Australian Accounting Standard **AAS 31**

June 1998

Financial Reporting by Governments

Prepared by the
Public Sector Accounting Standards Board of the
Australian Accounting Research Foundation

Issued by the
Australian Accounting Research Foundation
on behalf of the **Australian Society of Certified Practising Accountants** and **The Institute of Chartered Accountants in Australia**

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ISSN 1034-3717

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Defined words appear in *italics* the first time they appear in a section. The definitions are in Section 22. Standards are printed in **bold** type and commentary in light type.

MAIN FEATURES OF THE STANDARD

Full Accrual Basis of Accounting

The Standard requires adoption of the full accrual basis of accounting. This means that assets, liabilities, revenues and expenses arising from transactions or other events must be recognised in the financial statements when they have an economic impact on the government, regardless of when the associated cash flows occur.

The Composition of the Government Reporting Entity

The Standard requires the general purpose financial reports of governments to encompass the assets they control, the liabilities they have incurred, and the related revenues and expenses, irrespective of whether those items arise directly or through controlled entities. Accordingly, the general purpose financial reports of governments need to be prepared by consolidating the financial statements of controlled entities in accordance with Australian Accounting Standard AAS 24 "Consolidated Financial Reports". This requirement is based on the view that the general purpose financial reports of governments should provide a comprehensive overview of their financial performance, financial position, and financing and investing activities.

Specific guidance on applying the concept of control in the context of general purpose financial reporting by governments is included in this Standard.

Financial Reporting by the Government as a Parent Entity or "Residual" Entity

The Standard applies to the preparation of consolidated financial reports by the Commonwealth Government, the governments of the states of New South Wales, Queensland, South Australia, Tasmania, Victoria and Western Australia, and the governments of the Australian Capital Territory and the Northern Territory. The requirements of the Standard concerning the composition of the government reporting entity and the information to be included in the general purpose financial reports of governments are not affected by whether financial reports are prepared for the government as a parent or for the government as a "residual" entity.

Financial Statements and Notes

The Standard requires governments to prepare an operating statement, a statement of financial position and a statement of cash flows. It also requires the general purpose financial reports of a government to include notes which report disaggregated information relating to the financial performance and financial position showing the government's activities and other items relevant to users' needs.

Recognition and Measurement of Non-Current Assets

The Standard requires the assets a government controls, including "infrastructure", "heritage" and "community" assets that can be measured reliably, to be recognised in a government's statement of financial position.

It also encourages the measurement of non-current physical assets at their written-down current cost. The PSASB has not mandated a measurement basis for the non-current physical assets of governments because this would effectively impose that measurement basis on a government's controlled entities, and because this would pre-empt the outcome of the Board's joint project with the Australian Accounting Standards Board on "Measurement of the Elements of Financial Statements".

Compliance with other Australian Accounting Standards

The Standard requires compliance with other Australian Accounting Standards, except that:

(a) Australian Accounting Standard AAS 16 "Financial Reporting by Segments" and Australian Accounting Standard AAS 22 "Related Party Disclosures" need not be applied;

(b) governments may be expressly excluded from applying some Australian Accounting Standards that are issued in the future; and

(c) some requirements in other Australian Accounting Standards have been overridden by requirements in this Standard. They are the requirements in:

    (i) Australian Accounting Standard AAS 10 "Accounting for the Revaluation of Non-Current Assets", which requires all assets within a class of non-current assets that is being revalued to be revalued within a 3 year period. Instead, until the beginning of the first reporting period ending on or after 30 June 2004, this Standard allows assets within a class of non-current assets to be revalued over a 5 year period. This transitional provision has been allowed to enable governments to develop asset accounting systems which will comply with the requirements of AAS 10 in this respect;

(ii) Australian Accounting Standard AAS 1 "Profit and Loss or other Operating Statements", which requires transfers to and from reserves affecting the accumulated surplus or deficit to be disclosed after the operating result in the operating statement. This Standard allows that information to be disclosed in a note in the general purpose financial report. The exemption is based on the view that the information about transfers to and from reserves may detract from the other information disclosed in the operating statement;

(iii) Australian Accounting Standard AAS 24 "Consolidated Financial Reports", which requires the separate disclosure of the capital, retained surplus or accumulated deficit, and reserves comprising the outside equity interest in the statement of financial position. This Standard allows that information to be disclosed in a note in the general purpose financial report. The exemption is based on the view that information about the components of the outside equity interest may detract from the other information in the statement of financial position; and

(iv) Australian Accounting Standard AAS 28 "Statement of Cash Flows", which requires separate disclosure of details about unused loan and credit facilities. This Standard does not require these disclosures because they are not meaningful in the context of governments.

AUSTRALIAN ACCOUNTING STANDARD

AAS 31 "FINANCIAL REPORTING BY GOVERNMENTS"

1 Application

1.1 For the purposes of this Standard, each of the Commonwealth, State and Territory Governments is a *reporting entity* and is therefore required to prepare *general purpose financial reports*. This Standard applies to those general purpose financial reports.

2 Operative Date

2.1 This Standard must be applied to reporting periods ending on or after 30 June 1999.

2.2 This Standard may be applied to reporting periods ending before 30 June 1999.

2.3 When operative, this Standard supersedes Australian Accounting Standard AAS 31 as issued in November 1996.

3 Purpose of Standard

3.1 The purpose of this Standard is to set out standards for *general purpose financial reporting* by the Commonwealth Government, the governments of New South Wales, Queensland, South Australia, Tasmania, Victoria, Western Australia, the Australian Capital Territory and the Northern Territory.

3.2 Commonwealth, State and Territory Governments are *reporting entities*, and should prepare general purpose financial reports, because there are users who depend on the financial information contained in them for making and evaluating decisions about the allocation of resources. Users of the general purpose financial reports of governments include parliamentarians, the public, providers of finance, the media and other analysts. General purpose financial reports will also assist governments to discharge their financial accountability.

3.2.1 This Standard requires governments to prepare accrual-based general purpose financial reports which include the *assets* they *control*, the *liabilities* they have incurred, and their *revenues* and *expenses* so that their financial reports provide users with a comprehensive summary of their financial performance, financial position, and financing and investing activities. Users are not able to obtain this overview by analysing all of the individual financial reports of the many *entities* which a government controls.

3.2.2 Accrual accounting is where assets, liabilities, *equity*, revenues and expenses are *recognised* in the reporting periods to which they relate, regardless of when cash is received or paid. In contrast, the cash basis of accounting records the effect of financial activity only when cash is received or paid. Accrual accounting provides better information about financial performance, financial position and financing and investing activities because it records assets and liabilities (as well as amounts received or paid during the current period). As a consequence, accrual-based financial reports prepared by governments for a given period will differ significantly from cash-based financial reports covering the same period. For example, the following information is evident in accrual-based financial reports but not cash-based financial reports:

(a) non-cash assets such as land, buildings, motor vehicles and plant and equipment and their depreciation;

(b) the value of "receivables" (such as the amount owing to governments from others but not yet received) and the value of "payables" (such as amounts owed by governments for goods that have been purchased but not yet paid for);

(c) liabilities, including those relating to employee entitlements which have not yet been paid and long-term contractual obligations;

(d) the changing value of a government's financial assets and liabilities, such as changes to amounts owed to overseas lenders resulting from exchange-rate movements; and

(e) the full cost of government activities for the period, the revenues generated for the period, and any differences therein.

4 Qualitative Characteristics

4.1 The information included in the g*eneral purpose financial reports* of a *government* must possess the qualitative characteristics of *relevance, reliability, comparability* and understandability, as set out in Statement of Accounting Concepts SAC 3 "Qualitative Characteristics of Financial Information".

5 Application of Materiality

5.1 In accordance with Australian Accounting Standard AAS 5 "Materiality", the standards specified in this Standard apply to the *general purpose financial report* of a *government* where information resulting from their application is material. Information about a government is material if its omission, misstatement or non-disclosure has the potential to adversely affect:

(a) decisions about the allocation of scarce resources made by users of the government's general purpose financial report; or

(b) the discharge of accountability by the government.

5.1.1 In deciding whether an item is material, its nature and amount usually need to be evaluated together.

6 General Purpose Financial Report to be Prepared in Accordance with Australian Accounting Standards

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

6.2 The general purpose financial report of a government need not be prepared in accordance with Australian Accounting Standards AAS 16 "Financial Reporting by Segments" and AAS 22 "Related Party Disclosures". The applicability to

governments of Australian Accounting Standards issued subsequent to this Standard will be evident from the application paragraphs of each of those Standards.

6.2.1 At the time of issue of this Standard, the requirements of all Australian Accounting Standards, other than Australian Accounting Standards AAS 16 "Financial Reporting by Segments" and AAS 22 "Related Party Disclosures" must be applied by governments unless they are overridden by the requirements of this Standard. Paragraphs 15.3, 15.9, 15.10 and 21.3 detail the requirements of other existing Australian Accounting Standards which are overridden by this Standard.

7 Compliance with Legal and Other Authoritative Requirements

7.1 ***Governments*** **may be subject to detailed financial reporting requirements set out in, or pursuant to, legislation. To the extent that these requirements are additional to (but do not conflict with) the requirements of this Standard, the former requirements would apply in addition to (and not instead of) the requirements of this Standard. Where these requirements conflict with the requirements of this Standard, such information should not be displayed in the** ***general purpose financial report*** **of a government. Instead, that information could be displayed in a special purpose financial report.**

7.1.1 This Standard does not preclude the disclosure of information about compliance with Parliamentary appropriations in the general purpose financial report. Where information about compliance is not included in the general purpose financial report, it may be useful for a note in the report to refer to the documents which include that information.

7.1.2 Statement of Accounting Concepts SAC 1 "Definition of the Reporting Entity" distinguishes general purpose financial reports from special purpose financial reports. Special purpose financial reports may be prepared to provide detailed information about particular transactions and events specific to the needs of some users, such as the Australian Bureau of Statistics. The information to be disclosed in any special purpose financial reports prepared by governments is beyond the scope of this Standard.

8 Government Reporting Entity and Consolidated Financial Reports

Government Reporting Entity

8.1 Subject to paragraphs 11.1, 12.1, 13.1 and 13.2, the *general purpose financial report* must include all of the *government's assets, liabilities, revenues* and *expenses.*

8.1.1 This Standard requires that the financial statements included in the general purpose financial report of a government encompass its assets, liabilities, revenues and expenses, regardless of whether they arise directly or through its *controlled entities*. This form of reporting is necessary to enable users to obtain an overview of the financial performance, financial position, and financing and investing activities of the government as a single *reporting entity*.

8.1.2 This Standard does not preclude a government from preparing other financial reports to disclose the resources which are being administered by government departments on its behalf. Also, it does not preclude a government from preparing other financial reports to disclose the resources controlled by the government as a *parent entity*.

Consolidated Financial Reports

8.2 In order to depict the government as a single reporting entity, the general purpose financial report should be presented in the form of a consolidated financial report.

8.2.1 Normally, the general purpose financial report of the government reporting entity will be prepared by consolidating the individual financial reports of all entities comprising the government economic entity in accordance with Australian Accounting Standard AAS 24 "Consolidated Financial Reports". Where all the entities within the government reporting entity prepare financial reports, consolidation of those reports will ensure that the government's financial statements will include all of its assets, liabilities, revenues and expenses. Where financial reports are not prepared by all government-controlled entities, other means will need to be employed to ensure that the financial statements of the government *economic entity* include all of its assets, liabilities, revenues and expenses. For example, where a financial report is not prepared for the government as a parent entity, information about the assets, liabilities, revenues and expenses of the parent entity could be collected from the government departments administering those items and then included in the "consolidation worksheet" for the government reporting entity.

8.2.2 The requirement in Australian Accounting Standard AAS 24 "Consolidated Financial Reports" to prepare and present the consolidated financial report of a government as if the reporting dates for all the entities comprising the government reporting entity were the same may necessitate the preparation of an interim financial report for some controlled entities.

8.2.3 Some controlled entities may need to keep information which is not included in their general purpose financial reports so that the government's consolidated financial report can be prepared. For example, this will be the case where some government-controlled entities receive assets for a nominal consideration. Under paragraph 11.2 of this Standard, these assets are required to be initially measured at their *fair value* in the general purpose financial reports of governments. However, Australian Accounting Standard AAS 21 "Accounting for the Acquisition of Assets (Including Business Entities)" does not address circumstances where entities receive assets at no cost or for nominal consideration. Accordingly, some government-controlled entities may need to keep information about any such assets they have received.

8.2.4 Where the accounting policies adopted by entities within the government reporting entity are dissimilar, adjustments may need to be made in preparing the consolidated financial report to achieve consistency, unless the dissimilar accounting policies are required by another Australian Accounting Standard. Australian Accounting Standard AAS 24 "Consolidated Financial Reports" contains further guidance on this matter.

8.2.5 Australian Accounting Standard AAS 24 "Consolidated Financial Reports" requires the effects of transactions between entities forming part of the government economic entity to be eliminated. Failure to eliminate those amounts would result in double-counting and would distort the representation of the operations of the government.

9 Control of Entities

Factors Indicating Control

9.1 Whether an *entity* is consolidated into the *general purpose financial report* of a *government* must be determined in accordance with Australian Accounting Standard AAS 24 "Consolidated Financial Reports", on the basis of whether the government *controls* that entity.

9.1.1 Whether a government controls another entity is a question of fact that must be determined by reference to the definition of control and the particular circumstances of each case. Where a government has the *capacity* to dominate the financial and operating policies of another entity so as to enable that other entity to operate with it in pursuing its own objectives, then the government has control over that entity. It should be noted that a government's capacity to dominate the financial and operating policies of another entity does not require it to have responsibility for management of (or involvement in) the day-to-day operations of the other entity (see paragraph 9.1.9).

9.1.2 AAS 24 "Consolidated Financial Reports" provides guidance on whether control exists. The following paragraphs of this section expand that guidance in the specific context of financial reporting by governments. This guidance is indicative only, and needs to be applied in the context of the definition of control of entities and the particular circumstances being assessed.

9.1.3 In the context of financial reporting by governments, the following two factors are indicative of control of another entity by the government:

(a) the other entity is accountable to Parliament, or to the Executive, or to a particular Minister; and

(b) the government has the residual financial interest in the net *assets* of the other entity.

Accountability of the Other Entity

9.1.4 The existence of one, or a combination of a number of the following circumstances indicate that an entity is accountable to Parliament, or to the Executive, or to particular Ministers:

(a) the existence of a Ministerial or other government power which enables the government to give directions to the governing body of that entity so that the entity acts as an agent of the government to achieve government policy objectives; or

(b) the government has the ability to veto operating and capital budgets of that entity; or

(c) the government has broad discretion, under existing legislation, to appoint or remove a majority of members of the governing body of that entity.

The governing body of an entity cannot maintain financial and operating policies that do not have the support of a government if the government has the capacity under existing legislation to appoint or remove a majority of members of the governing body of the entity. In these circumstances, the government has the capacity to dominate the financial and operating policies so as to meet its own objectives. For control to exist through the capacity to appoint or remove a majority of members of the governing body of another entity, a government must have broad discretion over their appointment and removal. For example, if the capacity to appoint or remove a majority of members of the governing body requires an amendment to the current legislation or the creation of new legislation, then the government's power is not presently exercisable and control does not exist. Also, where the capacity of the government to remove members of the governing body of another entity only arises under certain restricted circumstances (for example, for reasons relating to a lack of probity), the government would not have the capacity to dominate the financial and operating policies of the entity by virtue of that capacity (although it may have the capacity in respect of the financial and operating policies through some other means); or

(d) the government has the capacity to cast, or regulate the casting of, a majority of the votes that are likely to be cast at a general meeting of that entity.

Where a government has a majority of the votes that are likely to be cast at a general meeting of another entity, it would be able to veto any financial and operating policies that are not in accordance with its own objectives. A majority ownership interest would normally provide the government with a majority of the voting rights; or

(e) the entity is required to submit to Parliament reports on operations which include audited financial statements, such requirements arising either under the general reporting requirements of legislation concerned with financial reporting and/or audit of "public sector" entities or under that entity's enabling legislation; or

(f) the mandate of the entity is established, or limited, by its enabling legislation. The definition of control requires only that the government's capacity to dominate the financial and operating policies of another entity is sufficient to require the entity to operate towards achieving the government's objectives. Enabling legislation relating to the other entity which establishes the broad financial and operating policies of the entity is sufficient to ensure control by the government. However, the impact of enabling legislation also needs to be evaluated in the light of other prevailing circumstances. For example, a marketing board whose mandate is created, and limited, by legislation is not controlled by a government if the legislation unequivocally assigns capacity to dominate financial and operating policies to other entities such as relevant commodity producers, and the government does not have the capacity to appoint or remove a majority of members of the governing body.

Residual Financial Interest in the Other Entity

9.1.5 The existence of the following circumstances indicate that the government has the residual financial interest in the net assets of the other entity:

(a) the government is exposed to the residual *liabilities* of the entity; or

(b) the government has the right to receive the residual net assets of the entity if that entity is dissolved.

General Implications of the Concept of Control

9.1.6 For a government to control an entity, it must have the capacity to require an entity's assets to be deployed towards achieving government objectives. This may mean, but need not require, that the government can do, or require the entity to do, one or more of the following with the controlled entity's assets:

(a) exchange them; or

(b) use them to provide goods and services consistent with the government's objectives; or

(c) charge for their use; or

(d) use them to settle liabilities; or

(e) hold them.

9.1.7 Accordingly, a government does not control another entity where:

(a) it cannot dominate the financial and operating policies of the entity which are necessary to enable the entity to operate towards achieving government objectives, notwithstanding that both entities have similar objectives. For example, a charitable entity and a government may share common objectives with respect to care of the homeless. However, the charitable entity is not controlled by the government when its governing body maintains discretion as to how its resources are to be deployed and whether it will accept resources from the government; or

(b) it cannot benefit from the resources or residual resources of the entity, notwithstanding that it may have the capacity to dominate the entity's financial and operating policies. For example, where a government acts as a trustee for a trust and its relationship with the trust does not extend beyond the normal responsibilities of a trustee, the government does not control the trust as it cannot deploy the resources or residual resources of the trust for its own benefit; or

(c) it influences, rather than dominates, the financial and operating policies required to enable the entity to operate towards achieving the government's objectives. The wide ranging powers of governments mean that they can influence the financial and operating policies of many entities, particularly those which are financially dependent on government funding. However, where the governing bodies of those entities maintain discretion with respect to whether they will accept resources from the government or the manner in which their resources are to be deployed, they are not controlled by the government. For example, this will normally be the case with religious organisations that provide aged-care services. While these organisations may receive government grants for capital construction and operating costs, and the government providing the grant may require them to comply with certain service standards and restrictions on user fees, they will not usually be controlled by the government because their governing body will maintain the ultimate discretion about whether assets are deployed to those services; or

(d) it merely has the power to regulate the behaviour of the entity by use of its legislative powers. The power of government to establish the regulatory environment within which entities operate and to impose conditions or sanctions on their operations does not of itself constitute control of the assets deployed by those entities. For example, governments regulate the operations of entities operating in the gaming industry, but those entities are not controlled by government unless the assets or residual assets of those entities can be deployed for the benefit of government; or

(e) its ability to redeploy the assets of another entity for its own benefit is not presently exercisable. For example, under existing legislative arrangements, state and territory governments do not control local governments because:

   (i) they cannot sell the assets of a local government and redeploy the proceeds from the sale towards the state or territory budget; and

   (ii) the governing body of the local government, whether an elected council or administrators appointed by a government, is bound to deploy its assets for the benefit of the local community (and not the state or territory government).

9.1.8 A government will usually control the statutory authorities or corporations which it has established, because the legislation will normally address the financial and operating policies necessary to enable the entity to work with the government in achieving its objectives and the government will retain the right to receive the residual net assets if the entity is dissolved. In addition, the government may have:

(a) a ministerial or other government power of direction over the management of the entity; and/or

(b) the capacity to determine a majority of members of the governing body of the entity; and/or

(c) the ability to cast a majority of the votes that are likely to be cast at a general meeting of the entity.

Control versus Day-to-Day Management

9.1.9 The existence of control in the context of general purpose financial reporting does not require that the government has responsibility over the day-to-day operations of an entity or the manner in which professional functions are performed by the entity. For example, the legislation governing the establishment and operation of an independent statutory office (such as that of the Auditor-General) sets out the broad parameters within which the office is required to operate, and enables the office to operate in a manner consistent with the objectives set by Parliament for the operation of government. Similarly, notwithstanding the operational independence of the judiciary from the Parliament, the legislative framework within which the judiciary operates is established in a manner consistent with the objectives set by Parliament for the administration of justice. In addition, the government retains the right to the residual assets of statutory offices and judicial entities. Notwithstanding the absence of responsibility for the day-to-day operations of such entities, or the manner in which professional functions are performed in those entities, their assets, liabilities, *revenues* and *expenses* should be included in the general purpose financial report of the relevant government.

10 Financial Statements

10.1 The *general purpose financial report* must include an operating statement, a statement of financial position and a statement of cash flows.

10.1.1 The operating statement provides information relevant to an assessment of the *government's* financial performance by identifying the *revenues* generated and *expenses* incurred during the reporting period, and any differences therein. It provides information about intergenerational *equity*, which is concerned with the appropriate balance between taxation and borrowings to finance current period services and capital infrastructure. Information about intergenerational equity helps users to assess whether future generations are required to assume the burden of financing current period services and to assess whether current and future generations equitably contribute to the stock of infrastructure.

10.1.2 The statement of financial position reports the *assets* and *liabilities* of a government, and thereby provides information about the resources *controlled* by and the obligations of the government and information which is useful for assessing the financial performance, financial structure and *capacity* for adaptation of the government.

10.1.3 The statement of cash flows identifies the sources of cash inflows and the items on which cash was expended during the reporting period, and the cash balance as at the reporting date. This information, together with other information provided in the financial report, may assist users to assess the future cash requirements of the government, the ability of the government to generate cash inflows in the future and to fund changes in the scope and/or nature of its activities. A statement of cash flows also provides a means by which the government can discharge its accountability for the cash inflows and cash outflows during the reporting period.

10.1.4 The Appendix to this Standard provides an example of a general purpose financial report of a government prepared in conformity with the accounting standards set out in this Standard. The method of presentation employed in the Appendix is not mandatory, as other methods of presentation may comply with this Standard.

11 Assets

Recognition Criteria

11.1 Subject to paragraph 17.1, an *asset* 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; and

(b) the asset possesses a cost or other value that can be measured *reliably.*

11.1.1 Recognition and appropriate classification of assets in the statement of financial position, together with information about the other elements of the financial statements, inform users of:

(a) the amount and types of assets available to a government to enable it to continue to provide goods and services; and

(b) the level of resources that may need to be provided to a *government* in the future so that it is able to meet its financial commitments and continue to provide goods and services.

11.1.2 Where recognition of an asset involves the corresponding recognition of a *revenue*, relevant information about the financial performance of a government is also included in the operating statement.

11.1.3 Subject to paragraph 17.1, this Standard requires assets, including infrastructure assets (for example, transport systems), heritage assets (for example, historical buildings and monuments), community assets (for example, parks and recreational reserves) and other assets which yield their economic benefits over long periods of time to be recognised in the statement of financial position, provided that they meet the asset recognition criteria specified in paragraph 11.1 of this Standard.

Measurement of Assets

11.2 Assets acquired at no *cost of acquisition* or for nominal consideration must initially be recognised at their *fair values* as at the date of acquisition.

Newly Acquired Assets

11.2.1 Australian Accounting Standard AAS 21 "Accounting for the Acquisition of Assets (including Business Entities)" requires newly acquired assets, other than those that are acquired at no cost or for nominal consideration, to be initially recognised at their cost of acquisition. AAS 21 does not deal with the accounting treatment of assets acquired without a cost or for nominal consideration. However, paragraph 11.2 of this Standard requires all newly acquired assets (including donated assets) to be initially measured at their fair values.

11.2.2 The specialised nature of an asset and/or the absence of an orderly market may preclude its fair value from being determined by reference to the amount which would be exchanged between a knowledgeable willing buyer and seller. In these circumstances, fair value may be approximated by referring to the lower of the replacement or reproduction cost of the service potential embodied in the asset. Paragraph 11.3.2 of this Standard sets out details of professional documents which may assist in determining the replacement or reproduction cost of an asset.

11.2.3 Donated items would only be recognised as assets where they embody future economic benefits that will assist the government to achieve its objectives.

Previously Acquired Assets

11.2.4 This Standard does not prescribe a measurement basis for recognising previously acquired assets in the statement of financial position for the first time. Where other applicable Australian Accounting Standards require assets to be measured using a particular measurement basis, they should be measured in accordance with those Standards. For example, Australian Accounting Standard AAS 26 "Financial Reporting of General Insurance Activities" requires assets which are integral to general insurance activities to be measured at their net market values. Governments are encouraged to initially recognise assets which are not required to be measured using a particular measurement basis at their written-down current cost, identifying separately (where possible) their gross current cost and any accumulated depreciation. The measurement of previously acquired assets at their written-down current cost is consistent with the requirements for newly acquired assets to be recognised at their fair values as at the date of acquisition. This is because the fair value and the written-down current cost of a newly acquired asset would be equal. This Standard does not preclude other bases of measurement for previously acquired assets, such as net market value, historical cost or another basis as assessed by management or an independent valuer.

Revaluation of Non-Current Assets

11.3 Subject to paragraph 21.5, governments must revalue non-current assets in accordance with Australian Accounting Standard AAS 10 "Accounting for the Revaluation of Non-Current Assets".

11.3.1 Governments are encouraged to regularly revalue classes of non-current assets, especially classes of long-lived assets. This is because depreciation charges based on historical cost or another initial carrying value may not reflect the consumption of economic benefits embodied in non-current assets during a reporting period.

11.3.2 An acceptable basis for the revaluation of non-current assets is written-down current cost. Written-down current cost is determined by reference to current market buying prices of the remaining service potential embodied in the asset. Where a market buying price is not available, the lower of replacement or reproduction cost may be used as a surrogate for it. Statement of Accounting Practice SAP 1 "Current Cost Accounting", the "Working Guide for Statement of Accounting Practice SAP 1" and "Definition, Recognition and Measurement of Non-Current Physical Assets by Public Sector Reporting Entities: A Guide to Applying Professional Pronouncements" provide guidance on determining the written-down current cost of an asset where market buying prices are not available. This Standard does not prohibit other measurement bases, such as net market value, from being adopted when revaluing non-current assets.

Depreciation of Non-Current Assets

11.4 Depreciation of non-current assets must be recognised as an *expense* in accordance with Australian Accounting Standard AAS 4 "Depreciation".

11.4.1 Depreciation is the expense associated with the consumption or loss of future economic benefits embodied in non-current assets. Recognition of depreciation is necessary so that the expenses incurred in conducting government operations for the reporting period and the extent to which those expenses were recovered from revenues for the reporting period are reported. The future economic benefits embodied in *depreciable assets* is overstated if depreciation is not recognised.

11.4.2 It is sometimes argued that long-lived assets such as infrastructure, heritage and community assets should not be depreciated because they have unlimited useful lives. The view adopted in this Standard is that most long-lived assets have limited useful lives, notwithstanding proper maintenance.

12 Liabilities

12.1 Subject to paragraph 17.1, a *liability* 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; and

(b) the amount of the liability can be measured *reliably*.

12.1.1 Recognition and appropriate classification of liabilities in the statement of financial position, together with information about the other elements of the financial statements, is useful for assessing the financial performance, financial position, and financing and investing activities of a *government*. Users are informed of the amount of future sacrifices of economic benefits that a government is presently obliged to make to other *entities*. Recognition of liabilities is also necessary if the financial statements are to disclose the net *assets* of a government. Where incurring a liability also involves incurring an *expense*, relevant information about the financial performance of a government is also included in the operating statement.

12.1.2 Subject to paragraph 17.1, this Standard requires liabilities to be recognised in the statement of financial position, provided that they meet the recognition criteria set out in paragraph 12.1. Transactions or other events which do not give rise to a present obligation to sacrifice economic benefits to another entity in the future do not meet the definition of liabilities. The intention of a government to make payments to other parties, whether advised in the form of a budget policy, election promise or statement of intent, does not of itself create a present obligation which is binding on the government. A liability would be recognised only when the government is committed in the sense that it has little or no discretion to avoid the sacrifice of future economic benefits. For example, a government does not have a present obligation to sacrifice future economic benefits for social welfare payments that might arise in future reporting periods. A present obligation for social welfare payments arises only when entitlement conditions are satisfied for payment during a particular payment period. Similarly, a government does not have a present obligation to sacrifice future economic benefits under multi-year public policy 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.

12.1.3 Some transactions or events may give rise to legal, social, political or economic consequences which leave a government little, if any, discretion to avoid a sacrifice of future economic benefits. In such circumstances, the definition of a liability is satisfied. An example of such an event is the occurrence of a disaster, where a government has a clear and formal policy to provide financial aid to victims of such disasters. In this circumstance, the government has little discretion to avoid the sacrifice of future economic benefits. However, the liability must be recognised only when the amount of financial aid to be provided can be measured reliably.

13 Revenues and Expenses

13.1 A *revenue* 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; and

(b) the inflow or other enhancement or saving in outflows of future economic benefits can be measured *reliably*.

13.2 An *expense* 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* and/or an increase in *liabilities* has occurred; and

(b) the consumption or loss of future economic benefits can be measured reliably.

13.2.1 Recognition of the revenues and expenses of a *government* during the reporting period provides users with information relevant to assessments of financial performance. The information is useful for identifying the expenses relating to government activities during the period and the extent to which expenses were recovered from revenues. This information is necessary for assessing the efficiency of service delivery, the resources necessary to enable the government to continue to conduct the activities it currently undertakes and the extent to which future generations of taxpayers may be required to assume the burden of the expenses incurred in conducting activities during the current reporting period.

14 Contributions

14.1 *Contributions* other than *contributions by owners* must be *recognised* as *revenues* when the revenue *recognition* criteria in paragraph 13.1 are met.

Non-Reciprocal Transfers

Nature

14.1.1 Contributions to a *government* are typically received in the form of involuntary transfers, such as taxes and fines, and voluntary transfers, such as grants and donations. These transfers are *non-reciprocal* because the government does not have to give value-in-exchange directly to the contributor. This means that the government does not have a present obligation to sacrifice future economic benefits to the contributor, even though the government has a fiduciary responsibility to use the *assets* effectively and efficiently in pursuing its objectives. This fiduciary responsibility pertains to all assets and does not, of itself, create a present obligation to make sacrifices of future economic benefits to particular parties. Accordingly, the receipt of contributions does not give rise to a *liability.*

14.1.2 A government may receive a contribution of assets with restrictions on the manner in which those assets may be used. An example of such a contribution is a grant provided to a government for the acquisition of infrastructure. Some argue that the government has a liability while the restrictions remain undischarged. However, the receipt of restricted assets does not give rise to a liability because there is no present obligation of the government to sacrifice future economic benefits to the transferor.

14.1.3 Some argue that, until the assets are used in the manner specified, the government has a fiduciary responsibility that is a present obligation giving rise to a liability. However, this Standard adopts the view that this responsibility is no different from the other fiduciary responsibilities of government to use assets effectively and efficiently. Accordingly, the view adopted in this Standard is that a fiduciary responsibility to use assets effectively and efficiently in pursuing a government's objectives does not give rise to a present obligation to sacrifice future economic benefits to external parties and, accordingly, does not give rise to liabilities.

14.1.4 If a government failed to meet the specific conditions attaching to the contribution of assets and the amount of the contribution is required to be repaid, a liability and an *expense* would need to be recognised for the amount payable. In this circumstance, the government has a present obligation to the contributor that has arisen as a result of a past event; namely, the failure of the government to meet the conditions for retention of the contribution.

Control over Assets Acquired from Non-Reciprocal Transfers

14.1.5 *Control* over assets acquired from involuntary *non-reciprocal transfers*, such as taxes and fines, is obtained when the underlying transaction or other event giving rise to government control of the future economic benefits occurs. For example, where the transfers arise from a periodical charge, such as a land tax, a government obtains control over the assets on the day on which the government becomes entitled to levy the land tax.

14.1.6 The timing of commencement of control over assets acquired from voluntary non-reciprocal transfers, such as grants and donations, depends upon the arrangements between the contributor and the government. For example, where a State Government receives a single-year grant from the Commonwealth Government to provide services in the following reporting period, the State Government obtains control over the grant when the grant eligibility criteria have been satisfied or the services or facilities under any grant agreement have been provided, which may coincide with the date of its receipt. This is because at the point in time at which the State Government satisfies grant eligibility criteria or provides services or facilities under any grant agreement, it has the *capacity* to benefit from the grant and can deny or regulate the access of others to it. Correspondingly, in this circumstance, the Commonwealth Government would recognise an expense at the same time.

14.1.7 In the case of multi-year grant agreements from the Commonwealth Government to a State Government, the State Government does not control the contributed assets, and therefore should not recognise revenues, until the Commonwealth Government has a present obligation which is binding (see paragraph 12.1.2 of this Standard). For example, the State Government 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 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.

Reciprocal Transfers

14.1.8 *Reciprocal transfers* are transfers in which the transferor and transferee directly receive and sacrifice approximately equal value. Examples of reciprocal transfers are sales of goods and services, the provision of loan funds, and the provision of employee services. If assets are provided to a government on the condition that it is to make a reciprocal transfer of economic benefits, and that transfer has not occurred prior to the reporting date, the government has a liability.

14.1.9 For a transaction to be reciprocal, the transferor must have a right to receive the benefits directly. It is not sufficient that the transferor receives benefits indirectly as a result of the transfer.

14.1.10 While involuntary transfers to governments may result in the provision of some goods or services to the transferor, they do not give the transferor a claim to receive directly benefits of approximately equal value. Receipt and sacrifice of approximately equal value may occur, but only by coincidence. For example, governments are not obliged to provide commensurate benefits, in the form of goods or services, to particular taxpayers in return for their taxes. For this reason, involuntary transfers are non-reciprocal transfers.

14.1.11 There could be instances where a transfer of economic benefits comprises a reciprocal component and a non-reciprocal component. For example, where another *entity* transfers a building to a government at a price which intentionally is significantly lower than its *fair value*, the transfer is in part reciprocal (to the extent that approximately equal value is received in exchange) and in part non-reciprocal. In this circumstance, because a reciprocal transaction is involved, any unsatisfied obligation to provide consideration in return for the building is a liability of the government.

Contributions by Owners in Government-Controlled Entities

14.1.12 Contributions by owners are examples of non-reciprocal transfers. In the context of *general purpose financial reporting*, a government economic entity receives contributions by owners when, for example, entities controlled by the government issue shares to the public.

14.1.13 It is important to distinguish contributions that entitle the contributors to a financial interest in the net assets of the entity from other contributions. For example, some argue that contributions which are provided on the condition that they be expended on assets which increase the capacity of a government to provide particular services should be classified as contributions of *equity*. However, such contributions are contributions by owners only where the contribution establishes a financial interest in the net assets of the government which conveys entitlement to a financial return on the contribution or can be sold, transferred or redeemed.

15 Disclosures in General Purpose Financial Reports

Operating Statement and Related Disclosures

Revenues and Expenses

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

15.1.1 The disclosure required by paragraph 15.1 provides information to users about:

(a) the major financial characteristics of the *government's* operations for the reporting period, including the cost of services provided by employees, the cost of financing, and revenues generated from the disposal of *non-current assets* and *controlled entities*;

(b) the variability of revenues and expenses; and

(c) the dependence of the government on particular types of revenues, such as taxes, grants and proceeds from the disposal of non-current assets and controlled entities.

Recognition Policy for Tax Revenues

15.2 The *general purpose financial report* must disclose the accounting policies adopted for *recognising* each major type of tax revenue.

15.2.1 In accordance with paragraph 13.1 of this Standard, revenues (including tax revenues) should be *recognised* when the definition of, and recognition criteria for, revenues are met. This means that tax revenues should be recognised when the underlying transaction or event which gives rise to the government's right to collect the tax occurs and can be measured reliably. However, in some cases an inability to *reliably* measure tax revenues when the underlying transactions or events occur means that they may need to be recognised at a later time. For this reason, the disclosure of policies adopted for recognising tax revenues will enhance the understandability and *comparability* of information relating to them.

Transfers to and from Reserves

15.3 The requirement in Australian Accounting Standard AAS 1 "Profit and Loss or other Operating Statements" for transfers to and from reserves which affect the accumulated surplus or deficit to be disclosed after the operating result in the operating statement, need not be applied.

15.3.1 This Standard does not require transfers to and from reserves, to the extent that they affect the accumulated surplus or deficit, to be disclosed after the operating result in the operating statement. This is because such information may detract from the other information disclosed in the operating statement. However, consistent with the requirements contained in paragraph 15.8 of this Standard, such transfers should be disclosed by way of note.

Statement of Financial Position and Related Disclosures

Assets and Liabilities

15.4 The statement of financial position must disclose *assets* and *liabilities*, in aggregate and classified:

(a) into current and non-current categories; and

(b) according to their nature or type,

as at the reporting date.

15.4.1 The disclosure of assets and liabilities in a government's statement of financial position, in aggregate and classified according to their nature or type and by current and non-current categories, will provide information to users about:

(a) the different types of assets held by the government for the delivery of services in future reporting periods;

(b) those assets which are (and which are not) expected to be held by the government for a period of greater than twelve months and those liabilities which are (and which are not) expected to be settled within twelve months; and

(c) the different types of liabilities used by the government to finance its activities.

15.4.2 Classification of assets in accordance with their nature or type may be based on their liquidity, marketability, financial risk and/or physical characteristics. Classification of liabilities in accordance with their nature or type may be based on their sources and/or the extent to which they are secured. The Appendix to this Standard provides an example of the classification of assets and liabilities according to their nature or type.

Liabilities that Fail the Recognition Criteria

15.5 The general purpose financial report must disclose, by way of note:

(a) the nature of liabilities that have not been recognised in the statement of financial position because the recognition criteria in paragraph 12.1 have not been met; and

(b) where they can be measured reliably, the amounts of the liabilities referred to in paragraph 15.5(a).

15.5.1 Consistent with paragraph 12.1 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 requires 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.

15.5.2 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.

15.5.3 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 to a financier for a loan taken out by an external entity for which default by the external entity is unlikely. A government would recognise the liability when, and only when, it becomes probable that the borrower will default on the loan and the government will need to honour the guarantee. 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 that is being contested in a lawsuit. While it may 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.

Capital Expenditure Commitments

15.6 The general purpose financial report must disclose, by way of note, capital expenditure commitments which have not been recognised as liabilities in the statement of financial position. The note must disclose these capital expenditure commitments in the following time bands, according to the time which is expected to elapse as from the reporting date to their date of payment:

(a) not longer than 1 year;

(b) longer than 1 year but not longer than 5 years; and

(c) longer than 5 years.

Equity and Changes in Equity

15.7 The statement of financial position must disclose total *equity* as at the reporting date.

15.8 The general purpose financial report must disclose, by way of note, 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.

15.8.1 Equity can be classified on a number of bases, for example, by source or by nature. Examples of classes of equity include accumulated surplus/deficit, contributed equity and asset revaluation reserve.

15.9 The requirement in Australian Accounting Standard AAS 24 "Consolidated Financial Reports" for the separate disclosure of the capital, retained profits (surplus) or accumulated losses (deficit), and reserves comprising the *outside equity interest* in the statement of financial position, need not be applied. Instead, the statement of financial position need only disclose the aggregate amount attributable to the outside equity interest (if any), in which case details of the composition of the aggregate amount must be disclosed in a note in the general purpose financial report.

15.9.1 This Standard does not require a government to disclose separately in its statement of financial position the components that comprise the outside equity interest, and overrides the requirements of Australian Accounting Standard AAS 24 "Consolidated Financial Reports" in this respect. This is because those that have financial interests (for example, shares) in particular government-controlled entities can obtain more appropriate and detailed information about their interests from the general purpose financial reports of those entities.

Statement of Cash Flows and Related Disclosures

Certain Cash Flows and Unused Credit Facilities Not Required to be Disclosed

15.10 The requirement in Australian Accounting Standard AAS 28 "Statement of Cash Flows" for separate disclosure of details about unused loan and credit facilities, need not be applied in preparing the statement of cash flows.

Cash Flows from Financial Institutions

15.11 The statement of cash flows must disclose separately the net cash flows of government-controlled *financial institutions*, and details of the cash flows of government-controlled financial institutions must be disclosed in a note in the general purpose financial report. Those cash flows must be classified as operating activities or other activities, as appropriate, and must be disclosed on a gross basis, except to the extent that Australian Accounting Standard AAS 28 "Statement of Cash Flows" permits certain cash flows to be disclosed on a net basis.

15.11.1 Financial institutions tend to generate more cash flows than other types of entities because of the nature of their activities. For this reason, paragraph 15.11 of this Standard requires separate disclosure of the cash flows from financial institutions. This will enable users of the general purpose financial reports of a government to assess separately the volume and nature of cash flows generated from activities other than those undertaken by financial institutions. The Appendix to this Standard provides an example of the disclosure.

Disaggregated Information

15.12 The general purpose financial report must disclose, in respect of each broad sector of activity of the government:

(a) a brief description of the nature of the activity undertaken in that sector, and the basis for the determination of that sector;

(b) assets and liabilities which are reliably attributable to that sector, classified according to their nature or type and into current and non-current categories; and

(c) revenues and expenses which are reliably attributable to that sector, classified according to their nature or type.

The information about assets, liabilities, revenues and expenses must be disclosed without eliminating the effects of transactions between sectors, but by eliminating the effects of transactions between entities within each sector.

15.12.1 Given the nature and extent of dissimilarity in the activities of a government, disclosure of disaggregated information will assist users in their assessments of the effects of the different activities on the financial performance and financial position of the government.

Users will be able to identify the resources used for the delivery of various types of activities, the costs of undertaking those various activities, and the extent to which the government has recovered those costs from revenues which are reliably attributable to those activities.

15.12.2 Judgement will need to be applied in identifying the broad sectors of a government's activities. Consideration should be given to the likely users of the general purpose financial report of the government, the extent of the dissimilarity in the activities undertaken by the government and the qualitative characteristics that financial information must possess. One basis for identifying the broad sectors about which disaggregated information should be disclosed is the Government Finance Statistics (GFS) Standard adopted by the Australian Bureau of Statistics. This basis of disaggregation has been adopted in the illustrative general purpose financial report in the Appendix to this Standard. It results in the disclosure of information about "general government", "public trading enterprises" and "government-controlled financial institutions". In addition, this Standard does not prohibit further disaggregated financial information being presented in the general purpose financial report of a government. For example, information about the assets, liabilities, revenues and expenses of a government's programs, determined on the basis of the Government Purpose Classification (GPC) of the Australian Bureau of Statistics, may also be useful to users of the government's general purpose financial reports. Although this Standard encourages the disclosure of disaggregated information using the GFS and/or GPC bases, it does not require the adoption of those bases. This is because GFS and GPC classifications have been developed for specific purposes which may not always be compatible with the objective of general purpose financial reporting.

16 Performance Indicators

16.1 Where performance indicators are included in the *general purpose financial report*, these must satisfy the concepts of *relevance* and *reliability*, and be presented in a manner which satisfies the concepts of *comparability* and understandability.

16.1.1 Information such as key performance indicators, which is not normally included in general purpose financial reports, may need to be disclosed to provide users with adequate information to make assessments of the effectiveness, economy and efficiency of a *government*. Accordingly, while this Standard does not require governments to report performance indicators, governments are encouraged to include them in their general purpose financial reports where the information will assist users in assessing a government's performance in meeting its objectives.

17 Agreements Equally Proportionately Unperformed

17.1 Subject to paragraph 17.2, *assets* and *liabilities* arising from agreements equally proportionately unperformed need not be *recognised* in the statement of financial position.

17.1.1 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 significant uncertainty may exist as to whether the definitions and recognition criteria would be satisfied. In addition, substantial difficulties may arise in determining a reliable and appropriate measure for the assets and liabilities which may arise from these agreements. These difficulties are reflected in the fact that recognition of all assets and liabilities which arise from the agreements and which satisfy the criteria for recognition would represent a fundamental change in accepted reporting practices. Accordingly, subject to paragraph 17.2, *governments* need not recognise assets and liabilities arising from agreements equally proportionately unperformed.

17.1.2 Governments 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 structure, financial risks and the resources *controlled* by a government. Governments are also encouraged to disclose the amounts involved in each of these agreements to the extent that these amounts can be measured reliably. An example of an agreement equally proportionately unperformed which would give rise to a liability and an asset is a non-cancellable, unconditional purchase commitment that has been entered into by a government.

17.2 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 prevail.

17.2.1 The provisions of an Australian Accounting Standard which requires recognition of assets and liabilities in respect of agreements equally proportionately unperformed continue to prevail. An example is Australian Accounting Standard AAS 17 "Accounting for Leases".

18 Frequency, Timeliness and Availability of General Purpose Financial Reports

18.1 A *general purpose financial report* must be prepared at least annually and be made readily available to users on a timely basis.

19 Comparative Information

19.1 Subject to paragraph 19.2, the *general purpose financial report* must disclose information for the preceding corresponding reporting period which corresponds to the disclosures specified for the current reporting period, except in respect of the financial report for the reporting period to which this Standard is first applied.

19.2 Comparative amounts need not be disclosed in respect of the disaggregated information which is required to be disclosed by paragraph 15.12, where a significant change in the basis upon which that information is determined makes disclosure of the comparative information impracticable.

19.2.1 Where the basis for determining the disaggregated information which is required to be disclosed by paragraph 15.12 has changed significantly, but it remains practicable to determine comparative information, the exemption provided by paragraph 19.2 does not apply. Similarly, where the change in the basis for determining disaggregated information is insignificant, it will be practicable to make comparative disclosures. For example, where the activities of a *government* are defined on a Government Finance Statistics (GFS) basis, and the activities which are included in a particular GFS classification have changed, comparative information for that GFS classification would nevertheless be disclosed.

20 Initial Application

20.1 Subject to paragraphs 21.1, 21.3 and 21.5, 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/deficit or its equivalent as at the beginning of the reporting period to which this Standard is first applied.

21 Transitional Provisions

Recognition of Certain Assets and Liabilities

21.1 A *government* is encouraged to apply all the provisions of this Standard from the date it is first adopted. However, the following transitional provisions apply and a government may elect until:

(a) 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) 1 July 1999 to derecognise or not to recognise land under roads as assets.

21.1.1 This Standard generally requires that all assets which satisfy the recognition criteria in paragraph 11.1 should be recognised in the statement of financial position. However, to provide an adequate period for governments to address practical issues relating to implementation of this accounting policy, this Standard contains transitional provisions for phased implementation of the requirement to recognise all assets.

21.1.2 Notwithstanding the transitional provisions in this Standard, governments are strongly encouraged to recognise all assets at the earliest possible time. For example, this Standard encourages governments 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*); and

(b) progressively in successive reporting periods prior to the expiry of the relevant transitional provisions 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.

21.1.3 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 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, parks and gardens, and the collections held by museums, libraries and art galleries.

21.1.4 The transitional provisions for land under roads in paragraph 21.1(b) have 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.

21.2 Where a government elects not to recognise an asset in accordance with paragraph 21.1, the financial report must disclose in the summary of accounting policies the types of assets not being recognised.

21.2.1 Where a government elects to adopt the transitional provisions in paragraph 21.1, paragraph 21.2 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 should assist users in assessing the nature and possible extent of assets not yet recognised and, accordingly, should facilitate better informed assessments of the department's financial position and performance during the transitional period.

21.3 Where a government:

(a) elects not to recognise an asset in accordance with paragraph 21.1 and then subsequently recognises that asset; or

(b) in reporting periods ending on or before 30 June 2001, 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 21.1(b)

the corresponding adjustment must be made against accumulated surplus (deficiency).

21.4 The nature and net amount of each adjustment made in accordance with paragraph 21.3 during the reporting period must be disclosed in a note in the financial report.

Revaluation of a Class of Non-Current Assets

21.5 From the beginning of the first 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. Under those provisions, when revaluing items of property, plant and equipment, a government may elect to revalue progressively all items within the class being revalued over a 5 year period, rather than comply with the requirements of Australian Accounting Standard AAS 10 "Accounting for the Revaluation of Non-Current Assets" for all assets within the class to be revalued progressively over a 3 year period.

21.5.1 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* which is being revalued to be revalued progressively within 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, governments to revalue progressively 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, no items of property, plant and equipment within a class of non-current assets which is being revalued should 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 governments, and because governments have not had extensive experience in recording and reporting of information about *non-current assets*.

22 Definitions

22.1 In this Standard:

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

In the definition of *assets*, the term "future economic benefits" is synonymous with the notion of service potential. In this respect, "future economic benefits" include the ability of an asset to generate future net cash inflows and, in the case of not-for-profit entities, the ability to otherwise assist an entity to achieve its objectives.

capacity **means ability or power, whether direct or indirect, and includes ability or power that is presently exercisable as a result of, by means of, in breach of, or by revocation of, any of or any combination of the following:**

(a) trusts;

(b) relevant agreements; and

(c) practices;

whether or not enforceable

class of non-current assets **means a category of non-current assets having a similar nature or function in the operations of the entity, which category, for the purpose of disclosure in the financial report, is shown as a single item without supplementary dissection**

comparability **means that quality of financial information which exists when users of that information are able to discern and evaluate similarities in, and differences between, the nature and effects of transactions and events, at one time and over time, either when assessing aspects of a single *reporting entity* or of a number of reporting entities**

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; and/or

(b) can be sold, transferred or redeemed

***control* 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**

***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**

***cost of acquisition* means the *purchase consideration* plus any costs incidental to the acquisition**

***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**

***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**

financial institution **means:**

(a) **an entity (including an economic entity) whose principal activity is to take deposits or borrow, or both take deposits and borrow, with the objective of lending or investing in financial assets other than equity instruments, but excluding:**

   (i) **entities which take deposits or borrow principally from other entities in the economic entity**

   (ii) **general insurers, life insurers and superannuation plans; or**

(b) **an entity (including an economic entity) subject to the *Banking Act 1959* or any replacement legislation**

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 **means the Commonwealth Government, or the Government of the Australian Capital Territory, New South Wales, the Northern Territory, Queensland, South Australia, Tasmania, Victoria or Western Australia**

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**

outside equity interest **means the equity in the economic entity other than that which can be attributed to the ownership group of the *parent entity***

ownership group **means the group comprising those parties with a financial interest in the net assets of the entity which have obtained that interest by contributing future economic benefits to the entity in the form of** ***contributions by own*****ers or by acquiring the interest, established at an earlier time as a result of contributions by owners, from another party**

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

purchase consideration **means the** ***fair value*** **of assets given or share capital issued, liabilities undertaken, and/or other securities given by the acquiring entity, in exchange for assets (net, where applicable) or shares of another entity**

reciprocal transfer **means a transfer in which the entity receives assets or services or has liabilities extinguished and directly gives approximately equal value in exchange to the other party or parties to the transfer**

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 notes thereto)**

relevance **means that quality of financial information which exists when that information influences decisions by users about the allocation of scarce resources by:**

(a) helping them form predictions about the outcomes of past, present or future events; and/or

(b) confirming or correcting their past evaluations;

and which enables users to assess the rendering of accountability by preparers

reliability **means that quality of financial information which exists when that information can be depended upon to represent faithfully, and without bias or undue error, the transactions or events that either it purports to represent or could reasonably be expected to represent**

***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.**

APPENDIX

EXAMPLE OF A GENERAL PURPOSE FINANCIAL REPORT FOR A GOVERNMENT

This Appendix forms part of the commentary and is provided for illustrative purposes only. It does not attempt to illustrate all disclosures that may be appropriate to the circumstances of particular governments. Other methods of presentation may equally comply with the accounting standards set out in the Standard.

GOVERNMENT ABC

CONSOLIDATED OPERATING STATEMENT FOR THE YEAR ENDED 30 JUNE 20X1

	Note	20X1 $M	20X0 $M
REVENUES			
Taxation	4	X	X
Fines and Regulatory Fees		X	X
Investment Income	5	X	X
Grants	6	X	X
Sale of Goods and Services		X	X
Net Revenues from Disposal of Physical Assets	7	X	X
Fair Values of Assets Received Free of Charge or for Nominal Consideration	8	X	X
Other		X	X
Total Revenues		X	X
EXPENSES			
Employee Entitlements		X	X
Superannuation		X	X
Depreciation	9	X	X
Amortisation	10	X	X
Interest and Other Finance Costs	11	X	X
Grants and Transfer Payments	12	X	X
Supplies and Consumables		X	X
Other	13	X	X
Total Expenses		X	X
OPERATING SURPLUS / (DEFICIT)		X	X
Operating Surplus Attributable to Outside Equity Interests	24	X	X
OPERATING SURPLUS / (DEFICIT) ATTRIBUTABLE TO THE GOVERNMENT		X	X

GOVERNMENT ABC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 20X1

	Note	20X1 $M	20X0 $M
ASSETS			
Current Assets			
Cash		X	X
Investments	14	X	X
Receivables	15	X	X
Prepayments		X	X
Total Current Assets		X	X
Non-Current Assets			
Investments	14	X	X
Receivables	15	X	X
Land and Buildings	16	X	X
Plant and Equipment	17	X	X
Roads	18	X	X
Other	19	X	X
Total Non-Current Assets		X	X
TOTAL ASSETS		X	X
LIABILITIES			
Current Liabilities			
Payables	20	X	X
Borrowings	21	X	X
Employee Entitlements	22	X	X
Superannuation	23	X	X
Total Current Liabilities		X	X
Non-Current Liabilities			
Payables	20	X	X
Borrowings	21	X	X
Employee Entitlements	22	X	X
Superannuation	23	X	X
Total Non-Current Liabilities		X	X
TOTAL LIABILITIES		X	X
TOTAL NET ASSETS		X	X
OUTSIDE EQUITY INTERESTS	24	X	X
NET ASSETS	24	X	X

GOVERNMENT ABC

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 20X1

	20X1		20X0	
	$M	$M	$M	$M
	Inflows (Outflows)		Inflows (Outflows)	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts				
Taxation (by type)	X		X	
Fines and Regulatory Fees	X		X	
Grants from Other Governments	X		X	
Sale of Goods and Services	X		X	
Interest Received	X		X	
Dividends Received	X		X	
Other Receipts	X		X	
Payments				
Grants and Transfer Payments	(X)		(X)	
Employee Entitlements	(X)		(X)	
Superannuation	(X)		(X)	
Suppliers	(X)		(X)	
Interest Paid	(X)		(X)	
Other Payments	(X)		(X)	
Net Cash Used in Operating Activities (Note 25(c))		(X)		(X)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of Plant and Equipment (Note 25(b))	(X)		(X)	
Proceeds from Sale of Plant and Equipment	X		X	
Purchase of Shares	(X)		(X)	
Proceeds from Sale of Shares	X		X	
Purchase of Foreign Currency Term Deposits	(X)		(X)	
Purchase of Australian Dollar Term Deposits	(X)		(X)	
Net Cash Used in Investing Activities		(X)		(X)

GOVERNMENT ABC

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 20X1 (CONTINUED)

	20X1		20X0	
	$M	$M	$M	$M
	Inflows (Outflows)		Inflows (Outflows)	
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from Issue of Shares	X		-	
Proceeds from Borrowings	X		X	
Repayment of Borrowings	(X)		(X)	
Distributions Paid	(X)		(X)	
Net Cash From Financing Activities		X		X
NET CASH FLOWS FROM FINANCIAL INSTITUTIONS (Note 25(d))		X		X
NET INCREASE/(DECREASE) IN CASH HELD		X		X
Cash at the Beginning of the Reporting Period		X		X
Effect of Exchange Rate Changes on the Balances Held in Foreign Currencies at the Beginning of the Reporting Period		(X)		(X)
CASH HELD AT 30 JUNE 20X1 (Note 25(a))		X		X

GOVERNMENT ABC

Notes to the Financial Statements for the year ended 30 June 20X1

1. Significant Accounting Policies

(a) Accounting Standards

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, and in particular with Australian Accounting Standard AAS 31 "Financial Reporting by Governments".

(b) Accounting Policies Adopted where Alternatives Allowed

(In accordance with AAS 6 "Accounting Policies", identify the accounting policies adopted where alternative accounting policies are permitted in this or any other Australian Accounting Standard.)

(c) The Government Reporting Entity

In accordance with Australian Accounting Standard AAS 24 "Consolidated Financial Reports", this financial report includes the assets, liabilities, equities, revenues and expenses of the Government, including those of entities controlled by the Government.

The Government economic entity includes government departments, public trading enterprises, Government-controlled financial institutions and other government-controlled entities. In the process of reporting the Government as a single economic entity, all transactions and balances between Government-controlled entities have been eliminated.

(d) Basis of Accounting

This financial report has been prepared to comply with applicable Australian Accounting Standards and (specify legislative and/or regulatory framework for the preparation of the financial report).

It has been prepared using the full accrual basis of accounting which recognises the effects of transactions and events when they occur.

(e) Basis of Measurement

The financial report adopts historical cost accounting, with the exception that land and buildings, military equipment, roads and heritage assets are revalued to their written-down current cost at least every X years (identify frequency) and investments in shares are revalued every year at their net market value.

Where applicable, the gross amount and related accumulated depreciation are restated separately upon revaluation.

The accounting policies adopted for the reporting period are consistent with those of the previous reporting period.

(f) *Depreciation and Amortisation of Non-Current Assets*

All non-current physical assets having a limited useful life are systematically depreciated/amortised over their useful lives in a manner which reflects the consumption of their service potential.

Depreciation/amortisation methods and the estimated useful lives for major asset types are set out below:

Asset types	**Method of Depreciation/Amortisation**	**Period**
Plant & equipment		
Type A	Straight line	10-15 years
Type B	Straight line	20-25 years
Type C	Reducing balance	30-35 years
Vehicles	Straight line	3-5 years
Buildings	Straight line	20-90 years
Roads: non-land components	Straight line	20-100 years

(g) *Employee Entitlements*

Employee entitlements (including wages and salaries, annual leave, long-service leave and superannuation) reflect those entitlements accrued as a result of services provided by employees up to the reporting date.

In accordance with Australian Accounting Standard AAS 30 "Accounting for Employee Entitlements", long-term employee entitlement liabilities are measured at the present value of the estimated future cash outflows arising from employees' services to date.

(h) *Leases*

The Government's rights and obligations under finance leases, which are leases that effectively transfer to the Government substantially all of the risks and benefits relating 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 and equipment under lease, and are amortised to expense over the period during which the Government is expected to benefit from 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 classified into current and non-current categories. The principal component of lease payments due on or before the end of the succeeding year is disclosed as a current liability, and the remainder of the lease liability is disclosed as a non-current liability.

In respect of operating leases, where the lessor effectively retains substantially all of the risks and benefits relating to ownership of the leased items, lease payments are charged to expense over the lease term.

(i) Revenue Recognition

Revenues resulting from taxes (specify types), sales of goods and services, and fines and regulatory fees are, where possible, recognised when the transaction or event giving rise to the revenue occurs.

The policies adopted for the recognition of each major type of tax revenue are as follows:

(specify)

(j) Foreign Currency

(i) Transactions

Foreign currency transactions are translated to Australian currency at the rate of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at reporting date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are recognised as exchange gains or losses in the operating statement in the year in which the exchange rates change.

(ii) Hedges

All hedge transactions are initially recorded at the spot rate at the date of the transaction. Gains or losses arising at the time of entering into a hedge, other than to hedge the purchase of goods and services, are deferred and amortised over the life of the hedge. Hedges, other than to hedge the purchase of goods and services, outstanding at reporting date are translated at the rates of exchange ruling on that date and any exchange differences are recognised in the operating statement.

Where hedge transactions are designed to hedge the purchase of goods or services, exchange differences arising up to the date of purchase or sale, together with any gains or losses arising at the time of entering into the hedge, are deferred and included in the measurement of the purchase or sale. Any exchange differences on the hedge transaction after that date are recognised in the operating statement.

(k) Rounding

All amounts in the financial report have been rounded to the nearest million dollars unless otherwise indicated.

2. Disaggregated Information

Assets, liabilities, revenues and expenses that are reliably attributable to each broad sector of activities of the Government are set out below. The broad sectors have been determined in accordance with the standards set out in the Government Financial Statistics Standards of the Australian Bureau of Statistics. For the purpose of this disclosure, effects of transactions and balances between sectors have not been eliminated, but those between entities within each sector have been eliminated.

GOVERNMENT ABC
DISAGGREGATED INFORMATION ON REVENUES AND EXPENSES FOR THE F
PERIOD ENDED 30 JUNE 20X1

	General Government		**Public Trading Enterprises**		**Financial Institutions**		**Inter-Segment Items**		
	20X1 $M	20X0 $M	20X1 $M	20X0 $M	20X1 $M	20X0 $M	20X1 $M	20X0 $M	20X $M
REVENUES									
Taxation	X	X	-	-	-	-	(X)	(X)	X
Fines and regulatory fees	X	X	-	-	-	-	(X)	(X)	X
Investment income	X	X	X	X	X	X	(X)	(X)	X
Grants received	X	X	-	-	-	-	(X)	(X)	X
Sale of goods and services	X	X	X	X	X	X	(X)	(X)	X
Net revenues from disposal of non-current assets	X	X	X	X	X	X	-	-	X
Fair values of assets received free of charge or for nominal consideration	X	X	-	-	-	-	-	-	X
Other	X	X	X	X	X	X	-	-	X
Total Revenues	X	X	X	X	X	X	(X)	(X)	X

GOVERNMENT ABC
DISAGGREGATED INFORMATION ON REVENUES AND EXPENSES FOR THE F
PERIOD ENDED 30 JUNE 20X1

	General Government		**Public Trading Enterprises**		**Financial Institutions**		**Inter-Segment Items**		
	20X1	20X0	20X1	20X0	20X1	20X0	20X1	20X0	20X
	$M	$M	$M	$M	$M	$M	$M	$M	$M
EXPENSES									
Employee entitlements	X	X	X	X	X	X	-	-	X
Superannuation	X	X	X	X	X	X	-	-	X
Depreciation	X	X	X	X	X	X	-	-	X
Amortisation	X	X	X	X	X	X	-	-	X
Supplies and consumables	X	X	X	X	X	X	(X)	(X)	X
Interest and other finance costs	X	X	X	X	X	X	(X)	(X)	X
Grants and transfer payments	X	X	-	-	-	-	(X)	(X)	X
Other	X	X	X	X	X	X	-	-	X
Total Expenses	X	X	X	X	X	X	(X)	(X)	X
OPERATING SURPLUS/(DEFICIT)	X	X	X	X	X	X	(X)	(X)	X

GOVERNMENT ABC

DISAGGREGATED INFORMATION ON ASSETS AND LIABILITIES AS AT 30 J

	General Government		**Public Trading Enterprises**		**Financial Institutions**		**Inter-Segment Items**		
	20X1	20X0	20X1	20X0	20X1	20X0	20X1	20X0	20X
	$M	$M	$M	$M	$M	$M	$M	$M	$M
ASSETS									
Current Assets									
Cash	X	X	X	X	X	X	(X)	(X)	X
Investments	X	X	X	X	X	X	(X)	(X)	X
Receivables	X	X	X	X	X	X	(X)	(X)	X
Prepayments	X	X	X	X	X	X	(X)	(X)	X
Non-Current Assets									
Investments	X	X	X	X	X	X	(X)	(X)	X
Receivables	X	X	X	X	X	X	(X)	(X)	X
Land and Buildings	X	X	X	X	X	X	-	-	X
Plant and Equipment	X	X	X	X	X	X	-	-	X
Roads	X	X	-	-	-	-	-	-	X
Other	X	X	-	-	-	-	-	-	X
TOTAL ASSETS	X	X	X	X	X	X	(X)	(X)	X

GOVERNMENT ABC

DISAGGREGATED INFORMATION ON ASSETS AND LIABILITIES AS AT 30 J

	General Government		Public Trading Enterprises		Financial Institutions		Inter-Segment Items		
	20X1 $M	20X0 $M	20X1 $M	20X0 $M	20X1 $M	20X0 $M	20X1 $M	20X0 $M	20X $M
LIABILITIES									
Current Liabilities									
Payables	X	X	X	X	X	X	(X)	(X)	X
Borrowings	X	X	X	X	X	X	(X)	(X)	X
Employee Entitlements	X	X	X	X	X	X	-	-	X
Superannuation	X	X	X	X	X	X	-	-	X
Non-Current Liabilities									
Payables	X	X	X	X	X	X	(X)	(X)	X
Borrowings	X	X	X	X	X	X	(X)	(X)	X
Employee Entitlements	X	X	X	X	X	X	-	-	X
Superannuation	X	X	X	X	X	X	-	-	X
TOTAL LIABILITIES	X	X	X	X	X	X	(X)	(X)	X
TOTAL NET ASSETS	X	X	X	X	X	X	(X)	(X)	X

3. Sectors

(A brief description of each broad sector of the Government's activities and the basis for their determination should be disclosed)

	20X1 $M	20X0 $M
4. Revenues from Taxation		
Income tax	X	X
Payroll tax	X	X
Land tax	X	X
Total Revenues from Taxation	X	X
5. Investment Income		
Dividends	X	X
Interest	X	X
Total Investment Income	X	X
6. Grants Revenue		
Grants revenue includes:		
Acquisition of assets	X	X
Education	-	X
Other	X	X
Total Grants Revenue	X	X
7. Net Revenues from Disposal of Physical Assets		
During the reporting period, the Government sold (specify)		
Proceeds from disposal	X	X
Less: written-down value of assets sold	(X)	(X)
Net Revenues from Disposal of Physical Assets	X	X

	20X1 $M	20X0 $M
8. Assets Received Free of Charge or for Nominal Consideration		
During the reporting period, the fair value of assets received free of charge, or for nominal consideration was as follows:		
Plant and equipment	X	X
Other	X	X
Total Fair Value of Assets Received Free of Charge or for Nominal Consideration	X	X
9. Depreciation Expense		
Depreciation expense for the reporting period was charged in respect of:		
Plant and equipment		
- Type A	X	X
- Type B	X	X
- Type C	X	X
Buildings	X	X
Roads: non-land components	X	X
Other	X	X
Total Depreciation Expense	X	X
10. Amortisation Expense		
Amortisation expense for the reporting period was charged in respect of the following assets under a finance lease:		
Plant and equipment	X	X
Total Amortisation Expense	X	X

	20X1 $M	20X0 $M
11. Interest and Other Finance Costs		
Finance charges on finance leases	X	X
Interest on short-term borrowings	X	X
Interest on long-term borrowings	X	X
Total Interest and Other Finance Costs	X	X

12. Grants and Transfer Payments

During the reporting period, the Government's grants and transfer payments expense comprised amounts relating to:

	20X1 $M	20X0 $M
Research and development	X	X
Investment incentives	X	X
Transfer payments		
- Type A	X	X
- Type B	X	X
Other	X	X
Total Grants and Transfer Payments Expense	X	X

	20X1 $M	20X0 $M

13. Other Expenses

Other expenses for the reporting period included:

	20X1 $M	20X0 $M
Maintenance	X	X
Operating leases	X	X
Audit expenses	X	X
Bad and doubtful debts	X	X
Net exchange losses	X	X
Other	X	X
Total Other Expenses	X	X

14. Investments

	20X1 $M	20X0 $M
Current		
Shares at net market value	X	X
Foreign currency term deposits	X	X
Australian dollar deposits (term and at call)	X	X
Total Current Investments	X	X
Non-Current		
Shares at net market value	X	X
Foreign currency term deposits	X	X
Australian dollar deposits (term and at call)	X	X
Total Non-Current Investments	X	X
Total Investments	X	X

15. Receivables	20X1 $M	20X0 $M
Current	X	X
Taxes receivable		
- Type A	X	X
- Type B	X	X
Fines and regulatory fees	X	X
Accrued investment income	X	X
Loans and other receivables	X	X
Less: Provision for doubtful debts	(X)	(X)
Total Current Receivables	X	X
Amounts receivable in foreign currency		
U.S. Dollars	X	X
British Pounds	X	X
Total foreign currency current receivables	X	X
Total Australian dollar current receivables	X	X
Total Current Receivables	X	X
Non-Current		
Taxes receivable		
- Type A	X	X
- Type B	X	X
Fines and regulatory fees	X	X
Accrued investment income	X	X
Loans and other receivables	X	X
Less: Provision for doubtful debts	(X)	(X)
Total Non-Current Receivables	X	X
Amounts receivable in foreign currency		
U.S. Dollars	X	X
British Pounds	X	X
Total foreign currency non-current receivables	X	X
Total Australian dollar non-current receivables	X	X
Total Non-Current Receivables	X	X

	20X1 $M	20X0 $M

16. Land and Buildings

	20X1 $M	20X0 $M
Buildings (at independent valuation of current cost as at 30/6/20X1)	X	X
Less: Accumulated depreciation	(X)	(X)
Buildings - Written down current cost	X	X
Site land (at independent valuation of current cost as at 30/6/20X1)	X	X
National parks and other "land only" holdings (at independent valuation of current cost as at 30/6/20X1)	X	X
Total Land and Buildings	X	X

(Disclose details of valuer, policy of regular revaluation and period between revaluations in accordance with AAS 10 "Accounting for the Revaluation of Non-Current Assets".)

17. Plant and Equipment

	20X1 $M	20X0 $M
Plant, equipment and vehicles under lease at cost	X	X
Less: accumulated amortisation	(X)	(X)
	X	X
Plant, equipment and vehicles at cost	X	X
Less: accumulated depreciation	(X)	(X)
	X	X
Military equipment (at independent valuation of current cost as at 30/6/20X1)	X	X
Less: accumulated depreciation	(X)	(X)
Military equipment - Written down current cost	X	X
Total Plant and Equipment	X	X

(Disclose details of valuer, policy of regular revaluation and period between revaluations in accordance with AAS 10 "Accounting for the Revaluation of Non-Current Assets".)

	20X1 $M	20X0 $M
18. Roads		
Roads - land (at independent valuation of current cost as at 30/6/20X1)	X	X
Roads: non-land components (at independent valuation of current cost as at 30/6/20X1)	X	X
Less: accumulated depreciation	(X)	(X)
Roads: non-land components - Written down current cost	X	X
Total Roads	X	X

(Disclose details of valuer, policy of regular revaluation and period between revaluations in accordance with AAS 10 "Accounting for the Revaluation of Non-Current Assets".)

19. Other Assets

Other assets - including works of art, museum collections, rare book collections (at independent valuation of current cost as at 30/6/20X1)	X	X
Less: accumulated depreciation	(X)	(X)
Total Other Assets	X	X

(Disclose details of valuer, policy of regular revaluation and period between revaluations in accordance with AAS 10 "Accounting for the Revaluation of Non-Current Assets".)

	20X1 $M	20X0 $M
20. Payables		
Current		
Creditors	X	X
Lease liability	X	X
Total Current Payables	X	X
Non-Current		
Creditors	X	X
Lease liability	X	X
Total Non-Current Payables	X	X
Total Payables	X	X

Finance Lease Liabilities

At the reporting date, the Government had the following commitments under finance leases (the total commitment net of future lease finance charges has been recognised as a liability in the statement of financial position):

Not longer than one year	X	X
Longer than one year but not longer than five years	X	X
Longer than five years	X	X
Minimum lease payments	X	X
Deduct: future finance charges	X	X
Total Finance Lease Liabilities	X	X
Classified as:		
Current	X	X
Non-Current	X	X

21. Borrowings

	PAYMENTS DUE					
	30/6/X2	30/6/X3	1/7/X3 to 30/6/X6	After 30/6/X6	TOTAL	
					20X1	20X0
	$M	$M	$M	$M	$M	$M
Term deposits	X	X	X	X	X	X
Australian Dollar Borrowings	X	X	X	X	X	X
Foreign Currency Borrowings						
U.S. Dollars	X	X	X	X	X	X
Japanese Yen	X	X	X	X	X	X
Swiss Francs	X	X	X	X	X	X
European Currency Units	X	X	X	X	X	X
British Pounds	X	X	X	X	X	X
German Marks	X	X	X	X	X	X
Total Foreign Currency Borrowings	X	X	X	X	X	X
Total Borrowings	X	X	X	X	X	X

22. Employee Entitlements

	20X1 $M	20X0 $M
Current		
Accrued wages and salaries	X	X
Annual leave	X	X
Long-service leave	X	X
Total Current Employee Entitlements	X	X
Non-Current		
Annual leave	X	X
Long-service leave	X	X
Total Non-Current Employee Entitlements	X	X
Total Employee Entitlements	X	X

Accrued wages, salaries and annual leave are measured at remuneration rates current as at the reporting date.

Long-service leave is measured at the present value of the expected future payments to employees which will need to be made as a result of service to date. The weighted-average discount rate used is X.XX%, the weighted-average term to settlement is X years, and the weighted-average rate of salary increases assumed is X.XX%.

23. Superannuation

The Government and its controlled entities contribute in respect of its employees to a number of defined benefit and defined contribution superannuation plans. Details of the funding status of the defined benefit plans as at the reporting date, as determined by ... (details of actuaries and qualifications) are set out below:

	Vested Benefits		Accrued Benefits		Net Market Value of Plan Assets		Deficit	
	20X1	20X0	20X1	20X0	20X1	20X0	20X1	20X0
	$M	$M	$M	$M	$M	$M	$M	$M
Plan A	X	X	X	X	X	X	X	X
Plan B	X	X	X	X	X	X	X	X
Plan N	X	X	X	X	X	X	X	X
Total	X	X	X	X	X	X	X	X

Accrued benefits are measured as the present value of estimated future cash payments to employees arising from membership of the plan up to the reporting date. The rates used to discount the estimated future cash payments to employees are those attaching to Commonwealth Government Bonds.

The weighted-average discount rate used is X.XX%, the weighted-average term to settlement is X years, and the weighted-average rate of salary increases assumed is X.XX%.

The deficit of accrued benefits over the net market value of plan assets has been recognised as a liability in the statement of financial position.

24. Reconciliation of Changes in Equity

	Total		Accumulated Surplus		Asset Revaluation Reserve		Other Reserves		Share Capital in Government-Controlled Corporations Held by Outside Equity Interests	
	20X1 $M	20X0 $M	20X1 $M	20X0 $M	20X1 $M	20X0 $M	20X1 $M	20X0 $M	20X1 $M	20X0 $M
Balance at beginning of reporting period	X	X	X	X	X	X	X	X	X	X
Operating Surplus/(Deficit)	X	X	X	X	-	-	-	-	-	-
Transfers to reserves	X	-	(X)	(X)	X	-	X	X	-	-
Transfers from reserves	-	-	-	X	-	-	-	(X)	-	-
Transitional adjustments	X	X	X	X	-	-	-	-	-	-
Shares issued	X	-	-	-	-	-	-	-	X	-
Balance at end of reporting period	X	X	X	X	X	X	X	X	X	X
Outside Equity Interest	X	X	X	X	X	X	X	X	-	-
Government ABC's Interest	X	X	X	X	X	X	X	X	X	X

25. Cash Flows

(a) Reconciliation of Cash

For the purposes of the statement of cash flows, the Government considers cash to include cash on hand and in banks, and investments in money market instruments. Cash at the end of the reporting period as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	20X1		20X0	
	$M	$M	$M	$M
Cash on Hand				
Cash				
- Financial Institutions	X		X	
- Other Sectors	X	X	X	X
Deposits at call				
- Financial Institutions	X		X	
- Other Sectors	X	X	X	X
Total Cash on Hand		X		X

(b) Non-Cash Financing and Investing Activities

During the reporting period, the Government acquired equipment with an aggregate fair value of $MX (20X0 - $MX) by means of finance leases and cost free acquisitions from Government XYZ. These acquisitions are not reflected in the statement of cash flows.

(c) Reconciliation of Net Cash Used in Operating Activities to Operating Result

	20X1 $M	20X0 $M
Operating Surplus/(Deficit)	X	X
Non-Cash Movements		
Depreciation	X	X
Amortisation	X	X
Provision for doubtful debts	X	X
Increase in payables	X	X
Increase in borrowings	X	X
Increase in employee entitlements	X	X
Net revenues from sale of plant and equipment	(X)	(X)
Net revenues from sale of investments	(X)	(X)
Increase in other current assets	(X)	(X)
Increase in investments	(X)	(X)
Increase in receivables	(X)	(X)
Net Cash Used in Operating Activities	(X)	(X)

(d) Net Cash Flows from Financial Institutions

	20X1		20X0	
	$M	$M	$M	$M
Cash Flows from Operating Activities				
Interest and bill discounts received	X		X	
Interest and other costs of finance paid	(X)		(X)	
Dividends received	X		X	
Fees and commissions received	X		X	
Net payments for and proceeds from sale of dealing securities	(X)		(X)	
Fees and commissions paid	(X)		(X)	
Cash paid to suppliers and employees	(X)		(X)	
Net Cash from Operating Activities		X		X
Cash Flows from Investing Activities				
Proceeds from sale of investment securities	X		X	
Payments for investment securities	(X)		(X)	
Customer loans granted	(X)		(X)	
Customer loans repaid	X		X	
Payments for property, plant and equipment	(X)		(X)	
Net Cash used in Investing Activities		(X)		(X)
Cash Flows from Financing Activities				
Net increase in savings, money market and other deposit accounts	X		X	
Net proceeds from sales of and payments for maturing certificates of deposit	X		X	
Proceeds from issuance of long-term borrowings	X		X	
Net increase in other borrowings	X		X	
Dividends paid	(X)		(X)	
Net Cash from Financing Activities		X		X
NET CASH FLOWS FROM FINANCIAL INSTITUTIONS		X		X

(e) Cash Flows Presented on a Net Basis

Cash flows arising from the following activities with respect to controlled financial institutions are presented on a net basis in Note 25(d):

(a) customer deposits and withdrawals from savings, money market and other deposit accounts;

(b) sales and purchases of dealing securities;

(c) sales and purchases of maturing certificates of deposit; and

(d) short-term borrowings.

	20X1 $M	20X0 $M
26. Commitments for Capital Expenditure		
At the reporting date, the Government had entered into contracts for the following capital expenditures (these commitments have not been recognised as liabilities):		
Plant and equipment	X	X
These expenditures are due for payment:		
Not longer than one year	X	X
Longer than one year but not longer than five years	X	X
Longer than five years	X	X
	X	X
27. Operating Lease Commitments		
At the reporting date, the Government had the following obligations under non-cancellable operating leases (these obligations have not been recognised as liabilities):		
Not longer than one year	X	X
Longer than one year but not longer than five years	X	X
Longer than five years	X	X
Total Operating Lease Commitments	X	X

	20X1 $M	20X0 $M
28. Contingent Obligations		

Contingent obligations are items in the nature of liabilities which, as at the reporting date, are not recognised in the Statement of Financial Position because they have been assessed as being not likely to give rise to a necessity for the Government to make payments in respect of them.

	20X1 $M	20X0 $M
Deposit guarantees provided in respect of government-controlled financial institutions	X	X
Other (specify)	X	X
Total Quantifiable Contingent Obligations	X	X

Non-Quantifiable (specify details)

29. Compliance with Appropriations

(Specify details on where information about compliance with Parliamentary appropriations can be obtained)

30. Details of Controlled Entities

(Specify the identity of each controlled entity, and changes therein and other additional disclosures required by AAS 24)

DEVELOPMENT OF THE STANDARD

This section does not form part of the Standard. It is a summary of the development of the Standard and the Public Sector Accounting Standards Board's (PSASB's) consideration of the key issues dealt with in the Standard.

Due Process

In developing the Standard the PSASB has consulted widely with interested parties, including:

- Departments of Treasury/Finance of each jurisdiction, separately and through the Standing Treasuries Liaison Committee on Accounting Issues (now replaced by the Heads of Treasuries Accounting and Reporting Advisory Committee) and a standing committee of the secretaries of the Commonwealth, State and Territory Treasuries (known as "Heads of Treasury");
- Auditors-General of each jurisdiction, separately and through the Australasian Council of Auditors-General (ACAG);
- public accounts committees, separately and through the Australasian Council of Public Accounts Committees; and
- others with an interest in public sector financial reporting, including members of the public and regulatory agencies.

The views of these parties were obtained at meetings of the PSASB's Consultative Group, through the Project Advisory Panel which was established during the development of Discussion Paper No. 21 "Financial Reporting by Governments", through direct liaison with the above-mentioned parties and by issuing Exposure Draft ED 62 "Financial Reporting by Governments" for public comment.

Uniform Reporting Framework

Whilst there have been other significant efforts directed towards standardising and improving the reporting practices of governments, before the Standard was issued no uniform framework existed for the preparation of general purpose financial reports which report on a government's assets and liabilities in a statement of financial position and a government's revenues and expenses in an operating statement.

Main Issues on which Respondents to ED 62 Commented

Accrual Basis of Accounting

Consistent with the views of most respondents to ED 62, the PSASB is of the view that the Standard should require the accrual basis of accounting to be applied, whereby the assets, liabilities, revenues and expenses of a government are recognised in the reporting periods to which they relate, regardless of when cash is received or paid. This will enable:

- the operating statement to report revenues of the period and their sources, and the expenses associated with providing goods and services for the period. It will also enable an operating result for the period to be reported, and this will provide information on the intergenerational equity implications of a government's operations for the period; that is, the extent to which a particular period's taxpayers have paid for the goods and services provided by the government during that period; and
- the statement of financial position to report the assets deployed by a government to deliver goods and services, and the liabilities which the government will be required to settle in future reporting periods. This information is necessary if a government is to satisfy its accountability for the assets it controls and the liabilities it has incurred, and is a prerequisite for informed assessments of its efficiency in employing its assets. Information about a government's assets is also necessary for assessments of the ability of a government to change the mix of assets it currently controls to meet changing objectives, policies and priorities.

Governments as Reporting Entities

Consistent with its Statements of Accounting Concepts and the views expressed by most respondents to ED 62, the PSASB considers the Commonwealth Government and each of the State and Territory Governments to be reporting entities. This is because the PSASB is of the view that there are users (including parliamentarians, the public, the media and others) who rely on the general purpose financial reports of governments for information useful for making and evaluating decisions about the allocation of resources and for assessing the discharge of accountability for the effective, efficient and economical use of resources. It is on this basis that the Standard requires each government to prepare, at least annually, a general purpose financial report which includes:

- a statement of financial position, displaying information about its assets and its liabilities as at the reporting date;

- an operating statement, which reports on its revenues and its expenses for the reporting period; and

- a statement of cash flows, and other information necessary to allow informed assessments of its financial position, financial performance, and financing and investing activities.

Boundaries of the Government Reporting Entity

The Standard requires the general purpose financial reports of a government to include the assets it controls, and the liabilities it has incurred (and, accordingly, its revenues and expenses), regardless of whether those assets and liabilities have arisen directly or through separate organisational units, legal or other entities, and notwithstanding that some of those entities have 'not-for-profit' service delivery objectives and others have commercial objectives. This is because the PSASB is of the view that governments should be accountable for the assets they control and the liabilities they incur, and the changes therein resulting from activities during a reporting period.

Method of Combination

In order to ensure that the general purpose financial reports of a government provide a comprehensive overview of the government as a single economic entity, the Standard requires the assets, liabilities, revenues and expenses of all the entities which comprise the government reporting entity to be consolidated, on a line-by-line basis, in accordance with Australian Accounting Standard AAS 24 "Consolidated Financial Reports".

The equity method of accounting for government-controlled financial institutions and government business enterprises was advocated by some respondents to ED 62 on the basis that full line-by-line consolidation of these entities could 'swamp' the other amounts recognised in the financial statements. Under this approach, only the net assets and net results of these entities would be recognised in the government's financial statements, rather than for their assets, liabilities, revenues and expenses to be consolidated on a line-by-line basis. The PSASB rejected the equity method of accounting because:

- it does not believe that the importance of information for decision making and accountability varies according to the type of entity which holds the assets on behalf of government; and

- it is of the view that it is important for the statement of financial position and operating statement of a government to include information about the assets, liabilities, revenues and expenses of all of the entities it controls. This is because, for example, decisions about the deployment of the assets of government-controlled entities are often made on an asset-by-asset or asset category basis (and not on a 'whole of entity' basis), and information about the categories of assets held by all entities comprising the government reporting entity can be important for decision making purposes.

Whilst the PSASB is of the view that the financial statements should provide a comprehensive overview of the assets, liabilities, revenues and expenses of the government as a single economic entity, it is also of the view that disaggregated information about those elements can be important for decision making. For this reason, the Standard requires disclosure, in notes in the general purpose financial report, of the assets, liabilities, revenues and expenses attributable to the different segments of a government's activities.

Criterion for Combination

Some respondents to ED 62 argued that the concept of control was not suitable as a basis for determining whether an entity should be included as part of the government reporting entity and that other criteria, such as accountability or financial dependence on the government, should be adopted.

The PSASB is of the view that the concepts of control and accountability are inextricably linked in that governments are accountable for items which they control and are not accountable for items which they do not control. For this reason, the PSASB is of the view that in concept, a financial report prepared using control as the basis for determining the government reporting entity should be the same as a financial report prepared using accountability as the basis for determining the government reporting entity. However, the PSASB is of the view that the concept of control is more robust than the concept of accountability in practice, and provides more guidance as to which entities should be included in the government reporting entity.

If the criterion for combination was financial dependence, the consolidated financial reports of a government would include:

- private sector businesses which conduct normal arm's-length transactions with a government, specifically where that business relies heavily on those transactions with a government for its profitability; and

- the assets and liabilities of most recipients of social welfare benefits.

This would result in the inclusion of assets and liabilities in the financial statements of governments over which they had no control or accountability and would, accordingly, diminish their decision usefulness.

Application Date and Transitional Provisions

ED 62 proposed that the Standard should apply to governments for reporting periods ending on or after 30 June 1998. Views obtained by the PSASB on this issue varied — whilst some would have preferred an earlier application date, others agreed with the proposed application date, and some would have preferred the proposed application date to be later than that proposed in ED 62. Having considered the differences between jurisdictions with respect to the timing of their adoption of Australian Accounting Standard AAS 29 "Financial Reporting by Government Departments" and the extent to which various jurisdictions have begun to address issues relating to financial reporting by governments, the PSASB decided to defer the application date of the Standard by one year to 30 June 1999. Earlier adoption is encouraged. Also, because accrual reporting is a relatively new development for non-business entities in the public sector, the Board extended the time during which some of the transitional provisions in the Standard will apply. Details of those transitional provisions are included in section 21 of the Standard.

International Developments

Although there are no other comprehensive standards dealing with financial reporting by governments of which the PSASB is aware, the requirements and guidance that apply to financial reporting by governments in New Zealand, the United States of America, the United Kingdom and Canada were examined when developing the Standard. The Board also examined the financial reporting practices of governments in those jurisdictions.

In addition, the Board examined guidance developed by the International Federation of Accountants Public Sector Committee (IFAC-PSC) in respect of financial reporting by national governments, and the requirements of the Standard are consistent with the guidance included in the following studies issued by the IFAC-PSC for governments which have adopted full accrual-based reporting:

- "Financial Report ing by National Governments" (March 1991)
- "Elements of the Financial Statements of National Governments" (July 1993)
- "Definition and Recognition of Assets" (August 1995)

- "Accounting for and Reporting Liabilities" (August 1995)
- "The Government Financial Reporting Entity" (May 1996)

June 1998 Issue of the Standard

This June 1998 issue of the Standard supersedes the previous Standard as issued in November 1996.

Principal Changes

The principal changes to the superseded Standard are:

(a) to clarify the treatment of multi-year public policy agreements;

(b) to allow pre-existing assets that are difficult to measure (including land under roads, and assets forming part of the collections of museums, art galleries and libraries) to be recognised at any time up to 1 July 1998 and to make the corresponding entry directly against accumulated surplus (deficiency);

(c) to allow land under roads not to be recognised, or to be derecognised, up to 1 July 1999;

(d) in respect of disaggregated disclosures, 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; and

(e) amend the time-bands within which capital expenditure commitments are required to be disclosed for consistency with other Australian Accounting Standards.