parliament for its use during the reporting period where those amounts have been expended or are required to meet obligations incurred during that reporting period. However, the nature of parliamentary appropriations, and the circumstances which give rise to a government department's control of such appropriations, can vary across different jurisdictions in Australia, and may vary for different types of appropriations within a particular jurisdiction. In addition, a government department's authority and ability to maintain separate bank accounts and to retain funds which have been appropriated for its use but which have not been expended during a reporting period can change over time. Similarly, the nature and content of appropriation legislation, the manner in which government departments' activities are funded, and the mechanisms by which parliament and the government ensure that the government departments' use of public funds is appropriate and consistent with government priorities as sanctioned by parliament, can change over time. These changes can affect a government department's ability to control amounts appropriated for its use. Accordingly, the extent to which amounts appropriated for a government department's use are recognised as revenues of a particular reporting period is determined by reference to the characteristics of the appropriation process and

the circumstances under which the government department obtains control of appropriated amounts.

- 10.5.7 Where the nature of parliamentary appropriations is such that a government department's control over appropriations is not dependent on expenditure or the incurrence of obligations or the completion of agreed outputs, services or facilities, the government department's control of the appropriated amounts occurs at the earliest of:
- (a) the commencement of the period to which the appropriation applies; or
  - (b) the receipt of the appropriated funds; or
  - (c) the date on which the government department's authority to expend appropriated funds becomes effective.

### **Appropriations from Government Loan Funds**

- 10.5.8 Where a government department is not required to repay borrowings which parliament has appropriated from government loan funds, the government department does not recognise a liability in respect of the amounts received. This is because the government department is not presently obliged to transfer future economic benefits to another *entity* to settle the loan. In such cases, the obligation to repay the loan rests with other entities. Therefore, this Standard requires government loan funds appropriated for a government department's use but not repayable by the government department to be recognised as revenues of the government department.

### **Taxes**

- 10.5.9 It is unlikely that taxes, for example, income tax and sales tax, will qualify as revenues of the agency responsible for their collection, for example, the Australian Taxation Office, or the central agency responsible for management of the Consolidated Revenue Fund, Trust Fund or other Fund, for example, Treasury. This is because the agency responsible for collecting taxes does not normally control the future economic benefits embodied in tax collections. Similarly, Treasury may be responsible for bank accounts into which tax collections are deposited, but until parliament has "appropriated" funds for Treasury use or authorised the Treasury to make payments, the Treasury will not control those tax revenues. Accordingly, user charges, fines and fees which are levied or collected but not

controlled by a government department will not be revenues of that government department.

- 10.5.10 However, parliamentary appropriations made to enable the tax collection agency to perform its services are revenues of that agency. This is because the agency has the authority to deploy the appropriated funds for the achievement of its objectives and, consequently, controls the assets arising from the appropriation. Similarly, taxes which are controlled by the tax collection agency and which satisfy the recognition criteria specified in paragraph 10.1 qualify for recognition as revenues in the reporting period during which control is obtained. In most cases, this will be the reporting period in which the tax assessments are due to be issued or during which the tax collections are received.

### **Transfer Payments**

- 10.5.11 Consistent with a government department's objectives and with legislation or other authority, amounts appropriated to government departments may include amounts to be transferred to third parties or recoupment of such amounts previously transferred by the government department. Such transfers may encompass payments for unemployment benefits, family allowances, age and invalid pensions, disaster relief, and grants and subsidies made to other governments or to other government or private sector entities.
- 10.5.12 Whether a government department recognises the amounts appropriated for transfer during the reporting period as revenues, and the amounts transferred during that reporting period as expenses, depends on whether the government department controls the assets to be transferred, and whether the amounts subsequently transferred constitute a reduction in the net assets of the government department.
- 10.5.13 Where amounts are transferred to eligible beneficiaries and the identity of the beneficiaries and the amounts to be transferred to them are determined by reference to legislation or other authority, it is unlikely that the government department controls the funds to be transferred. The government department is merely the agent responsible for the administration of the transfer process. As such, the government department does not benefit from the assets held for transfer, nor does it have the capacity to deny or regulate the access of eligible beneficiaries to the assets. Accordingly, the government department does not recognise assets and revenues in respect of amounts appropriated for transfer, nor expenses in respect of the amounts subsequently transferred.

- 10.5.14 Amounts appropriated to government departments for transfer to eligible beneficiaries in accordance with parameters established by legislation or other authority are not controlled by the government department. Accordingly, amounts appropriated to the government department in respect of, for example, unemployment benefits, age or invalid pensions, family allowances and other social security and community benefit payments are not recognised as revenues and assets by the government department.
- 10.5.15 Although transfers not controlled by a government department do not qualify for recognition in the financial statements, information about their nature and amount is relevant for the assessment of the government department's performance. Therefore, details of the broad categories of recipients and the amounts transferred to those recipients are disclosed in the government department's *general purpose financial report*.
- 10.5.16 In some cases it may not be clear whether the government department controls amounts to be transferred to eligible beneficiaries. For example, amounts may be appropriated to a government department for subsequent transfer, but the government department can exercise significant discretion in determining the amount or timing of payment, the identity of beneficiaries and the conditions under which the payments are to be made. In such cases, preparers and auditors use their judgement in deciding whether the government department controls the amounts to be transferred.
- 10.5.17 Where a government department controls amounts appropriated to it for transfer, those amounts give rise to assets and revenues when the government department gains control of those appropriations. Where a government department controls the appropriations and the conditions for transfer to beneficiaries are satisfied during the reporting period but the amounts have not been transferred as at the reporting date, the government department recognises a liability in respect of such amounts. Where amounts are to be transferred in future reporting periods and the conditions for transfer are also to be satisfied in future reporting periods, the government department does not recognise a liability as at the reporting date in respect of such amounts.

### **Revenues and Expenses Resulting from Restructuring of Administrative Arrangements**

- 10.6** Consequent to a restructuring of administrative arrangements, a transferee government department must recognise the following:

- (a) **assets and, except where the transfer of assets is in the nature of contributions by owners, revenues in respect of assets over which it gains control**
  - (b) **liabilities and, except where the assumption of liabilities is in the nature of a *distribution to owners*, expenses in respect of liabilities which it assumes.**
- 10.7** **Consequent to a restructuring of administrative arrangements, a transferor government department must recognise the following:**
- (a) **revenues in respect of liabilities of the government department which are assumed by other entities, unless that assumption is in the nature of a contribution by owners**
  - (b) **expenses in respect of assets of the government department which are transferred to the *control* of other entities, unless that transfer is in the nature of a *distribution to owners*.**
- 10.8** **Revenues and expenses resulting from a restructuring of administrative arrangements may be disclosed in the operating statement on a net basis.**
- 10.9** **Consequent to a restructuring of administrative arrangements, the transfer of assets and the assumption of liabilities which are in the nature of contributions by owners or distributions to owners must be recognised as a direct adjustment to equity.**
- 10.9.1 Government departments are administrative arrangements of government. Pursuant to legislation or other authority, the control of particular assets may be transferred from one government department to another, a government department may receive goods and services free of charge from another government department, or the liabilities of a government department may be assumed by another entity. In addition, the identity and structure of government departments may be dismantled or restructured by the government. The restructuring process may result in the transfer of assets to, and the assumption of liabilities by, other government departments. It may also result in the termination of some government departments and the creation of new government departments.
- 10.9.2 It is unlikely that the transfer of assets or liabilities from one government department to another pursuant to a restructuring of

administrative arrangements will be in the nature of a contribution by owners or a distribution to owners (see paragraph 11.2.4).

- 10.9.3 Paragraph 7.4 establishes requirements for the recognition of assets acquired as a result of a restructuring of administrative arrangements, and allows such assets to be initially recognised at the amounts at which those assets were recognised by the transferor government department immediately prior to the restructuring of administrative arrangements. In addition, paragraph 10.8 allows revenues and expenses arising from a restructuring of administrative arrangements to be disclosed in the operating statement on a net basis.

### **Contributions such as Grants, Donations and Gifts**

- 10.10 Contributions other than contributions by owners must be recognised as revenues when the contributed assets qualify for recognition.**
- 10.11 Subject to paragraphs 7.4 and 10.12, contributions must be recognised at their *fair value*.**
- 10.12 Contributions of services must be recognised when and only when:**
- (a) the fair value of those services can be reliably determined**
  - (b) the services would have been purchased if they had not been donated.**

### ***Non-Reciprocal Transfers***

- 10.12.1 Contributions to a government department are typically in the form of *non-reciprocal transfers* to the government department. They include amounts received in the form of grants, donations and gifts, and other goods and services provided free of charge or for nominal consideration. This Standard requires contributions, other than contributions by owners, to be recognised as revenues when the government department obtains control over them, irrespective of whether conditions are imposed on the government department's use of the contributions.
- 10.12.2 Contributions do not give rise to a liability as defined in paragraph 17.1. Transfers to an entity only give rise to a liability where the transfers are reciprocal. That is, the transferor and transferee

directly receive and sacrifice approximately equal value. Contributions are non-reciprocal in the sense that the government department is not required to give value in exchange directly to the contributor. Parliamentary appropriations, other than those that give rise to a liability or that are in the nature of a contribution by owners, are a type of contribution. Similarly, assets transferred from one government department to another as a result of a restructuring of administrative arrangements are also contributions. Paragraph 7.4 sets out the requirements for the recognition of assets acquired as a consequence of a restructuring of administrative arrangements.

- 10.12.3 The receipt of contributions imposes a fiduciary responsibility on the management of the government department to use the contributed assets effectively in pursuing the objectives of the department. However, this fiduciary responsibility does not of itself create a present obligation for the government department to make a reciprocal transfer of economic benefits.
- 10.12.4 Where assets are provided to a government department on the condition that the government department makes a reciprocal transfer of economic benefits, and that reciprocal transfer has not occurred prior to the reporting date, the government department recognises a liability as at reporting date in respect of such amounts. A reciprocal transfer occurs where, for example, assets are provided to a government department on the condition that the government department renders particular services to the contributor of the assets and, if the services are not rendered, those assets are required to be remitted directly to the contributor.
- 10.12.5 The timing of the recognition of contributed assets depends upon the point in time at which control of those assets is obtained. This, in turn, will depend on the arrangements that exist between the contributor and the government department. Control normally occurs upon the earlier of the receipt of contributed assets or the notification that a contribution has been secured. In the case of multi-year grant agreements, the grantee government department does not control the contributed assets and therefore does not recognise revenues until the grantor has a present obligation which is binding (see paragraph 8.1.4). For example, the grantee government department does not gain control of assets under a multi-year public policy grant agreement until it has met conditions such as grant eligibility criteria or has provided the services or facilities that make it eligible to receive a contribution. On this basis, under multi-year public policy agreements, revenue would be recognised only in relation to grants received or receivable under any grant agreement.

- 10.12.6 Government departments may receive contributions of goods or services free of charge by way of gift or donation. In addition, assets may be transferred to government departments as a result of a restructuring of administrative arrangements. The assets and revenues recognised by the recipient government department in respect of such contributions or transfers, subject to the requirements of paragraphs 7.4 and 10.12, are measured at the fair value of the goods or services received. This ensures that the operating statement reports the change in resources controlled by the government department as a result of the operations for the reporting period, and that the statement of financial position reports the assets and liabilities of the government department as at the reporting date.
- 10.12.7 A liability and expense are recognised in respect of a contribution previously recognised as revenue when the government department fails to meet the specific conditions attaching to the contribution and the amount is required to be repaid. In these circumstances, the government department has a present obligation to another entity that has arisen as a result of a past event, namely, the failure of the government department to meet the conditions for retention of the contribution.
- 10.12.8 In some cases, the gaining of control over the assets that result from contributions and the consumption of the future economic benefits embodied in those assets will be simultaneous. For example, services donated to a government department give rise to revenue and an asset and, simultaneously, an expense as the future economic benefits embodied in the asset are consumed. Therefore, the net effect of the contribution of services is the recognition of a revenue and an expense. Such recognition is important if the operating statement is to reflect fully the cost of services provided during the reporting period and the sources and amounts of the government department's revenues. Such information is useful in assessing the cost efficiency of a government department's performance and the amounts and sources of likely future resource requirements.
- 10.12.9 Some services donated to a government department, while useful, may not be central to the delivery of the government department's outputs. In these cases, it is unlikely that the government department would purchase the services if they were not donated. Recognition of the fair value of those services as revenues and expenses is not relevant to assessments of the cost of services provided by the government department or the financial performance of the government department. Accordingly, this Standard requires that contributed services only be recognised when the services would be purchased if not donated and when their fair value can be measured reliably.

## 11 Contributions by Owners and Distributions to Owners

- 11.1 **Contributions by owners must be recognised as a direct adjustment to equity when the contributed assets qualify for recognition.**
- 11.2 **Distributions to owners must be recognised as a direct adjustment to equity when the associated reduction in assets, rendering of services or increase in liabilities qualifies for recognition.**
- 11.2.1 Contributions by owners and distributions to owners are *non-reciprocal transfers* between a *government department* and the government acting in its capacity as owner of the government department. Contributions by owners can occur upon establishment of the *entity* or at a subsequent stage of the entity's existence, providing that the contributions establish a financial interest in the net assets of the entity which conveys entitlements both to dividend-type distributions and to distributions of any excess of assets over liabilities in the event of the entity being wound up. Contributions by owners can be in the form of cash, non-monetary assets such as property, plant and equipment, or the provision of services. In some instances, the contribution may result from the conversion of a government department's liabilities into equity.
- 11.2.2 It is important to distinguish contributions by owners from other contributions. It is often argued that contributions which are provided on the condition that they be expended on assets which increase the capacity of a government department to provide particular services should be classified as contributions of equity. However, such contributions are contributions by owners only where they establish a financial interest in the net assets of the government department which conveys entitlement to a financial return on the contribution or which can be sold, transferred or redeemed.
- 11.2.3 Reductions in equity as a result of distributions to government can be in the form of a transfer of assets, a rendering of services or an increase in liabilities. They can also take the form of dividends paid to the government. Distributions to government are made at the discretion of the government.
- 11.2.4 Whether the transactions or other events of a government department are in the nature of contributions by owners or distributions to owners depends on the model of financial

management adopted by the controlling government. Under the model of financial management that has generally been adopted for government departments in Australian jurisdictions to date, transactions or other events in the nature of contributions by owners or distributions to owners do not normally occur. However, some governments have adopted, or are contemplating the adoption of, different models of financial management for government departments. One such model is often referred to as the “owner / purchaser” model. Adoption of the “owner / purchaser” model may involve the establishment of a formal equity base for the government department, and the government department may be required to pay dividends to the government. Under this approach, transactions or other events in the nature of contributions by owners and distributions to owners may occur and will be required to be recognised by government departments.

## **12 Disclosures in General Purpose Financial Reports**

### **Classification According to Nature or Type**

- 12.1** *The assets, liabilities, revenues and expenses of a government department must be classified in the general purpose financial report according to their nature or type. Assets and liabilities must also be classified into current and non-current categories.*
- 12.2** **The following must be disclosed in the general purpose financial report of a government department:**
- (a) user charges, fines and fees *recognised* as revenues in the operating statement, by class**
  - (b) appropriations, by class**
  - (c) liabilities which were assumed during the reporting period by the government or other *entity***
  - (d) the *fair value* of goods and services received free of charge, or for nominal consideration, during the reporting period**
  - (e) separately, the total amounts of any assets and liabilities recognised as a result of a restructuring of administrative arrangements during the reporting period**

(f) *equity, by class.*

- 12.2.1 Classification of assets, liabilities, revenues and expenses according to their nature or type assists users in identifying the significant characteristics of the performance, financial position and financing and investing activities of the government department. The nature or type of the *elements* of financial reports may encompass a number of characteristics and, accordingly, there are a number of ways in which they can be classified. However, the requirements to disclose information about the elements classified according to their nature or type do not preclude disclosure of additional information about the elements classified on a functional basis.
- 12.2.2 Classification of assets on the basis of their nature or type assists the identification of their liquidity, marketability, physical characteristics, or the expected timing of future cash flows to be derived from those assets. Accordingly, infrastructure and heritage assets may be identified separately from other assets.
- 12.2.3 Classification of liabilities on the basis of their nature or type assists the identification of the expected timing of settlement, the sources of the liabilities (for example, trade creditors or employee entitlements) and the manner in which they are likely to be discharged.
- 12.2.4 The disclosure of classes of revenues and expenses and the *fair value* of goods and services received free of charge, or for nominal consideration, during the reporting period enhances the discharge of accountability obligations and assists users to identify such matters as:
- (a) the major components of the government department's cost structure for the reporting period, for example, employee entitlements, office rental expenses and depreciation
  - (b) the extent to which the cost of service delivery has been recovered from recurrent appropriations and user charges
  - (c) the impact of other classes of appropriations and other transactions or events on the resources controlled by the department.
- 12.2.5 This Standard requires the separate disclosure of assets and liabilities recognised as a result of a restructuring of administrative arrangements during the reporting period. In addition, paragraph 10.8 allows revenues and expenses arising from a restructuring of administrative arrangements to be disclosed on a net basis in the operating statement. These disclosures will assist users in

identifying the revenues and expenses which have resulted from the government department's provision of goods and services during the reporting period and those which have resulted from the restructuring process.

- 12.2.6 Equity is the residual interest in the assets of an entity after deduction of its liabilities. The equity interest in a department's net assets is held by the government. Equity can be classified in a number of ways to assist users in identifying its source or nature. Examples of classes of equity include asset revaluation reserves and accumulated changes in net assets resulting from operations.
- 12.2.7 Examples of the disclosures required by this Standard are provided in the Appendix to this Standard.

### **Restricted Assets**

**12.3 Where the use of an asset which is recognised in the statement of financial position of a government department is restricted, wholly or in part, by regulations or other externally-imposed requirements, and information about those restrictions is relevant to assessing the performance or financial position of the government department, the following must be disclosed:**

- (a) the identity and carrying amount of those assets, the use of which is restricted**
- (b) the nature of those restrictions.**

12.3.1 Information about restrictions imposed by legislation or other authority on the manner in which a government department can deploy its assets is relevant in assessing the government department's capacity to provide a greater volume of particular types of services in the short-term, and in assessing the performance and financial position of the government department.

### **Conditions on Contributions**

**12.4 Where a government department:**

- (a) recognises as revenue, contributions for which the contributor has specified the manner in which the related assets are to be expended**

- (b) **has not, as at reporting date, expended those contributions, either in part or in full, in the manner specified by the contributor**

**details of those contributions and the conditions attaching to them must be disclosed in the general purpose financial report.**

- 12.4.1 Where a government department receives contributions on the condition that the related assets shall be expended in a particular manner or used over a particular period, and those conditions are undischarged in part or in full as at the reporting date, the government department will have a strong fiduciary responsibility in relation to the deployment of those contributed assets. This fiduciary responsibility does not constitute a liability of the government department. However, information about conditions on contributions is relevant to users of the government department's general purpose financial report, particularly in assessing the department's performance and the discharge of accountability obligations. Accordingly, this Standard requires disclosure of those conditions where they are yet to be discharged, in part or in full, as at the reporting date.

### **Changes in Equity**

- 12.5 A reconciliation of the opening and closing balances of each class of equity, identifying the nature and amount of any changes in those classes of equity, must be disclosed in the general purpose financial report of a government department.**

- 12.5.1 The legislative or regulatory framework within which government departments operate usually precludes them from establishing cash reserves. Authorisations for government departments to acquire plant and equipment are subject to parliamentary appropriation. Obligations to meet employee entitlements, such as superannuation, are usually assumed by the government and any surplus of appropriated funds either lapses or is returned to the Consolidated Revenue Fund or other Funds. However, in some cases, government departments are able to retain and, within the parameters established by the legislative or regulatory framework, deploy the proceeds from commercial activities in a number of ways. In such cases, government departments can accumulate surpluses over a number of reporting periods and create reserves to signify the intended deployment of that surplus. In addition, where government departments *control* non-current assets and revalue those assets, asset revaluation reserves are created.

- 12.5.2 This Standard requires government departments to disclose transfers to and from reserves, and allows such disclosure to be made by way of note. This requirement overrides the requirement contained in Australian Accounting Standard AAS 1 “Profit and Loss or other Operating Statements” to disclose transfers to and from reserves, to the extent that they affect accumulated surplus (deficiency), in the operating statement after the result for the reporting period.

### **Compliance with Parliamentary Appropriations and Other Externally-Imposed Requirements**

- 12.6 **The following must be disclosed in the general purpose financial report of a government department:**

- (a) **a summary of the recurrent, capital or other major categories of appropriations, disclosing separately:**
  - (i) **the original amounts appropriated for the reporting period**
  - (ii) **the total amounts appropriated for the reporting period**
- (b) **amounts authorised other than by way of appropriation and advanced separately by the Treasurer, other minister or other legislative authority for the reporting period**
- (c) **the expenditures for the reporting period in respect of each of the items disclosed in (a) and (b) above**
- (d) **the reasons for any material variances between the amounts appropriated or otherwise authorised and the associated expenditures for the reporting period**
- (e) **the nature and probable financial effect of any non-compliance by the government department with externally-imposed requirements for the reporting period, not already disclosed by virtue of (d) above, and which are relevant to assessments of the government department's performance, financial position or financing and investing activities.**

- 12.6.1 Parliament appropriates funds for the operations of government departments over a particular period. Amounts are appropriated for nominated purposes and indicate an upper limit on the expenditure

that government departments may make for those purposes. The Treasurer or other authority, pursuant to parliamentary or other authorisation may also advance additional amounts to government departments for nominated purposes.

- 12.6.2 For the purposes of economic decision making, including assessments of accountability, this Standard requires that users of general purpose financial reports be provided with information about the amounts appropriated or otherwise authorised for a government department's use, and whether the government department's expenditures were as authorised. Where spending limits imposed by parliamentary appropriation or other authorisation have not been complied with, information regarding the amount of, and reasons for, the non-compliance is relevant for assessing the performance of management, the likely consequences of non-compliance, and the ability of the government department to continue to provide services at a similar or different level in the future.
- 12.6.3 Broad summaries of the major categories of appropriations and associated expenditures, rather than detailed reporting of appropriations line-item by line-item for each activity, is sufficient for most users of a government department's general purpose financial report. Determining the level of detail and the structure of the summarised information is a matter of judgement. The information disclosed about compliance with externally-imposed requirements should be in a form which is relevant to users of that information, and which reflects the following:
- (a) the operating characteristics of the government department
  - (b) the structure of the appropriations
  - (c) any other requirements which are imposed externally on the government department
  - (d) the general purpose nature of the financial report. The detailed information about compliance with spending mandates required by certain users should be provided in special purpose financial reports.
- 12.6.4 In addition to requirements to comply with expenditure limits imposed by parliamentary appropriations, government departments are subject to a range of legislative, regulatory and other externally-imposed requirements governing their operations. Knowledge of non-compliance with such requirements is relevant for accountability purposes and may affect users' assessments of the government department's performance and likely future operations.

It may also influence decisions about resources to be allocated to that government department in the future.

### **Service Costs and Achievements**

**12.7 The following must be disclosed in the general purpose financial report of a government department:**

- (a) in summarised form, the identity and purpose of each major activity undertaken by the government department during the reporting period**
- (b) if not otherwise disclosed in, or in conjunction with, the government department's general purpose financial report, a summary of the government department's objectives**
- (c) expenses reliably attributable to each of the activities identified in (a) above, showing separately each major class of expenses**
- (d) revenues reliably attributable to each of the activities identified in (a) above, showing separately user charges, revenues from government and other revenues by major class of revenues.**

12.7.1 Government departments are required to achieve service delivery as well as financial objectives. Accordingly, a government department's performance is assessed by reference to the *effectiveness, economy and efficiency* with which the government department achieves its service delivery and financial objectives. Financial information is therefore only a subset of the information necessary to enable an adequate assessment of a government department's performance. Accordingly, the general purpose financial report is presented as part of an annual report which discloses information about such matters as the government department's objectives and service delivery achievements during the reporting period. To enhance the quality of information available for assessing performance, this Standard requires that a summary of the government department's objectives be disclosed in the financial report where the government department's annual report does not include this disclosure.

12.7.2 This Standard also requires disclosure of information about the expenses and revenues attributable to the major activities of a government department for the reporting period, and encourages the disclosure of the assets deployed and liabilities incurred in relation

to those activities. This information is relevant in assessing the effectiveness, efficiency and economy of operations and of resource allocation decisions. It is also necessary for reviewing existing expenditure commitments and service delivery arrangements, and for considering the long-term funding implications of new initiatives.

- 12.7.3 However, in some instances it may not be possible to reliably attribute all expenses and revenues to each of the major activities of a government department. This Standard requires that the general purpose financial report of a government department only disclose, on an activity by activity basis, information about the expenses and revenues which can be reliably attributed to major activities.

#### ***Identifying Major Activities***

- 12.7.4 Judgement is required to identify those activities of a government department which warrant separate disclosure in the general purpose financial report. Exercising this judgement involves a consideration of the following:
- (a) the objectives of the government department
  - (b) the likely users of the general purpose financial report
  - (c) the activity level that may be relevant to users' assessments of the performance of the government department
  - (d) the concept of materiality as set out in Statement of Accounting Concepts SAC 3 "Qualitative Characteristics of Financial Information" and in Australian Accounting Standard AAS 5 "Materiality".

#### **Activities Transferred from One Government Department to Another**

- 12.8 Where activities are transferred from one government department to another government department, the transferee government department must disclose the expenses and revenues attributable to the transferred activities for the reporting period, showing separately those expenses and revenues recognised by the transferor government department during the reporting period.**

- 12.8.1 Where activities are transferred from one government department to another, the transferee government department does not recognise expenses and revenues attributable to the conduct of those activities prior to the transfer. This is because such expenses and revenues do not arise as a result of activities conducted by the transferee government department, but represent the revenues and expenses of another reporting entity. However, information about the cost of particular activities, and the related cost recoveries, is relevant for decision making purposes, including assessments of accountability. Accordingly, this Standard requires a government department which is responsible for a particular activity at reporting date to disclose all of the expenses and revenues related to that activity during the reporting period. Where activities are transferred from one government department to another government department during the reporting period, this disclosure includes those expenses and revenues recognised by the transferor government department.

### **Disclosure of Administered Revenues, Expenses, Assets and Liabilities**

- 12.9 The following must be disclosed in the general purpose financial report of a government department in relation to activities administered by the government department:**

- (a) administered revenues, showing separately:**
  - (i) each major class of revenue**
  - (ii) in respect of each major class of revenue, the amounts reliably attributable to each of the government department's activities and the amounts not attributable to activities**
- (b) administered expenses, showing separately:**
  - (i) each major class of expense**
  - (ii) in respect of each major class of expense, the amounts reliably attributable to each of the government department's activities and the amounts not attributable to activities**
- (c) administered assets, showing separately each major class of asset**

**(d) administered liabilities, showing separately each major class of liability.**

- 12.9.1 A government department's operating statement only recognises revenues and expenses of the government department. Similarly, a government department's statement of financial position only recognises assets which the government department controls and liabilities which involve a future sacrifice of the government department's assets.
- 12.9.2 However, the responsibilities of a government department may encompass the levying or collection of taxes, fines and fees, the provision of goods and services at a charge to recipients, and the transfer of funds to eligible beneficiaries. These activities may give rise to revenues and expenses which are not attributable to the government department. This occurs, for example, where the government department is unable to use for its own purposes the proceeds of user charges, taxes, fines and fees it collects without further authorisation, or where the transfer of funds to eligible beneficiaries does not involve a reduction in the assets recognised in the government department's statement of financial position. In addition, the government department may manage government assets in the capacity of an agent and may incur liabilities which, for example, while involving a future disbursement from the Consolidated Revenue Fund or other Fund will not involve a sacrifice of the assets that the government department controls as at the reporting date. These administered revenues, expenses, assets and liabilities are not recognised in the government department's operating statement or statement of financial position.
- 12.9.3 The tax revenues, user charges, fines and fees administered by a government department and the amount of funds transferred to eligible beneficiaries are an important indicator of the government department's performance in achieving its objectives. Therefore, this Standard requires disclosure of revenues and expenses administered by a government department which are not recognised in the government department's operating statement. Disclosure of this information by major class and by activity will facilitate an assessment of activity costs and cost recoveries, and is therefore relevant to parliamentary decision making and enhances the discharge of accountability obligations.
- 12.9.4 This Standard also encourages the disclosure of information about administered assets and liabilities on an activity basis where those assets and liabilities can be reliably attributed to activities. This is because information about the assets a government department manages for the government in an agency capacity, and the

administered liabilities that have arisen as a result of the activities of the government department is relevant to assessments of performance and accountability.

- 12.9.5 The manner in which administered transactions are displayed in the financial report of a government department will depend on the administrative arrangements adopted by the controlling government, and may therefore vary from jurisdiction to jurisdiction. For example, in some jurisdictions it may be appropriate for administered transactions to be displayed as a separate schedule to the operating statement and the statement of financial position, in accordance with the illustrative financial report set out in the Appendix to this Standard. In other jurisdictions, a government department's accountability for administered transactions may mean that it is appropriate for administered transactions to be displayed with, but clearly distinguishable from, the government department's operating statement and statement of financial position.
- 12.9.6 To facilitate the assessment of the costs incurred and the cost recoveries generated as a result of the government department's activities, administered revenues, expenses, assets and liabilities are reported on the same basis adopted for the recognition of the elements of the financial report. That is, they are accounted for using the accrual basis of accounting and by adopting the accounting standards required to be adopted by this Standard. In some jurisdictions, this may mean that the basis adopted by a government department for reporting administered items may differ from the basis adopted by the government itself.

### **Liabilities that Fail the Recognition Criteria**

- 12.9.7 Consistent with paragraph 8.1 of this Standard, where a liability fails to satisfy either one of the recognition criteria, it is not recognised in the statement of financial position. This Standard encourages the disclosure of the nature and, where they can be measured reliably, the amounts of such liabilities. Disclosure of this information assists users in assessing the financial performance and the present and expected financial position of a government.
- 12.9.8 In most cases, the use of estimation techniques will provide measurements which are sufficiently reliable to enable a liability to be recognised in the financial statements. The need to employ estimation procedures to measure a liability does not mean that it cannot be measured reliably.
- 12.9.9 An example of a transaction which gives rise to a liability but fails to satisfy the recognition criteria because it is not probable that a future

sacrifice of economic benefits will be required is a guarantee provided by a government department to a financier for a loan taken out by an external entity for which default by the external entity is unlikely. A government department recognises the liability only if and when it becomes probable that the borrower will default on the loan and the government department will need to honour the guarantee.

- 12.9.10 An example of a liability that fails the recognition criteria because it cannot be measured reliably may be a claim for damages against a government department that is being contested in a lawsuit. While it may be a present obligation and it may also be probable that a future sacrifice of economic benefits will be required, it may not presently be possible to measure the amount of the claim reliably.

### **Performance Indicators**

- 12.10 Where performance indicators are included in the general purpose financial report of a government department, such indicators must:**

- (a) **satisfy the qualitative characteristics of relevance and reliability**
- (b) **be presented in a manner which satisfies the qualitative characteristics of comparability and *understandability*.**

- 12.10.1 This Standard does not require government departments to report non-financial measures of performance. However, government departments are encouraged to report performance indicators which assist users in assessing the government department's performance in achieving its objectives.

## **13 Frequency, Timeliness and Availability of General Purpose Financial Reports**

- 13.1 The *general purpose financial report* of a government department must be prepared at least annually and be made available to users on a timely basis.**

- 13.1.1 For a government department to meet the objective of general purpose financial reporting set out in Statement of Accounting Concepts SAC 2 "Objective of General Purpose Financial Reporting", its general purpose financial report should be prepared and made readily available on a timely basis. Information that

would otherwise be relevant for economic decision making purposes and for assessments of accountability, is not effective for those purposes if it is not provided on a timely basis. For example, financial information that would have been useful for decision making purposes had it been provided on a timely basis may lose its relevance because the opportunity to react in the most appropriate manner may have been missed.

### **Relationship to the Annual Report**

- 13.1.2 This Standard recommends that the general purpose financial report of a government department should form part of, or be presented in a manner which enables it to be read in conjunction with, the annual report of that government department and, where appropriate, be cross referenced to relevant sections of the annual report. The following information may be included in the annual report of a government department:
- (a) commentary on the policies, objectives and achievements of the government department
  - (b) details of the significant features of the operations of the government department, including any recent changes to those operations
  - (c) a formal statement by the chief executive officer as to the fairness of presentation of the general purpose financial report of the government department in accordance with the requirements of this Standard.

## **14 Initial Application**

- 14.1 Subject to paragraph 15.1 where the accounting policies required by this Standard are not already being applied as at the beginning of the reporting period to which this Standard is first applied, they must be applied as at that date. Where this gives rise to initial adjustments which would otherwise be *recognised* in the operating statement, the net amount of those adjustments must, in accordance with Australian Accounting Standard AAS 1 “Profit and Loss or other Operating Statements”, be adjusted against accumulated surplus (deficiency) or its equivalent as at the beginning of the reporting period to which this Standard is first applied.**

- 14.1.1 Where application of this Standard leads to initial adoption of accrual accounting, the *assets*, *liabilities* and *equity* of the *government department* are recognised as at the beginning of the reporting period of initial adoption such that the operating statement will faithfully represent the *revenues* and *expenses* for the reporting period.

## 15 Transitional Provisions

### Recognition of Certain Assets

- 15.1 A *government department* is encouraged to apply all of the provisions of this Standard from the date it is first adopted. However, the following transitional provisions apply and a government department may elect until:
- (a) reporting periods beginning on or after 1 July 1998 not to recognise any *assets* that are difficult to measure reliably and have been acquired prior to 1 July 1998; and
  - (b) reporting periods beginning on or after 1 July 1999 not to recognise *land under roads* as assets.
- 15.2 Where a government department elects not to recognise certain assets in accordance with paragraph 15.1, the types of assets not being recognised must be disclose in the summary of accounting policies in the financial report.
- 15.3 Where a government department:
- (a) elects not to recognise an asset in accordance with paragraph 15.1 and then subsequently recognises that asset; or
  - (b) before 30 June 2000, recognises a pre-existing but previously unidentified asset or liability for the first time or makes a correction to an amount previously recognised as an asset or liability; or
  - (c) derecognises land under roads in order to adopt the transitional provision in paragraph 15.1(b)
- the corresponding adjustment must be made against accumulated surplus (deficiency).

**15.4 The nature and net amount of each adjustment made during the reporting period in accordance with paragraph 15.3 must be disclosed.**

- 15.4.1 This Standard generally requires that all assets which satisfy the recognition criteria in paragraph 7.1 should be recognised in the statement of financial position. However, to provide an adequate period for government departments to address practical issues relating to implementation of this requirement, this Standard contains transitional provisions for phased implementation of the requirement to recognise all assets.
- 15.4.2 Notwithstanding the transitional provisions in this Standard, government departments are strongly encouraged to recognise all assets at the earliest possible time. For example, this Standard encourages government departments to recognise:
- (a) land under roads as an asset wherever it can be measured reliably, for example, where land under roads has been acquired at a cost of acquisition
  - (b) any individual assets within a class of assets which can be measured reliably, rather than deferring their recognition until the entire class of assets can be measured reliably.
- 15.4.3 A number of factors may influence the difficulty of measuring reliably the carrying amount of an asset. These include the completeness of asset registers and other accounting records, the type of asset, the extent of the asset's similarity to assets deployed by other government departments, and the time which has elapsed since the asset was acquired. Examples of assets for which such difficulties may exist are transport infrastructure, monuments, historic buildings and other heritage assets, and parks and gardens, and the collections held by museums, libraries and art galleries.
- 15.4.4 The transitional provision for land under roads has been provided because a number of practitioners and members of the valuation profession have expressed concerns about whether land under roads can be measured reliably. The transitional provisions will ensure that there is an adequate period within which interested parties can address concerns about the reliable measurement of land under roads.
- 15.4.5 Where a government department elects to adopt the transitional provisions in paragraph 15.1, paragraph 15.2 of this Standard requires disclosure of the types of assets not being recognised. Disclosure of information about assets not recognised in accordance

with the transitional provisions assists users in assessing the nature and possible extent of assets not yet recognised and, accordingly, facilitates better informed assessments of the government department's financial position and performance during the transitional period.

### **Revaluation of a Class of Non-Current Assets**

**15.5 From the beginning of the reporting period to which this Standard is first applied, until the end of the first reporting period ending on or after 30 June 2004, transitional provisions apply in relation to the revaluation of a class of non-current assets. Under those provisions, when revaluing items of property, plant and equipment, a government department may elect to revalue all items within the class being revalued progressively over a 5 year period, rather than comply with the requirement of Australian Accounting Standard AAS 10 “Accounting for the Revaluation of Non-Current Assets”, to revalue all items within the class progressively over a 3 year period.**

15.5.1 Australian Accounting Standard AAS 10 “Accounting for the Revaluation of Non-Current Assets” allows items of property, plant and equipment in a class of non-current assets to be revalued progressively over a 3 year period, providing that such revaluations are conducted in a systematic manner. This Standard encourages compliance with those requirements but allows, until the first reporting period ending on or after 30 June 2004, government departments to progressively revalue items of property, plant and equipment within a class of non-current assets over a 5 year period. For reporting periods ending on or after 30 June 2005, items of property, plant and equipment within a class of non-current assets which is being revalued must not have been revalued more than three years prior to the *reporting date*. This transitional provision has been provided because of the size and magnitude of the asset holdings of some government departments, and because government departments have not had extensive experience in recording and reporting information about non-current assets.

## **16 Comparative Information**

**16.1 Subject to paragraph 16.2, information for the preceding corresponding reporting period which corresponds to the disclosures specified for the current reporting period must be**

**disclosed in the general purpose financial report of a government department.**

**16.2 Comparative amounts need not be disclosed:**

- (a) where on initial application of the requirements of this Standard:**
  - (i) the general purpose financial report has been prepared on a different basis from the report for the preceding corresponding reporting period; or**
  - (ii) the Standard requires initial adoption of particular disclosures; or**
  - (iii) disclosure of the information is impracticable**
- (b) in the first financial report after the establishment of the *reporting entity***
- (c) in respect of information about service costs and achievements which is required to be disclosed by paragraph 12.7, where a significant change in the basis upon which that information is determined makes disclosure of comparative information impracticable.**

16.2.1 Where the basis for determining the information about service costs and achievements required by paragraph 12.7 has changed significantly (for example, from a program basis to an output basis) but it remains practicable to determine comparative information, the exemption provided by paragraph 16.2(c) does not apply. Similarly, where the change in the basis for determining information about service costs and achievements is insignificant, in that it is practicable to make comparative disclosures, such disclosures must be made. For example, where the activities of a government department are defined on an output basis and the activities which are included in a particular output category have changed, comparative information for that category must be disclosed.

## 17 Definitions

### 17.1 In this Standard:

*assets* means future economic benefits controlled by the entity as a result of past transactions or other past events

*contributions* means non-reciprocal transfers to the entity

*contributions by owners* means future economic benefits that have been contributed to the entity by parties external to the entity, other than those which result in liabilities of the entity, that give rise to a financial interest in the net assets of the entity which:

- (a) conveys entitlement both to distributions of future economic benefits by the entity during its life, such distributions being at the discretion of the ownership group or its representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up
- (b) can be sold, transferred or redeemed

*control of an asset* means the capacity of the entity to benefit from the asset in the pursuit of the entity's objectives and to deny or regulate the access of others to that benefit

*control of an entity* means the capacity of an entity to dominate decision making, directly or indirectly, in relation to the financial and operating policies of another entity so as to enable that other entity to operate with it in pursuing the objectives of the controlling entity

*depreciable asset* means a non-current asset having a limited useful life

*distributions to owners* means future economic benefits distributed by the entity to all or part of its ownership group, either as a return on investment or as a return of investment

*economic entity* means a group of entities comprising the parent entity and each of its subsidiaries

*economy* means the extent to which resources of a given quality were acquired at the lowest acquisition cost

*effectiveness* means the extent to which the entity achieved the objectives established for its operations or activities, whether those objectives were expressed in terms of outputs or outcomes

*efficiency* means the extent to which the entity maximised the outputs produced from a given set of inputs or minimised the input cost of producing a given level and quality of outputs

*elements* means assets, liabilities, equity, revenues and expenses

*entity* means any legal, administrative, or fiduciary arrangement, organisational structure or other party (including a person) having the capacity to deploy scarce resources in order to achieve objectives

*equity* means the residual interest in the assets of the entity after deduction of its liabilities

*expenses* means consumptions or losses of future economic benefits in the form of reductions in assets or increases in liabilities of the entity, other than those relating to distributions to owners, that result in a decrease in equity during the reporting period

*fair value* means the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction

*general purpose financial report* means a financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs

*government department* means a government controlled entity, created pursuant to administrative arrangements or otherwise designated as a government department by the government which controls it

*land under roads* means land under roadways, and road reserves, including land under footpaths, nature strips and median strips

***liabilities*** means the future sacrifices of economic benefits that the entity is presently obliged to make to other entities as a result of past transactions or other past events

***non-reciprocal transfer*** means a transfer in which the entity receives assets or services or has liabilities extinguished without directly giving approximately equal value in exchange to the other party or parties to the transfer

***parent entity*** means an entity which controls another entity

***recognised*** means reported on, or incorporated in amounts reported on, the face of the financial statements of the entity (whether or not further disclosure of the item is made in the notes thereto)

***reporting date*** means the end of the reporting period to which the financial report relates

***reporting entity*** means an entity (including an economic entity) in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources

***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

***subsidiary*** means an entity which is controlled by a parent entity.

***understandability*** means that quality of financial information which exists when users of that information are able to comprehend its meaning

## **Government Departments**

- 17.1.1 Government departments are government controlled entities created by administrative arrangements. For the purposes of this Standard, government corporations, statutory authorities and other entities created other than by administrative arrangements are not government departments unless designated as such by the government which controls them.

## **Contributions by Owners**

- 17.1.2 Paragraph 11.2.4 explains that, under the model of financial management that has generally been adopted for government departments in Australian jurisdictions to date, there does not usually occur transactions or other events in the nature of contributions by owners or distributions to owners. However, if a government adopts an “owner / purchaser” or similar model of financial management for its government departments, then transactions or other events in the nature of contributions by owners and distributions to owners may occur.

**APPENDIX**

**EXAMPLE OF A GENERAL PURPOSE  
FINANCIAL REPORT FOR A GOVERNMENT  
DEPARTMENT**

This Appendix forms part of the commentary and is provided for illustrative purposes only. It does not attempt to illustrate every possible disclosure that may be appropriate to the circumstances of particular government departments. Other methods of presentation may equally comply with the accounting standards set out in this Standard. In particular, and as discussed in paragraph 12.9.5 of this Standard, the use of different models of administrative arrangements by different jurisdictions means that the manner in which administered transactions are displayed in the financial report may vary from the manner in which they are displayed in this Appendix.

**ALTERNATIVE 1 – FORMAT HIGHLIGHTING THE NET COST  
OF SERVICES**

**Department XYZ**

**Operating Statement for the reporting period ended 30 June 19X1**

	Note	19X1		19X0	
		\$'000	\$'000	\$'000	\$'000
OPERATING EXPENSES					
Employee entitlements		(429,605)		(336,935)	
Depreciation	5	(27,289)		(25,689)	
Supplies		(27,000)		(25,000)	
Other	6	<u>(43,187)</u>		<u>(30,512)</u>	
<b>TOTAL COST OF SERVICES</b>			<b>(527,081)</b>		<b>(418,136)</b>
OPERATING REVENUES	7				
User charges, fees and fines		33,190		17,675	
Other revenues		<u>80</u>	<u>33,270</u>	<u>70</u>	<u>17,745</u>
<b>NET COST OF SERVICES</b>			<b>(493,811)</b>		<b>(400,391)</b>
REVENUES FROM GOVERNMENT	3				
Recurrent appropriations		375,000		292,851	
Capital appropriations		47,000		13,000	
Other appropriations		19,000		7,000	
Assumption of liabilities		<u>94,567</u>	535,567	<u>84,130</u>	396,981
NET REVENUES FROM DISPOSAL OF NON-CURRENT ASSETS	7(c)		<u>2,890</u>		<u>—</u>
CHANGE IN NET ASSETS BEFORE RESTRUCTURING			44,646		(3,410)
NET REVENUES FROM RESTRUCTURING	7(d)		<u>1,923</u>		<u>—</u>
CHANGE IN NET ASSETS AFTER RESTRUCTURING	12		<u>46,569</u>		<u>(3,410)</u>

**ALTERNATIVE 2 – FORMAT HIGHLIGHTING OPERATING  
RESULT**

**Department XYZ**

**Operating Statement for the reporting period ended 30 June 19X1**

	Note	19X1	19X0	
		\$'000	\$'000	\$'000
OPERATING REVENUES	7			
User charges, fees and fines		33,190		17,675
Other revenues		<u>80</u>	33,270	<u>70</u> 17,745
REVENUES FROM GOVERNMENT	3			
Recurrent appropriations		375,000		292,851
Capital appropriations		47,000		13,000
Other appropriations		19,000		7,000
Assumption of liabilities		<u>94,567</u>	<u>535,567</u>	<u>84,130</u> <u>396,981</u>
TOTAL REVENUES			568,837	414,726
OPERATING EXPENSES				
Employee entitlements		(429,605)		(336,935)
Depreciation	5	(27,289)		(25,689)
Supplies		(27,000)		(25,000)
Other	6	<u>(43,187)</u>	<u>(527,081)</u>	<u>(30,512)</u> <u>(418,136)</u>
OPERATING RESULT BEFORE RESTRUCTURING AND ASSET DISPOSAL			41,756	(3,410)
NET REVENUES FROM DISPOSAL OF NON-CURRENT ASSETS	7(c)		2,890	—
NET REVENUES FROM RESTRUCTURING	7(d)		<u>1,923</u>	—
OPERATING RESULT	12		<u>46,569</u>	<u>(3,410)</u>

**Department XYZ**

**Statement of Financial Position as at 30 June 19X1**

		19X1		19X0	
	Note	\$'000	\$'000	\$'000	\$'000
<b>CURRENT ASSETS</b>					
Cash on hand and deposit accounts		9,196		1,103	
Receivables	9	5,500		1,000	
Other	10	<u>13,139</u>	27,835	<u>14,239</u>	16,342
<b>NON-CURRENT ASSETS</b>					
Plant, equipment and vehicles	11	31,547		25,626	
Land and buildings		471,234		429,700	
Infrastructure		555,819		566,319	
Works of art		<u>156</u>	<u>1,058,756</u>	<u>150</u>	<u>1,021,795</u>
<b>TOTAL ASSETS</b>			<u><b>1,086,591</b></u>		<u><b>1,038,137</b></u>
<b>CURRENT LIABILITIES</b>					
Payables		116		929	
Employee entitlements		1,500		1,462	
Finance leases	18	<u>500</u>	2,116	<u>500</u>	2,891
<b>NON-CURRENT LIABILITIES</b>					
Finance leases	18		<u>4,500</u>		<u>4,000</u>
<b>TOTAL LIABILITIES</b>			6,616		6,891
<b>EQUITY</b>					
Accumulated Surplus	12	948,104		901,535	
Asset Revaluation Reserve		<u>131,871</u>	<u>1,079,975</u>	<u>129,711</u>	<u>1,031,246</u>
<b>TOTAL LIABILITIES AND EQUITY</b>			<u><b>1,086,591</b></u>		<u><b>1,038,137</b></u>

**Department XYZ**  
**Statement of Cash Flows**  
**for the reporting period ended 30 June 19X1**

	Note	19X1 \$'000 Inflows (Outflows)	19X0 \$'000 Inflows (Outflows)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Payments			
Employee entitlements		(335,000)	(246,843)
Supplies		(26,000)	(25,000)
Other		(43,037)	(30,462)
Interest paid		(50)	(50)
Receipts			
User charges, fines and fees		28,690	16,675
Other		80	70
Cash Flows From Government			
Recurrent appropriations		375,000	292,851
Capital appropriations		47,000	13,000
Other appropriations		<u>19,000</u>	<u>7,000</u>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	13	65,683	27,241
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Receipts from sale of building		6,410	—
Payments for purchase of non-current assets	14	<u>(64,000)</u>	<u>(26,500)</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		(57,590)	(26,500)
Net increase in cash held		8,093	741
Cash at the beginning of the reporting period		<u>1,103</u>	<u>362</u>
Cash at the end of the reporting period		<u>9,196</u>	<u>1,103</u>

**Department XYZ Activities Schedule  
Department's Expenses and Revenues and Schedule of Administered  
Expenses and Revenues for the reporting period ended 30 June 19X1**

ACTIVITY	1		2		3		4		GEN
	19X1 \$'000	19X0 \$'000	19X1 \$'000	19X0 \$'000	19X1 \$'000	19X0 \$'000	19X1 \$'000	19X0 \$'000	ATTI 19X1 \$'000
<b>DEPARTMENT'S EXPENSES AND REVENUES</b>									
<b>EXPENSES</b>									
Employee costs	108.000	103.000	107.000	121.000	103.000	—	82.000	85.000	29.605
Depreciation	1.700	1.500	2.000	1.800	300	—	9.000	8.000	14.285
Supplies	5.000	4.500	3.000	1.900	200	—	10.000	9.000	8.800
Other	<u>13.000</u>	<u>2.500</u>	<u>4.000</u>	<u>3.000</u>	<u>12.000</u>	<u>—</u>	<u>11.000</u>	<u>8.500</u>	<u>3.187</u>
<b>TOTAL</b>	<b>127,700</b>	<b>111,500</b>	<b>116,000</b>	<b>127,700</b>	<b>115,500</b>	<b>—</b>	<b>112,000</b>	<b>110,500</b>	<b>55,881</b>
<b>REVENUES</b>									
Government	122.500	108.600	114.000	125.900	113.000	—	96.067	100.000	90.000
User charges and fees	—	—	—	—	—	—	25.591	13.505	100
Fines	5.299	3.000	—	—	950	—	—	—	1.250
Other	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>4.895</u>
<b>TOTAL</b>	<b>127,799</b>	<b>111,600</b>	<b>114,000</b>	<b>125,900</b>	<b>113,950</b>	<b>—</b>	<b>121,658</b>	<b>113,505</b>	<b>96,245</b>
<b>REVENUES LESS EXPENSES</b>	<b><u>99</u></b>	<b><u>100</u></b>	<b><u>(2,000)</u></b>	<b><u>(1,800)</u></b>	<b><u>(1,550)</u></b>	<b><u>—</u></b>	<b><u>9,658</u></b>	<b><u>3,005</u></b>	<b><u>40,362</u></b>
<b>ADMINISTERED</b>									
ADMIN EXPENSES									Note 8(a)
Transfer Payments	—	—	83.830	19.839	—	—	—	—	
<b>TOTAL</b>	<b>—</b>	<b>—</b>	<b>83.830</b>	<b>19.839</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	
ADMIN REVENUES									8(b)
For Transfer	—	—	83.830	19.839	—	—	—	—	
Taxes	45.862	34.858	—	—	—	—	—	—	
Fines	59.580	58.673	—	—	—	—	—	—	
Fees	<u>48.858</u>	<u>34.499</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>37,472</u>
<b>TOTAL</b>	<b><u>154,300</u></b>	<b><u>128,030</u></b>	<b><u>83,830</u></b>	<b><u>19,839</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>37,472</u></b>
<b>REVENUES LESS EXPENSES</b>	<b><u>154,300</u></b>	<b><u>128,030</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>37,472</u></b>

**Department XYZ Activities Schedule**  
**Department's Assets and Liabilities and Schedule of Administered Assets and Liabilities as at 31/12/2019**

ACTIVITY	1		2		3		4		GENE
	19X1 \$'000	19X0 \$'000	19X1 \$'000	19X0 \$'000	19X1 \$'000	19X0 \$'000	19X1 \$'000	19X0 \$'000	ATTR
<b>DEPARTMENT'S ASSETS AND LIABILITIES</b>									
<b>ASSETS</b>									
Current	2,111	1,389	2,145	470	1,267	—	16,275	8,110	6,037
Non-Current	<u>73,889</u>	<u>74,311</u>	<u>104,355</u>	<u>108,030</u>	<u>7,628</u>	—	<u>359,225</u>	<u>359,990</u>	<u>513,659</u>
<b>TOTAL</b>	<u><b>76,000</b></u>	<u><b>75,700</b></u>	<u><b>106,500</b></u>	<u><b>108,500</b></u>	<u><b>8,895</b></u>	—	<u><b>375,500</b></u>	<u><b>368,100</b></u>	<u><b>519,696</b></u>
<b>LIABILITIES</b>									
Current	370	500	435	600	565	—	430	550	316
Non-Current	—	—	—	—	—	—	<u>4,500</u>	<u>4,000</u>	—
<b>TOTAL</b>	<u><b>370</b></u>	<u><b>500</b></u>	<u><b>435</b></u>	<u><b>600</b></u>	<u><b>565</b></u>	—	<u><b>4,930</b></u>	<u><b>4,550</b></u>	<u><b>316</b></u>
<b>ADMINISTERED ASSETS AND LIABILITIES</b>									
Note									
ADMINISTERED ASSETS	8(c)								
Receivables	995	1,270	176	224	—	—	—	—	—
Investments	193,278	210,054	108,720	90,024	—	—	—	—	—
Advances	—	—	15,560	17,190	—	—	<u>31,589</u>	<u>29,721</u>	—
<b>TOTAL</b>	<u><b>194,273</b></u>	<u><b>211,324</b></u>	<u><b>124,456</b></u>	<u><b>107,438</b></u>	—	—	<u><b>31,589</b></u>	<u><b>29,721</b></u>	—
ADMINISTERED LIABILITIES	8(c)								
Creditors	—	—	2,637	2,405	—	—	—	—	6,110
<b>TOTAL</b>	—	—	<u><b>2,637</b></u>	<u><b>2,405</b></u>	—	—	—	—	<u><b>6,110</b></u>

**Department XYZ**

**Summary of Compliance with Externally-Imposed  
Financial Directives for the year ended 30 June 19X1**

	19X1			19X0		
	APPROPRIATION		EXPENDITURE	APPROPRIATION		EXPENDITURE
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	<u>Original</u>	<u>Total</u>		<u>Original</u>	<u>Total</u>	
RECURRENT						
ACTIVITY 1	105,000	112,500	112,500	95,000	95,000	95,000
ACTIVITY 2	172,830	172,830	172,830	119,839	124,839	124,839
ACTIVITY 3	98,000	100,000	100,000	—	—	—
ACTIVITY 4	<u>70,000</u>	<u>73,500</u>	<u>73,500</u>	<u>92,851</u>	<u>92,851</u>	<u>92,851</u>
TOTAL	445,830	458,830	458,830	307,690	312,690	312,690
CAPITAL	47,000	47,000	47,000	13,000	13,000	13,000
OTHER						
SPECIAL PURPOSE	17,500	17,500	17,500	6,000	6,000	6,000
TREASURER'S ADVANCE	<u>1,500</u>	<u>1,500</u>	<u>1,500</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
<b>TOTAL</b>	<b><u>511,830</u></b>	<b><u>524,830</u></b>	<b><u>524,830</u></b>	<b><u>327,690</u></b>	<b><u>332,690</u></b>	<b><u>332,690</u></b>

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*Note: The structure of this schedule should reflect the basis on which amounts are appropriated for the current reporting period. The format appropriate for departments in different jurisdictions could vary considerably.*

**Department XYZ**

**Notes to the Financial Statements  
for the reporting period ended 30 June 19X1**

**1. Objectives and Funding**

*(a) Objectives and funding*

The Department's objectives are to ....

The Department is predominantly funded by Parliamentary appropriations. It provides the following services on a fee for service basis: .... (*identify services*). The fees charged are determined by prevailing market forces. The financial report encompasses special deposit accounts and all Funds through which the Department controls resources to carry on its functions.

In the process of reporting on the Department as a single entity, all intra-entity transactions and balances have been eliminated.

*(b) Funds held in trust*

The Department holds contractors' retention monies in a trustee capacity. These monies are excluded from the financial statements as the Department cannot use them for the achievement of its objectives. The following is a summary of the transactions in the trust account:

	\$
Balance as at 1 July 19X0	6,000
Receipts	<u>100,000</u>
	106,000
less Payments	<u>94,000</u>
Balance as at 30 June 19X1	<u><u>12,000</u></u>

**2. Significant Accounting Policies**

*(a) Basis of accounting*

The financial report has been prepared in accordance with applicable Australian Accounting Standards. It has been prepared using the accrual basis of accounting and historical cost accounting, with the exception that all infrastructure assets, buildings, land and works of art are revalued to their written-down current cost at least every X years .... (*identify frequency*). The accrual basis of accounting has been

adopted in respect of information disclosed in the schedule of Administered Expenses and Revenues and the schedule of Administered Assets and Liabilities. The accounting policies adopted for the reporting period are consistent with those of the previous reporting period.

The financial report has been prepared consistent with the requirements of the .... (*identify relevant Act(s) or other authority.*)

*(b) Appropriations*

Appropriations, whether recurrent, capital, special or other are recognised as revenues in the period in which the Department gains control of the appropriated funds. Except for .... (*identify any exceptions*), control arises in the period of appropriation.

*(c) Depreciation of non-current assets*

All non-current assets having a limited useful life are systematically depreciated over their useful lives in a manner which reflects the consumption of their future economic benefits.

Heritage assets controlled by the Department are works of art. They are anticipated to have very long and indeterminate useful lives. Their future economic benefits have not, in any material sense, been consumed during the reporting period. As such, no amount for depreciation has been recognised in respect of them.

Depreciation is provided for on a reducing balance basis, using rates which are reviewed annually. Major depreciation periods are:

Vehicles	3-7 years
Plant and equipment	10-20 years
Buildings	20-40 years
Infrastructure	
Type A	55-80 years
Type B	45-70 years
Type C	60-90 years

*(d) Employee entitlements*

Employee entitlements include entitlements to wages and salaries, long-service leave, recreational leave and superannuation benefits. Long-service leave is recognised on a pro-rata basis in respect of services provided by employees up to the reporting date. Liabilities

in respect of these entitlements are assessed having regard to such factors as experience of employee departures and periods of service.

The superannuation expense for the period is determined by the Government Actuary. It reflects the present value of anticipated future payments to be made to beneficiaries as a result of membership to date.

(e) *Leases*

The Department's rights and obligations under finance leases, which are leases that effectively transfer to the Department substantially all of the risks and benefits incident to ownership of the leased items, are initially recognised as assets and liabilities equal in amount to the present value of the minimum lease payments. The assets are disclosed as plant, equipment and vehicles under lease, and are amortised to the operating statement over the period during which the Department is expected to benefit from the use of the leased assets. Minimum lease payments are allocated between interest expense and reduction of the lease liability, according to the interest rate implicit in the lease.

Lease liabilities are allocated between current and non-current components. The principal component of lease payments due on or before the end of the succeeding reporting period is disclosed as a current liability, and the remainder of the lease liability is disclosed as a non-current liability.

The Department has entered into a number of operating lease agreements for buildings and office equipment where the lessors effectively retain all of the risks and benefits incident to ownership of the items held under the operating leases. Equal instalments of the lease payments are charged to the operating statement over the lease term as this is representative of the pattern of benefits to be derived from the leased property.

3. **Appropriations**

(a) *Reconciliation of appropriations to government revenues*

	19X1	19X0
	\$'000	\$'000
Total Appropriations	524,830	332,690
Appropriations Not Recognised in the Operating Statement		
– Transfer payments	<u>(83,830)</u>	<u>(19,839)</u>
Net Cash from Government	441,000	312,851

Other Government Revenues – Assumption of Liabilities	<u>94,567</u>	<u>84,130</u>
Total Government Revenues	<u>535,567</u>	<u>396,981</u>

(b) *Transfer payments*

The Department is responsible for transfers to eligible beneficiaries consistent with the requirements of .... (*identify legislation or other authority*). The Department does not control amounts for transfer, but it acts only as an agent. Consistent with the requirements of .... (*the authority identified above*), during the reporting period the Department received and transferred \$83,830,000 (19X0: \$19,839,000) (see also note 8).

(c) *Assumption of liabilities*

During the reporting period, the Government agreed to settle the Department's obligations in respect of the following items:

	19X1 \$'000	19X0 \$'000
Employee Entitlements		
Long-Service Leave	7,052	6,523
Superannuation	<u>87,515</u>	<u>77,607</u>
	<u>94,567</u>	<u>84,130</u>

(d) *Material variances*

(*Include an explanation of the reasons for any material variances between appropriations and expenditures as identified in the Summary of Compliance with Externally-Imposed Financial Directives.*)

(e) *Compliance with externally-imposed requirements*

(*Disclose the nature and probable financial effect of any non-compliance with externally-imposed requirements if information is relevant to assessments of performance, financial position or financing and investing activities.*)

4. **Activities of the Department**

(a) *Department's activities*

Information about the Department's activities and the expenses, revenues, assets and liabilities which are reliably attributable to those activities is set out in the Activities Schedule. Information about expenses, revenues, assets and liabilities administered by the

Department are given in the schedule of Administered Expenses and Revenues and the schedule of Administered Assets and Liabilities (see also note 8).

Activity 3 was transferred from Department AA to the Department as a consequence of a restructuring of administrative arrangements during the reporting period. Department AA recognised expenses and revenues amounting to \$7,369,000 and \$7,300,000 respectively during the reporting period in respect of Activity 3.

The Department's control over Activity N was terminated during the reporting period. Expenses, revenues, assets and liabilities of the Department in respect of Activity N for 19X0 and 19X1 are included under the heading "General – Not Attributed" in respect of each of those years.

The amount of "other" revenues included in the General – Not Attributed column in the Activities Schedule includes the gain on disposal of buildings and the gain on restructuring of administrative arrangements.

*(If a department's budget was prepared on an accrual basis, it would be useful to include a comparison of budget to actual. Budgeted expenses and user charges, fines, fees etc. establish a benchmark against which actual expenses and user charges, fines, fees etc. could be compared. Such comparisons may provide valuable input to the assessment of the achievement of cost, cost recovery and targets.)*

(b) *Activities summary*

(i) *Activity 1*

**Objective:** *(Description, identify changes from 19X0.)*

**Intended Outputs:** *(If disclosed, include description and identify changes from 19X0.)*

**Key Performance Measures:** *(If disclosed, include explanation of the nature of the indicators, the basis of their calculation, and a description of their purpose and factors influencing their interpretation. Include relevant details of any transfer payments, for example, the type, amounts received for transfer and amounts transferred, and broad categories of recipients.)*

Outputs and Other Key  
Indicators of Performance

	Actual 19X1	Actual 19X0
A	X	X
B	X	X
C	X	X
D	X	X

*(Identify key indicators of performance used for 19X0 but not used in 19X1, and reasons for their non-use.)*

Some taxes, fines and fees collected as part of this activity are not controlled by the Department and therefore are not recognised as revenues of the Department. They are disclosed in the schedule of Administered Expenses and Revenues.

*(ii) Activities 2, etc.*

*(Present information on the same basis as for Activity 1.)*

	19X1	19X0
	\$'000	\$'000
<b>5. Depreciation Expense</b>		
Depreciation expense for the reporting period was charged in respect of:		
Plant, equipment and vehicles	2,189	2,113
Buildings	14,600	13,600
Infrastructure	<u>10,500</u>	<u>9,976</u>
	<u>27,289</u>	<u>25,689</u>
	19X1	19X0
	\$'000	\$'000
<b>6. Other Expenses</b>		
Other expenses for the reporting period include:		
Buildings and infrastructure maintenance	28,000	21,966
Services, utilities and operating leases	14,187	8,546
Other	<u>1,000</u>	<u>—</u>
	<u>43,187</u>	<u>30,512</u>

7. **Revenues**

(a) *User charges, fines and fees*

	19X1 \$'000	19X0 \$'000
User charges		
x (specify by class)	9,957	5,302
y	8,297	4,419
Fines		
a (specify by class)	4,979	2,651
b	2,655	1,414
Fees		
n (specify by class)	3,983	2,121
m	<u>3,319</u>	<u>1,768</u>
Total	<u>33,190</u>	<u>17,675</u>

Proceeds from the sale of goods and services are recognised as revenues as they are controlled by the Department and can be deployed for the achievement of its objectives. They are not required to be paid to the Consolidated Revenue Fund (or other Funds which the Department does not control).

(b) *Restrictions on Contributions Received*

The Department received contributions of \$70,000 from *(identify contributor)* expressly for the purposes of *(identify conditions attaching to contributions)*. As at 30 June 19X1, \$30,000 of those contributions, which have been recognised as revenues in the operating statement, are yet to be spent in the manner specified by the contributor.

(c) *Net Revenues from Disposal of Non-Current Assets*

	19X1 \$'000	19X0 \$'000
Proceeds from disposal of building	6,410	—
Less: written-down value of building	<u>3,520</u>	<u>—</u>
Net Revenues	<u>2,890</u>	<u>—</u>

(d) *Net Revenues from Restructuring of Administrative Arrangements*

As a result of a restructuring of administrative arrangements the Department assumed responsibility for the delivery of the following activities during the reporting period *(identify the activities assumed - for example, Activity 3 as identified below)*. In addition, the Department relinquished its responsibility for the following activities *(identify the activities transferred to other departments - for example, Activity N as identified below)*.

Assets assumed by the Department as a result of the assumption of Activity 3 are recognised in the statement of financial position at the carrying amount of those assets in the transferor Department's (Department AA) statement of financial position immediately prior to the transfer.

In respect of the activities assumed, the following assets and liabilities were recognised:

	19X1		19X0	
	\$'000	\$'000	\$'000	\$'000
Activity 3				
Assets				
Plant and equipment	8,761		-	
Liabilities				
Payables	<u>(245)</u>	8,516	<u>-</u>	-

In respect of the activities relinquished, the following assets and liabilities were transferred:

Activity N				
Assets				
Plant and equipment	(6,000)			
Vehicles	(1,651)		=	
Liabilities				
Payables	<u>1,058</u>	<u>(6,593)</u>	<u>-</u>	<u>-</u>
Net Revenues from Restructuring		<u>1,923</u>		<u>=</u>

In respect of Activity 3 which was assumed from Department AA on 1 January 19X1, Department AA has recognised revenues of \$7,300,000 and expenses of \$7,369,000 in its operating statement for the reporting period ended 30 June 19X1. Accordingly, the total revenues and expenses in respect of Activity 3 recognised by Departments XYZ and AA for the year ended 30 June 19X1 are \$121,250,000 and \$122,869,000 respectively.

(e) *Goods and Services Received Free of Charge or for Nominal Consideration*

*(Disclose the fair value of goods and services received free of charge, or for nominal consideration, during the reporting period.)*

8. **Administered Transactions**

(a) *Administered Expenses*

The Department makes various transfer payments to eligible beneficiaries in the capacity of an agent responsible for the administration of the transfer process. Amounts relating to these transfer payments are not controlled by the Department, since they are made at the discretion of Government in accordance with Government policy.

These transfer payments are disclosed as "Administered Expenses" in the schedule of Administered Expenses and Revenues.

(b) *Administered Revenues*

The Department receives appropriations from the Government for transfer payments to eligible beneficiaries (see Administered Expenses). Amounts relating to these transfer payments, user charges, fees and fines, and other amounts collected but not controlled by the Department are not recognised as revenues in the Operating Statement or the Activities Schedule.

These amounts are disclosed as "Administered Revenues" in the schedule of Administered Expenses and Revenues.

(c) *Administered Assets and Liabilities*

Assets and liabilities administered by the Department for the Government are not recognised in the Statement of Financial Position or the Activities Schedule. They are disclosed as "Administered Assets and Liabilities" in the schedule of Administered Assets and Liabilities.

	19X1	19X0
	\$'000	\$'000
9. <b>Receivables</b>		
User charges, fines and fees	6,050	1,100
Less: provision for doubtful debts	<u>550</u>	<u>100</u>
	<u>5,500</u>	<u>1,000</u>
10. <b>Other Current Assets</b>		
Prepayments	271	371
Supplies	<u>12,868</u>	<u>13,868</u>
	<u>13,139</u>	<u>14,239</u>

	19X1		19X0	
	\$'000	\$'000	\$'000	\$'000
<b>11. Non-Current Assets</b>				
Plant, equipment and vehicles at cost	24,085		19,219	
less: accumulated depreciation	<u>5,157</u>	18,928	<u>3,484</u>	15,735
Plant, equipment and vehicles under lease at cost	16,057		12,813	
less: accumulated amortisation	<u>3,438</u>	12,619	<u>2,922</u>	9,891
Buildings at independent valuation of current cost as at 30 June 19X1	468,259		412,125	
less: accumulated depreciation	<u>97,025</u>	371,234	<u>82,425</u>	329,700
Land at independent valuation of current cost as at 30 June 19X1		100,000		100,000
Type A Infrastructure <sup>1</sup> at independent valuation of current cost as at 30 June 19X0*	240,893		240,893	
less: accumulated depreciation	<u>51,679</u>	189,214	<u>48,179</u>	192,714
Type B Infrastructure at independent valuation of current cost as at 30 June 19X0*	297,946		297,946	
less: accumulated depreciation	<u>64,489</u>	233,457	<u>59,589</u>	238,357
Type C Infrastructure at independent valuation of current cost as at 30 June 19X0*	169,060		169,060	
less: accumulated depreciation	<u>35,912</u>	133,148	<u>33,812</u>	135,248
Works of art at independent valuation of current cost as at 30 June 19X1*		<u>156</u>		<u>150</u>
		<u>1,058,756</u>		<u>1,021,795</u>

\*The valuations were undertaken by *(name and qualifications)*.  
*(Identify those assets the uses of which are restricted, wholly or partially, by regulations or other externally-imposed requirements where information about those restrictions is relevant to assessments of performance or financial position, and the nature of those restrictions.)*

<sup>1</sup> "Infrastructure assets" is a generic term. Some departments may not control infrastructure assets. Where they do control such assets, descriptions identifying the classes of infrastructure assets, rather than the term "infrastructure assets" itself, should be used. As such, the term "infrastructure assets" may not appear in the financial report.

12. **Equity and Changes in Equity**

Equity represents the residual interest in the net assets of the Department. The Government holds the equity interest in the Department on behalf of the community. The asset revaluation reserve represents that portion of equity resulting from the revaluation of non-current assets.

	Accumulated Surplus		Asset Revaluation Reserve		Total	
	19X1 \$'000	19X0 \$'000	19X1 \$'000	19X0 \$'000	19X1 \$'000	19X0 \$'000
Balance as at the beginning of the period	901,535	904,945	129,711	65,310	1,031,246	970,255
Change during period	<u>46,569</u>	<u>(3,410)</u>	<u>2,160</u>	<u>64,401</u>	<u>48,729</u>	<u>60,991</u>
Balance as at the end of the period	<u>948,104</u>	<u>901,535</u>	<u>131,871</u>	<u>129,711</u>	<u>1,079,975</u>	<u>1,031,246</u>

	19X1 \$'000	19X0 \$'000
Revaluations recognised during the reporting period were in respect of:		
Buildings	2,154	–
Works of art	6	–
Infrastructure	<u>–</u>	<u>64,401</u>
	<u>2,160</u>	<u>64,401</u>

13. **Alternative 1 - Reconciliation of Net Cash used in Operating Activities to Net Cost of Services, where net cost of services format for operating statement is adopted**

For the purposes of the statement of cash flows, cash includes cash on hand and deposit accounts.

	19X1 \$'000	19X0 \$'000
Net cash from operating activities	65,683	27,241
Cash flows from Government	(441,000)	(312,851)
Increase in employee entitlements	(94,605)	(90,092)
Depreciation	(27,289)	(25,689)
Increase / (decrease) in other current assets	(1,100)	100
Increase in receivables	<u>4,500</u>	<u>900</u>
Net cost of services	<u>(493,811)</u>	<u>(400,391)</u>

**Alternative 2 - Reconciliation of Net Cash used in Operating Activities to Operating Result, where format highlighting operating result for operating statement is adopted**

For the purposes of the statement of cash flows, cash includes cash on hand and deposit accounts.

	19X1 \$'000	19X0 \$'000
Operating result	46,569	(3,410)
Cash Flows from Government	441,000	312,851
Depreciation	27,289	25,689
Gain from disposal of non-current assets	(2,890)	—
Gain from restructuring	(1,923)	—
Government revenues	(535,567)	(396,981)
Increase in employee entitlements	94,605	90,092
Increase in receivables	(4,500)	(900)
(Increase)/decrease in other current assets	<u>1,100</u>	<u>(100)</u>
Net Cash from Operating Activities	<u>65,683</u>	<u>27,241</u>

14. **Purchase of Non-Current Assets**

	19X1 \$'000	19X0 \$'000
Payments for acquisition of buildings	57,500	26,500
Payments for acquisition of plant and equipment	<u>6,500</u>	<u>—</u>
	<u>64,000</u>	<u>26,500</u>

*(Payments for acquisition of plant and equipment include an amount of \$2,744,000 for repayment of principal on finance leases. If material, this item would be disclosed in the statement of cash flows as a "financing activity".)*

15. **Non-Cash Financing and Investment Activities**

(a) *Assumption of Liabilities*

During the reporting period, the Government agreed to settle the Department's obligation in respect of employee entitlements amounting to \$94,567,000 (19X0 - \$84,130,000) (refer note 3(c)).

(b) *Plant and Equipment*

During the reporting period, the Department acquired plant and equipment with an aggregate fair value of \$3,244,000 (19X0 - \$2,500,000) by means of finance leases. A portion of this amount has been paid during the year and is included in the purchase of non-current assets (refer note 14).

(c) *Net Revenues from Restructuring of Administrative Arrangements*

During the reporting period, as a result of a restructuring of administrative arrangements, assets and liabilities amounting to \$8,761,000 and \$245,000 respectively were transferred to the Department from the transferor Department (Department AA). In addition, assets and liabilities amounting to \$7,651,000 and \$1,058,000 respectively were transferred from the Department as a result of the relinquishment of responsibilities for Activity N (refer note 7(c)).

16. **Commitments for Capital Expenditure**

At the reporting date, the Department had entered into contracts for the following capital expenditures:

	19X1 \$'000	19X0 \$'000
Plant and equipment	3,755	2,600
Infrastructure type B	<u>3,000</u>	<u>1,619</u>
	<u>6,755</u>	<u>4,219</u>
These expenditures are due for payment:		
Not later than one year	1,897	374
Later than one year and not later than five years	3,358	2,745
Later than five years	<u>1,500</u>	<u>1,100</u>
	<u>6,755</u>	<u>4,219</u>

17. **Operating Lease Commitments**

At the reporting date, the Department had the following obligations under non-cancellable operating leases (these obligations are not recognised as liabilities):

	19X1 \$'000	19X0 \$'000
Not later than one year	721	786
Later than one year and not later than five years	2,034	2,350
Later than five years	<u>342</u>	<u>600</u>
	<u>3,097</u>	<u>3,736</u>

18. **Finance Lease Commitments**

At the reporting date, the Department had the following obligations under finance leases (the sum of which is recognised as a liability after deduction of future finance lease charges included in the obligation):

	19X1 \$'000	19X0 \$'000
Not later than one year	550	550
Later than one year and not later than five years	2,950	2,950
Later than five years	<u>7,500</u>	<u>6,900</u>
Minimum lease payments	11,000	10,400
Deduct: future finance charges	<u>6,000</u>	<u>5,900</u>
Lease liability	<u>5,000</u>	<u>4,500</u>
Classified as:		
Current	500	500
Non-Current	<u>4,500</u>	<u>4,000</u>
	<u>5,000</u>	<u>4,500</u>

## **BACKGROUND TO REVISION**

This section does not form part of the Standard. It is a summary of the reasons for the current revision to the superseded Standard.

- 1 The reissue of the Standard follows consideration by the Public Sector Accounting Standards Board (PSASB) of the issues arising from the application by government departments of the superseded Standard.

### **Noteworthy Differences from the Superseded Standard**

- 2 The Standard retains the basic content and clarifies certain requirements of the superseded Standard. The principal changes to the superseded Standard are as follows:
  - (a) to allow pre-existing assets that are difficult to measure to be recognised at any time up to reporting periods beginning on or after 1 July 1998, and to require the corresponding entry to be made directly against accumulated surplus (deficiency)
  - (b) in respect of disclosures about service costs and achievements, to provide an exemption from the general requirement to provide comparative information where there has been a significant change in the basis for determining the information.
- 3 In a number of instances the text of the Standard has been modified in order to simplify the Standard. These simplifications do not alter the requirements of the Standard.