

Accounting Standard

AASB 1049
September 2006

Financial Reporting of General Government Sectors by Governments



Australian Government

**Australian Accounting
Standards Board**

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Australian Accounting Standard AASB 1049 *Financial Reporting of General Government Sectors by Governments* is set out in paragraphs 1-62 and Appendix A. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in this Standard are in *italics* the first time they appear in the Standard. AASB 1049 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

PREFACE

Reasons for Issuing AASB 1049

The issue of AASB 1049 is part of the Australian Accounting Standards Board's (AASB's) implementation of a Financial Reporting Council (FRC) broad strategic direction:

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

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

Within phase 1, the AASB decided that a separate Standard should be developed that specifies requirements for financial reporting by a government of its GGS, as defined in the Australian Bureau of Statistics (ABS) Manual *Australian System of Government Finance Statistics: Concepts, Sources and Methods*, available on the ABS website ([the ABS GFS Manual](#)). The AASB decided that priority should be given to developing a Standard relating to separate GGS financial reports.

This Standard does not have broader implications beyond GGS financial reporting. The Board will consider in due course the extent to which its decisions on GGS financial reporting should be applied to the remaining aspects of phase 1, comprising whole of government financial reporting, the PNFC sector and the PFC sector, as well as phases 2 and 3, comprising financial reporting by government departments, statutory bodies, local governments, universities, government business enterprises and other public sector entities.

Main Features of this Standard

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 July 2008. Early adoption of this Standard is permitted.

Main Requirements

This Standard requires:

- (a) a government to prepare a financial report for its GGS in accordance with the requirements of this Standard. The GGS financial report shall not be made available prior to the whole of government financial report being made available. Consistent with the principles in the ABS GFS Manual, the GGS financial report, unlike the whole of government financial report, does not consolidate government controlled entities that are classified by the ABS GFS Manual into the PNFC sector and the PFC sector – it only consolidates entities that are classified within the GGS, as defined in the ABS GFS Manual;
- (b) a government to account for the GGS's interests in the government's controlled entities in other sectors by measuring the GGS asset 'investments in other sector entities' at fair value where fair value is reliably measurable and at the government's proportional share of the net assets where fair value is not reliably measurable. In the latter case, net assets are those that are consolidated into the whole of government financial report before elimination of intersector balances. Changes in the carrying amount of the 'investments in other sector entities' are accounted for in a manner consistent with the carrying amount being fair value and therefore subject to the requirements in AASB 139 *Financial Instruments: Recognition and Measurement*;
- (c) the requirements in other Australian Accounting Standards be applied, with the exception of the non-consolidation of controlled entities in the PNFC sector and PFC sector and certain other exceptions specified;
- (d) where Australian Accounting Standards allow for optional treatments, only those treatments aligned with the ABS GFS Manual be applied;
- (e) where GFS information is included in the financial report because it is required by this Standard or provided at the discretion of the government, only the principles and rules in the ABS GFS Manual for determining that information be applied;

- (f) the GGS financial statements to include on their face information that is required by other Australian Accounting Standards, together with key fiscal aggregates, determined in a manner consistent with the other amounts recognised on the face and, in addition:
 - (i) the operating statement to present, as well as the operating result, the comprehensive result (comprising all movements in equity – in contrast to the requirements in AASB 101 *Presentation of Financial Statements*). Income and expenses shall be classified between transactions and other economic flows;
 - (ii) the cash flow statement to present cash flows relating to investing in financial assets for policy purposes and for liquidity management purposes separately, determined in a manner consistent with the ABS GFS Manual; and
 - (iii) where specified key fiscal aggregates on the face of the financial statements differ from the corresponding key fiscal aggregates measured under the ABS GFS Manual, the ABS GFS Manual measure to be disclosed in the notes together with a reconciliation of the two measures and an explanation of the differences.

Illustrative Example A includes an example of acceptable GGS financial statements and a reconciliation note format;

- (g) specified disclosures to be included in the summary of significant accounting policies note and other explanatory notes to the financial statements;
- (h) disclosure of a description of each broad function of the GGS as specified in the ABS GFS Manual, and the assets and expenses (excluding losses) included in operating result, that are reliably attributable to those functions. This information is to be aggregated;
- (i) the inclusion of the original budgeted financial statements, restated if necessary to align with the basis of the financial statements prepared in accordance with this Standard. It also requires disclosure of explanations of major variances between amounts in the original GGS budget financial statements and actual amounts; and
- (j) in relation to transition, the first financial report prepared in accordance with this Standard to be prepared in accordance with the principles underlying AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, with the exception of:

- (i) the requirement to disclose a reconciliation of previous GAAP to new GAAP; and
- (ii) the use of the transition date in the whole of government financial report, rather than a transition date when the GGS first applies this Standard.

Comparative period information, prepared as if this Standard had applied, is required to be presented in the first financial report.

As a result of potential amendments to the requirements in Australian Accounting Standards and the ABS GFS Manual or the interpretation of those requirements, differences between GAAP and GFS not contemplated in this Standard may eventuate. Unless the Board considers a potential difference and amends this or another Australian Accounting Standard to avoid the difference, a difference is included in the reconciliations and/or explanations of differences required by paragraph 42(a)(ii) of the Standard. As issues emerge in the future, the Board will have regard to the implications for GGS financial reporting in deciding whether to amend this or another Standard to either avoid or confirm the existence of a difference.

GFS and its Relationship to GAAP GGS Financial Reporting

For GFS financial reporting purposes a government is regarded as comprising three sectors: the GGS, the PNFC sector and the PFC sector. Given its non-market nature and its important role as the vehicle by which a government implements its fiscal policy, it is useful to distinguish the GGS from the other, more market-oriented, government sectors. The GGS consists of all government units and non-profit institutions controlled and mainly financed by government. Government units are legal entities established by political processes that have legislative, judicial, or executive authority over other units and which provide goods and services to the community or to individuals on a non-market basis; and redistribute income and wealth by means of taxes and other compulsory transfers. Non-profit institutions are created for the purpose of producing or distributing goods and services but are not permitted to be a source of income, profit or other financial gain for the government. The PNFC sector and PFC sector comprise government controlled entities that produce goods and services for the market and may be a source of profit or other financial gain to the government. They typically transact with outside consumers, frequently at arm's length in contestable markets. The GGS of a government, rather than the PNFC sector or PFC sector, is the focus of this Standard.

GFS particularly focuses on the macro-economic impact of the GGS and fiscal policy decisions. Chapter 2 of the ABS GFS Manual identifies a

number of core analytical measures for fiscal policy that this Standard requires to be disclosed in the GGS financial report. They include:

- (a) GFS net operating balance, which equals GFS revenue minus GFS expenses. GFS revenue and GFS expenses only arise from transactions, defined as interactions between two units by mutual agreement or actions within a unit that are analytically useful to treat as transactions. GFS distinguishes transactions from other economic flows, defined as changes in the volume or value of an asset or liability that do not result from transactions;
- (b) GFS net lending/(borrowing), which equals the GFS net operating balance minus the net acquisition of GFS non-financial assets. It also equals transactions in GFS financial assets minus transactions in GFS liabilities;
- (c) GFS net worth, which equals GFS assets minus GFS liabilities; and
- (d) GFS cash surplus/(deficit), which equals GFS net cash flows from operating activities minus the net cash outflow from acquisitions and disposals of GFS non-financial assets and GFS assets acquired under finance leases and similar arrangements.

Although accrual accounting principles are applied under GFS for the GGS, some of the definition, recognition, measurement, classification and presentation principles and rules differ from GAAP. This Standard specifies the manner in which the differences between GAAP and GFS shall be treated. In limited cases, the Standard specifies GAAP that better aligns with GFS. In other cases, it requires or allows GFS information to be presented in addition to GAAP information, together with reconciliations between the two frameworks and explanations of the differences.

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

AASB 1049 and International Public Sector Accounting Standards (IPSASs)

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

The General Government Sector (GGS) financial report prepared by a government in accordance with this Standard is in addition to the whole of government financial report prepared by the government. The whole of government financial report is prepared in accordance with other Australian Accounting Standards. Those Standards identify the extent to which they differ from the corresponding IPSASs.

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

At the time of issuing this Standard, the IPSASB has certain projects nearing completion that have particular relevance to this Standard, including its projects on budget reporting and on GGS financial reporting.

AASB 1049 and International Financial Reporting Standards (IFRSs)

The GGS financial report prepared by a government in accordance with this Standard is in addition to the whole of government financial report prepared by the government. The whole of government financial report is prepared in accordance with other Australian Accounting Standards. Those Standards identify the extent to which they differ from the corresponding International Accounting Standards Board (IASB) standards.

There is no specific standard issued by the IASB dealing with financial reporting of GGSs by governments.

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

ACCOUNTING STANDARD AASB 1049

The Australian Accounting Standards Board makes Accounting Standard AASB 1049 *Financial Reporting of General Government Sectors by Governments*.

Dated 7 September 2006

D.G. Boymal
Chair – AASB

ACCOUNTING STANDARD AASB 1049

FINANCIAL REPORTING OF GENERAL GOVERNMENT SECTORS BY GOVERNMENTS

Objective

1. The objective of this Standard is to specify requirements for financial reports of the *General Government Sector (GGS)* of each *government*. These requirements are in addition to requirements for *whole of government financial reports* of each government. In particular, this Standard requires compliance with other Australian Accounting Standards except as specified in this Standard, and disclosure of additional information such as reconciliations to *key fiscal aggregates* determined in accordance with the *ABS GFS Manual*. Financial reports prepared in accordance with this Standard provide users with information about the stewardship of each government in relation to its GGS and accountability for the resources entrusted to it; information about the financial position, performance and cash flows of each government's GGS; and information that facilitates assessments of the macro-economic impact of each government's GGS.

Application

2. **This Standard applies to each government in relation to its GGS.**
3. **This Standard applies to annual reporting periods beginning on or after 1 July 2008.**
4. **This Standard may be applied to annual reporting periods beginning before 1 July 2008.**

5. **The requirements specified in this Standard apply to the financial report where information resulting from their application is material in accordance with AASB 1031 *Materiality*.**

GGs Financial Report to be Prepared

6. **A government shall prepare a financial report for its GGS in accordance with the requirements of this Standard.**
7. Consistent with the ABS GFS Manual, for the purpose of this Standard, a government is regarded as comprising three sectors: the GGS; the *Public Non-Financial Corporations (PNFC) sector*; and the *Public Financial Corporations (PFC) sector*. The focus of this Standard is the GGS of a government.
8. **A government shall not make its GGS financial report available prior to its whole of government financial report being made available.**
9. A government's whole of government financial report is prepared in addition to the GGS financial report and consolidates all government controlled entities, whether they fall within the GGS or the PNFC sector or the PFC sector.

Compliance with Australian Accounting Standards

10. **Unless otherwise specified in this Standard, the GGS financial report shall be prepared in a manner consistent with other Australian Accounting Standards.**
11. With limited significant exceptions, this Standard requires the definition, recognition, measurement, classification, presentation and disclosure requirements specified in other Australian Accounting Standards to be adopted in the GGS financial report. This Standard only requires a different treatment from another Australian Accounting Standard when the requirements of this Standard directly conflict with the requirements of that other Standard. For example:
- (a) in conflict with AASB 127 *Consolidated and Separate Financial Statements*, paragraph 19 prohibits the consolidation of controlled entities in other sectors; and
 - (b) in conflict with AASB 101 *Presentation of Financial Statements*, paragraphs 24 and 29 prescribe an operating statement that includes all recognised income and expenses on

its face and do not require a separate statement of changes in equity.

Where another Australian Accounting Standard:

- (a) explicitly excludes from its scope not-for-profit entities, such as AASB 114 *Segment Reporting*; or
- (b) explicitly excludes from its scope not-for-profit public sector entities, such as AASB 124 *Related Party Disclosures*; or
- (c) only applies to certain entities that are required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act, such as AASB 133 *Earnings per Share*;

the GGS financial report is not required to adopt the requirements of those Standards.

- 12. Paragraph Aus13.4 of AASB 101 does not apply to the GGS financial report. Accordingly, the GGS financial report is not required to disclose that the financial report is a general purpose financial report or a special purpose financial report.
- 13. **In satisfying paragraph 10 of this Standard, where compliance with the ABS GFS Manual would not conflict with Australian Accounting Standards, the principles and rules in the ABS GFS Manual shall be applied. In particular, certain Australian Accounting Standards allow optional treatments within their scope. Those optional treatments in Australian Accounting Standards aligned with the principles or rules in the ABS GFS Manual shall be applied.**
- 14. Examples of particular optional treatments in Australian Accounting Standards that paragraph 13 of this Standard has the effect of limiting, include:
 - (a) borrowing costs that may be expensed or capitalised under AASB 123 *Borrowing Costs*. Because expensing all borrowing costs is consistent with the ABS GFS Manual's principles and rules, paragraph 13 of this Standard has the effect of requiring all borrowing costs to be expensed;
 - (b) assets within the scopes of AASB 116 *Property, Plant and Equipment*, AASB 138 *Intangible Assets* and AASB 140 *Investment Property* that may be measured at cost or at fair value. For the purpose of GGS financial reports, those assets that are assets under the ABS GFS Manual that are within the

scope of those Standards are required to be measured at fair value because the ABS GFS Manual requires those assets to be measured at market value.

However, the fair value options allowed under AASB 116, AASB 138 and AASB 140 are not amended by paragraph 13 of this Standard. If the fair value of an asset cannot be reliably measured in accordance with an Australian Accounting Standard that allows a choice between fair value and cost, then that asset is to be measured at cost. Where historical cost is adopted because fair value cannot be measured reliably, historical cost is not characterised as fair value. Also, for example, the requirement for the fair value of an intangible asset to be determined by reference to an active market under AASB 138 continues to apply;

- (c) certain financial instruments that may be measured at fair value or on another basis under AASB 139 *Financial Instruments: Recognition and Measurement*. For the purpose of GGS financial reports, where financial instruments meet the criteria for measurement at fair value under AASB 139, they are required to be measured at fair value where the ABS GFS Manual requires market value as the measurement basis.

Although fair value measurement in the balance sheet may be mandated through paragraph 13 of this Standard, the accounting for changes in fair value in the operating statement is not mandated by paragraph 13. Rather, changes in fair value are classified in the operating statement in accordance with AASB 139. AASB 139 anticipates certain financial assets being classified as either:

- (i) 'fair value through profit or loss', with changes in fair value included in operating result; or
 - (ii) 'available-for-sale', with changes in fair value included in the other movements in equity section of the operating statement (as illustrated in Illustrative Example A); and
- (d) actuarial gains and losses relating to defined benefit superannuation plans that may be recognised in full through operating result, recognised in full directly in accumulated results, or partially deferred using a 'corridor approach' under AASB 119 *Employee Benefits*. For the purpose of this Standard, the option to partially defer using a 'corridor approach' is not available because it is not acceptable under the ABS GFS Manual. The other two options are available.

However, the effect of paragraph 29 of this Standard is that the full amount is recognised on the face of the GGS operating statement and included in either:

- (i) the calculation of operating result; or
 - (ii) the other movements in equity section of the operating statement (as illustrated in Illustrative Example A).
15. Certain Australian Accounting Standards do not specify particular rules for an item or an issue within their scope. An example is AASB 101, which specifies only the minimum line items to be presented on the face of the balance sheet and requires additional line items, headings and subtotals to be presented on the face when such presentation is relevant to an understanding of the entity's financial position. The ABS GFS Manual specifies principles and rules for the presentation of a GGS balance sheet prepared for GFS purposes. The ABS GFS Manual principles and rules are required to be applied in the presentation of the balance sheet to the extent that they do not conflict with AASB 101.
- 16. Subject to paragraph 42(a)(i) of this Standard, where key fiscal aggregates are included in the financial report either because they are required by this Standard or a government elects to provide additional information, they shall be measured in a manner that is consistent with amounts recognised on the face of the financial statements.**
17. This Standard requires certain information that is relevant to an assessment of the macro-economic impact of a government's GGS to be included on the face of the financial statements (see paragraphs 27, 32 and 38). This Standard requires the information to be determined in a manner consistent with other amounts recognised on the face of the financial statements. Corresponding amounts, determined in accordance with the ABS GFS Manual, are required to be disclosed in the notes where they differ from the amounts presented on the face of the financial statements (see paragraph 42(a)(i)).
18. A government may elect to disclose key fiscal aggregates or other information in accordance with the ABS GFS Manual that are additional to the requirements of this Standard. If a government elects to make additional disclosures, they are made in a way that does not detract from the information prescribed in this Standard. Examples of additional disclosures that may be made voluntarily include the classification of *other economic flows* consistent with Table 7.4 of the ABS GFS Manual and additional key fiscal aggregates such as change in *net worth* due to revaluations and change in net worth due to other

changes in the volume of assets. Consistent with the requirements in paragraph 16 of this Standard, additional key fiscal aggregates are measured in a manner consistent with recognised amounts. Consistent with paragraph 42(a) of this Standard, where they differ, corresponding key fiscal aggregates measured in accordance with the ABS GFS Manual are disclosed, together with a reconciliation of the two measures of each key fiscal aggregate. Measures of key fiscal aggregates that are not in accordance with this Standard or the ABS GFS Manual are not disclosed as key fiscal aggregates.

Presentation and Scope of GGS Financial Statements

- 19. A government shall present GGS financial statements in which it consolidates only entities that are within the GGS, using the consolidation procedures specified in AASB 127.**
- 20. GGS equity investments in government controlled entities that are within the PNFC sector and PFC sector shall be recognised as assets. They shall be measured at:**
 - (a) fair value, where fair value is reliably measurable. Any change in the fair value of the investment shall be accounted for in a manner consistent with AASB 139; or**
 - (b) where fair value is not reliably measurable, the government's proportional share of the net asset value of the PNFC sector and PFC sector entities. The government's proportional share of the net asset value shall be the net assets that are consolidated into the government's whole of government financial report before elimination of intersector balances. Any change in the carrying amount of the investment from period to period shall be accounted for as if the change in carrying amount is a change in fair value and accounted for in a manner consistent with the requirements in AASB 139.**
21. Income from GGS investments in controlled entities in the PNFC sector and PFC sector is accounted for in accordance with AASB 118 *Revenue* and AASB 139. Dividends are classified as revenue consistent with AASB 118. A change in the carrying amount of the investment over the reporting period that does not arise from the government acquiring or disposing of an interest or undistributed dividends is classified as a gain or loss. The gain or loss is included in the operating result or other movements in equity, depending on whether the investment is classified in the same manner as 'fair value

through profit or loss' investments or in the same manner as 'available-for-sale' investments consistent with the principles in AASB 139.

22. For the purposes of determining the net assets of entities within the PNFC sector and PFC sector recognised and measured in accordance with paragraph 20(b):
- (a) each PNFC sector and PFC sector entity's accounting policies are adjusted to align with the accounting policies adopted in the whole of government financial report for the same period;
 - (b) intersector balances between the GGS and entities within the PNFC sector and PFC sector are not eliminated; and
 - (c) individual amounts for each PNFC sector and PFC sector entity are aggregated and presented on a net basis.
23. **Investments in jointly controlled entities and associates shall be measured using the equity method of accounting.**

Components of a GGS Financial Report

24. **The GGS financial report shall comprise:**
- (a) **a balance sheet;**
 - (b) **an operating statement;**
 - (c) **a cash flow statement; and**
 - (d) **notes, comprising a summary of significant accounting policies and other explanatory notes.**

A separate statement of changes in equity is not required.

25. As specified in paragraph 29 of this Standard, the GGS operating statement prescribed in this Standard incorporates into a single statement the information that would otherwise be required by AASB 101 to be presented in two separate statements – the income statement and the statement of changes in equity.

Balance Sheet

26. **The face of the balance sheet and notes thereto shall be presented in a manner consistent with the requirements in AASB 101.**

27. **Net worth shall be presented on the face of the balance sheet, measured in a manner consistent with other amounts recognised on the face of the balance sheet.**
28. An example of an acceptable balance sheet format that is in accordance with this Standard is provided in Illustrative Example A.

Operating Statement

29. **The operating statement shall include all items of income and expense recognised in a period. The face of the operating statement and notes thereto shall be presented in a manner consistent with the requirements for the income statement and statement of changes in equity in AASB 101.**
30. **All amounts relating to an item included in the determination of comprehensive result (total change in net worth) shall be classified as *transactions* or other economic flows in a manner that is consistent with the principles in the ABS GFS Manual.**
31. The following examples illustrate how the approach in paragraph 30 applies to particular items:
- (a) dividends from PNFC sector and PFC sector entities are classified as transactions to the extent that the ABS GFS Manual accounts for them as dividends and otherwise as other economic flows;
 - (b) net profit/(loss) from associates potentially comprises two components under GFS classification – dividends from associates and the remainder. Accordingly, dividends are classified as transactions and the remainder is classified as other economic flows. Such dividends are not included in the line item that includes dividends from entities other than associates;
 - (c) changes in the fair value of financial instruments measured at fair value, that do not arise from undistributed interest or dividends, are classified as other economic flows, irrespective of whether the instruments are classified as ‘fair value through profit or loss’ or ‘available-for-sale’ and whether or not they are investments in PNFC sector and PFC sector entities;
 - (d) actuarial gains and losses relating to defined benefit superannuation plans are classified as other economic flows, irrespective of whether they are included in the calculation of operating result or the other movements in equity section of the operating statement;

- (e) changes in the fair value of investment property potentially comprises two components under GFS classification – consumption of capital and price changes. Accordingly, the consumption of capital is classified as transactions and the price changes are classified as other economic flows. Although the consumption of capital may be considered to be similar in nature to depreciation, it is not included in the line item that includes depreciation;
- (f) depreciation of defence weapons platforms is classified as a transaction, by analogy with the GFS classification of depreciation of other plant and equipment;
- (g) doubtful debts are classified as other economic flows, by analogy with the GFS classification of revaluation of other assets; and
- (h) bad debts are classified as transactions to the extent they are mutually agreed, otherwise they are classified as other economic flows.

In some cases the approach in paragraph 30 facilitates the reduction of differences between GAAP and GFS, particularly at the key fiscal aggregate level. Illustrative Example A illustrates the classification between transactions and other economic flows for some of the items listed above and other possible circumstances where items recognised in the operating statement do not have GFS equivalents.

32. The following shall be presented on the face of the operating statement:

- (a) *net operating balance*;
- (b) **total change in net worth; and**
- (c) *net lending/(borrowing) and its derivation from net operating balance*;

measured in a manner consistent with other amounts recognised on the face of the operating statement.

33. Although AASB 101 requires certain income and expenses to be included in the statement of changes in equity rather than the income statement, this Standard requires all recognised income and expenses to be included in a single statement that presents the comprehensive result (total change in net worth). At least the same level of information required in the income statement and the statement of

changes in equity relating to income and expenses recognised for the period is required to be presented on the face of the operating statement or in the notes, consistent with the requirements in AASB 101. For example, consistent with paragraph 96(d) of AASB 101, an entity presents on the face of the operating statement, for each component of equity, the effects of changes in accounting policies and corrections of errors recognised in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

34. As noted in paragraph 14(d), actuarial gains and losses relating to defined benefit superannuation plans may be recognised in full either through operating result or directly in other movements in equity. If the latter option is adopted, consistent with paragraph 93B of AASB 119, the opening and closing balances of accumulated results and the changes during the period referred to in paragraph 97(b) of AASB 101 are not included on the face of the operating statement.
35. An example of an acceptable operating statement format that is in accordance with this Standard is provided in Illustrative Example A.

Cash Flow Statement

36. **The face of the cash flow statement and notes thereto shall be presented in a manner consistent with the requirements in AASB 107 *Cash Flow Statements*.**
37. **Cash flows relating to investing in financial assets for policy purposes and for liquidity management purposes shall be presented separately, determined in a manner consistent with the ABS GFS Manual, on the face of the cash flow statement.**
38. **The face of the cash flow statement shall also include *cash surplus/(deficit)* and its derivation, measured in a manner consistent with other amounts recognised on the face of the cash flow statement, without the deduction of the value of assets acquired under finance leases and similar arrangements.**
39. An example of an acceptable cash flow statement format that is in accordance with this Standard is provided in Illustrative Example A.

Notes

Summary of Significant Accounting Policies

40. **In addition to the disclosures required by other Australian Accounting Standards in the note containing the summary of significant accounting policies, the following disclosures shall be made prominently in that note:**
- (a) **a statement that the GGS financial report is prepared in accordance with this Standard;**
 - (b) **a statement of the purpose for which the GGS financial report is prepared;**
 - (c) **a description of the GGS;**
 - (d) **a description of how the GGS financial report differs from the whole of government financial report in terms of the treatment of the government's investments in PNFC sector and PFC sector entities and the presentation of the operating statement;**
 - (e) **where the GGS financial report is presented separately from the whole of government financial report, a cross-reference to the whole of government financial report that has been prepared for the same period and made available at the same time as the GGS financial report; and**
 - (f) **a reference to the ABS GFS Manual as being the basis for GFS information that is included in the financial report.**
41. An example of the information to be included in the summary of significant accounting policies in accordance with paragraph 40 is provided in Illustrative Example B.

Other Explanatory Notes

42. **In addition to the disclosures required to be made in other explanatory notes in accordance with other Australian Accounting Standards, the following disclosures shall be made:**
- (a) **where the key fiscal aggregates measured in accordance with the ABS GFS Manual differ from the key fiscal aggregates provided pursuant to paragraph 16 of this Standard:**

- (i) the key fiscal aggregates measured in accordance with the ABS GFS Manual; and
- (ii) a reconciliation of the two measures of key fiscal aggregates and an explanation of the differences.

Other measures of the key fiscal aggregates shall not be included in the GGS financial report;

- (b) where the key fiscal aggregates measured in accordance with the ABS GFS Manual do not differ from the key fiscal aggregates provided pursuant to paragraph 16, a statement of that fact;
- (c) a list of entities within the GGS, and any changes to that list that have occurred since the previous reporting date and the reasons for those changes;
- (d) a list of significant investments in PNFC sector and PFC sector entities, including:
 - (i) the name;
 - (ii) proportion of ownership interest and, if different, proportion of voting power held; and
 - (iii) the measurement basis adopted for the amount recognised in accordance with paragraph 20;
- (e) the aggregate amount of dividends and distributions from PNFC sector and PFC sector entities to the GGS and the aggregate amount of the surplus or deficit of the PNFC sector and PFC sector entities for the reporting period;
- (f) information that corresponds to the information required to be disclosed in the notes by AASB 101, irrespective of the fact that, in relation to the operating statement, AASB 101 prescribes the preparation of two separate statements – an income statement and a statement of changes in equity; and
- (g) explanations of key technical terms used in the financial report.

43. In relation to the requirements in paragraph 42(a), differences in the key fiscal aggregates determined under the ABS GFS Manual and pursuant to paragraph 16 of this Standard arise from differences in definition, recognition and measurement requirements. Each

difference gives rise to the need for disclosure of a reconciliation and an explanation of the difference. Examples of such differences include:

- (a) doubtful debts – although the ABS GFS Manual recognises bad debts written off, it does not recognise write-downs of accounts receivable in relation to doubtful debts;
- (b) provisions recognised as liabilities – in the absence of a counterparty recognising a related financial asset, the ABS GFS Manual does not recognise a liability arising from a constructive obligation;
- (c) inventories – under the ABS GFS Manual, inventories are measured at current prices, whereas under AASB 102 *Inventories*, depending on their nature, inventories are measured at the lower of cost and net realisable value or at the lower of cost and current replacement cost; and
- (d) investments in jointly controlled entities and associates – under the ABS GFS Manual those assets are measured at current prices where current prices exist whereas under AASB 127 the equity method of accounting applies (see paragraph 23 of this Standard).

Illustrative Example A illustrates some of these and other possible circumstances where differences arise and the manner in which they are reflected in reconciliation notes.

44. Some differences between GAAP and GFS relate to differences in classification requirements. They do not cause a difference in measurements of key fiscal aggregates and therefore do not need to be included in the reconciliation notes. However, they do give rise to the need for explanations of the differences to be disclosed in the financial report. Examples of such differences include:
- (a) AASB 132 *Financial Instruments: Presentation* classifies certain prepaid expenses as a non-financial asset that the ABS GFS Manual classifies as a financial asset;
 - (b) AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* may classify an amount within provisions that the ABS GFS Manual classifies as accounts payable;
 - (c) paragraph 31(e) of this Standard notes that consumption of capital of investment property is classified separately from

depreciation whereas the ABS GFS Manual classifies it as depreciation; and

- (d) AASB 107 classifies cash used to purchase defence weapons platforms that are capitalised as cash flows from investing activities that the ABS GFS Manual classifies as cash flows from operating activities.

45. The GGS financial report is not subject to the disclosures required in separate financial statements by paragraphs 40, Aus40.1, 42 and Aus42.1 of AASB 127 relating to investments in subsidiaries, jointly controlled entities and associates. The requirements in those paragraphs are either addressed elsewhere in this Standard or are not significant for GGS financial reporting.

46. Key technical terms include:

- (a) transactions;
- (b) other economic flows;
- (c) net operating balance;
- (d) net lending/(borrowing);
- (e) financial assets;
- (f) non-financial assets;
- (g) net worth;
- (h) cash surplus/(deficit);
- (i) operating result;
- (j) comprehensive result (total change in net worth); and
- (k) net debt.

An example of the disclosures required by paragraph 42(g) is provided in Illustrative Example A.

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

GGS financial statements, including key fiscal aggregates, are disclosed in the notes where relevant.

Disaggregated Information

- 48. In respect of each broad function of the GGS of a government identified in Table 2.6 “Government Purpose Classification: Major Groups” of the ABS GFS Manual, the GGS financial report shall disclose by way of note:**
- (a) a description of that function;**
 - (b) the carrying amount of assets recognised in the balance sheet that are reliably attributable to that function; and**
 - (c) expenses, excluding losses, included in operating result for the reporting period that are reliably attributable to that function.**
- 49. The information provided by way of note in accordance with paragraph 48 shall be aggregated.**
50. Paragraph 48 requires disclosure of information about the recognised assets and expenses (excluding losses) included in operating result of the GGS that are reliably attributable to the broad functions of the GGS determined to at least the ABS GFS Manual two-digit level of classification shown in Table 2.6. Disclosure of this information assists users in identifying the resources committed to particular functions of the GGS and the costs of service delivery that are reliably attributable to those functions. Functional classification of financial information, where it can be determined reliably, will also assist users in assessing the significance of financial or non-financial performance indicators reported by the GGS.
51. AASB 114 does not apply to GGS financial reports. The bases used in the ABS GFS Manual for identifying functions of a GGS do not necessarily accord with the criteria for identifying segments contained in AASB 114. However, preparers of financial reports may find the guidance contained in AASB 114 is useful in identifying the expenses (excluding losses) included in operating result and assets that are reliably attributable to each function of the GGS. An example of the disclosures required by paragraph 48(b) and (c) in respect of each function of the GGS is provided in Illustrative Example A.

Budgetary Information

- 52. The GGS financial report shall disclose for the period of the financial report:**
- (a) the original budgeted financial statements for the GGS, presented on a basis that is consistent with the basis prescribed for the GGS financial statements by this Standard; and**
 - (b) explanations of major variances between the actual amounts presented on the face of the financial statements and corresponding original GGS budget amounts.**
- 53. Comparative budgetary information in respect of the previous period need not be disclosed.**
54. The original budget is the first budget presented to parliament in respect of the reporting period. Amendments made to the budget by the executive are not reflected in the budgetary information that is required to be disclosed under paragraph 52.
55. Any revised budget that is presented to parliament during the reporting period may be disclosed in addition to the original budget.
56. For the purpose of this Standard, governments are required to report financial information about their original GGS budgets for the reporting period. This facilitates users of financial reports (including taxpayers) making and evaluating decisions about the allocation of scarce resources and for assessing the discharge of a government's accountability for its GGS. Budget information is disclosed on the same basis, which includes in the same format, for the same scope and with the same content, as the accounting basis to facilitate a comparison of actuals against the budget.
57. The face of the financial statements includes information about the GGS determined in accordance with this Standard, being that required by other Australian Accounting Standards, as modified by this Standard. To the extent the first budget presented to parliament is not consistent with the information in the financial statements, the budget presented to parliament is restated for budget disclosure purposes to align with the accounting basis specified in this Standard. As the budget basis to be disclosed is consistent with the GGS accounting basis, budget information may be presented on the face of the financial statements.

58. The explanations of major variances required to be disclosed by paragraph 52(b) are those relevant to an assessment of the discharge of accountability and to an analysis of performance of government functions. They include high-level explanations of the causes of major variances rather than merely the nature of the variances.

Transitional Requirements

59. **In the first GGS financial report prepared in accordance with this Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* shall be applied with the exception of the requirements relating to the explanation of transition to Australian-equivalents-to-IFRSs and reconciliation from previous GAAP. For the purpose of this Standard:**
- (a) **Australian equivalents to IFRSs referred to in AASB 1 are those Australian Accounting Standards incorporated by cross-reference into this Standard as amended by this Standard; and**
 - (b) **the date of transition of the GGS is the date of transition used in the whole of government financial report.**
60. The optional relief provided in AASB 1 is not fully available due to the effect of paragraph 13 of this Standard. For example, AASB 1 provides an optional exemption relating to fair value or revaluation as deemed cost of property, plant and equipment, intangible assets and investment property. To the extent the ABS GFS Manual requires fair value, this option in AASB 1 is not available.
61. The transitional approach in this Standard also results in comparative period information being presented in the first financial report.
62. Paragraph 59 provides relief from the requirements in paragraphs 38 to 46 of AASB 1 relating to explaining transition to Australian equivalents to IFRSs and disclosure of a reconciliation from previous GAAP to Australian equivalents to IFRSs in its first report prepared in accordance with this Standard.

APPENDIX A

DEFINED TERMS

This appendix is an integral part of AASB 1049.

ABS GFS Manual	The Australian Bureau of Statistics (ABS) publication <i>Australian System of Government Finance Statistics: Concepts, Sources and Methods</i> as updated from time to time.
cash surplus/(deficit)	Net cash flows from operating activities plus net cash flows from acquisition and disposal of non-financial assets less distributions paid less value of assets acquired under finance leases and similar arrangements. Defined in the ABS GFS Manual (paragraph 2.124).
General Government Sector (GGS)	Institutional sector comprising all <i>government units</i> and <i>non-profit institutions</i> controlled and mainly financed by government. Defined in the ABS GFS Manual (Glossary, p. 256).
government	The Australian Government, the Government of the Australian Capital Territory, New South Wales, the Northern Territory, Queensland, South Australia, Tasmania, Victoria or Western Australia.
government units	Unique kinds of legal entities established by political processes which have legislative, judicial or executive authority over other <i>institutional units</i> within a given area and which: (i) provide goods and services to the community and/or individuals free of charge or at prices that are not economically significant; and (ii) redistribute income and wealth by means of taxes and other compulsory transfers. Defined in the ABS GFS Manual (Glossary, p. 257).
institutional unit	An economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities. Defined in the ABS GFS Manual (Glossary, p. 257).

key fiscal aggregates	Referred to as analytical balances in the ABS GFS Manual, are data identified in the ABS GFS Manual as useful for macro-economic analysis purposes, including assessing the impact of a government's GGS on the economy. They are: opening net worth, net operating balance (which equals change in net worth due to transactions), net lending/(borrowing), change in net worth due to revaluations, change in net worth due to other changes in the volume of assets, total change in net worth, closing net worth and cash surplus/(deficit).
net lending/(borrowing)	The financing requirement of government, calculated as the net operating balance less the net acquisition of non-financial assets. A positive result reflects a net lending position and a negative result reflects a net borrowing position. Based on the definition in the ABS GFS Manual (Glossary, p. 259).
net operating balance	This is calculated as income from transactions minus expenses from transactions. It is equivalent to the change in net worth arising from transactions. Based on the definition in the ABS GFS Manual (Glossary, p. 259).
net worth	Assets less liabilities and shares/contributed capital. For the GGS, net worth is assets less liabilities since shares and contributed capital is zero. It is an economic measure of wealth and reflects the contribution of governments to the wealth of Australia. Defined in the ABS GFS Manual (Glossary, p. 259).
non-profit institution	A legal or social entity that is created for the purpose of producing or distributing goods and services but is not permitted to be a source of income, profit or other financial gain for the units that establish, control or finance it. Defined in the ABS GFS Manual (Glossary, p. 260).

other economic flows	Changes in the volume or value of an asset or liability that do not result from transactions (i.e. revaluations and other changes in the volume of assets). Defined in the ABS GFS Manual (Glossary, p. 260).
Public Financial Corporations (PFC) sector	Institutional sector comprising resident government controlled corporations and <i>quasi-corporations</i> mainly engaged in financial intermediation or provision of auxiliary financial services. Based on the definition in the ABS GFS Manual (Glossary, p. 261).
Public Non-Financial Corporations (PNFC) sector	Institutional sector comprising resident government controlled corporations and quasi-corporations mainly engaged in the production of market goods and/or non-financial services. Based on the definition in the ABS GFS Manual (Glossary, p. 261).
quasi-corporation	An unincorporated enterprise that functions as if it were a corporation, has the same relationship with its owner as a corporation, and keeps a separate set of accounts. Defined in the ABS GFS Manual (Glossary, p. 261).
transactions	Interactions between two institutional units by mutual agreement or actions within a unit that it is analytically useful to treat as transactions. Defined in the ABS GFS Manual (Glossary, p. 263).
whole of government financial report	A financial report prepared by a government that is prepared in accordance with other Australian Accounting Standards, including AASB 127 <i>Consolidated and Separate Financial Statements</i> , and thereby separately recognises assets, liabilities, income, expenses and cash flows of all entities under the control of the government on a line-by-line basis.

BASIS FOR CONCLUSIONS ON AASB 1049

FINANCIAL REPORTING OF GENERAL GOVERNMENT SECTORS BY GOVERNMENTS

This Basis for Conclusions accompanies, but is not part of, AASB 1049.

Introduction

BC1 The Preface to this Standard outlines the broad strategic direction issued to the Australian Accounting Standards Board (AASB) by the Financial Reporting Council (FRC) that gave rise to AASB 1049 *Financial Reporting of General Government Sectors by Governments*. This Basis for Conclusions summarises the Board's considerations in developing the Standard. It focuses on the issues that the Board considers to be of greatest significance and the subject of most debate amongst the various stakeholders during the development of the Standard.

Significant Issues

Preparation of General Government Sector (GGS) Financial Reports [Paragraphs 2 and 6]

The nature of a GGS financial report

BC2 Due to the unique circumstances related to the General Government Sector (GGS), its relationship to the whole of government (see paragraphs BC8-BC11) and its macro-economic significance, the Board concluded that a Standard should specify the preparation of financial reports of a federal, state or territory government's GGS. The Board supported the GGS presenting a separate financial report on the basis that whole of government financial reports are to be made available at the same time as the GGS financial report (see paragraph BC8).

BC3 The Board concluded that it is not necessary to specify whether the GGS is a reporting entity and whether the financial report prepared in accordance with the Standard is a general purpose financial report (GPFR) because the Standard itself prescribes the particular requirements for the scope of the GGS and the form and content of the GGS financial report.

GGs financial report prepared on a partial consolidation basis

BC4 It is inherent in the definition of a GGS that government controlled entities within the Public Non-Financial Corporations (PNFC) sector and Public Financial Corporations (PFC) sector are not consolidated (see paragraphs BC26-BC29). Only government controlled entities that fall within the boundary of a GGS are consolidated. Accordingly, the Board concluded that a government should produce a GGS financial report on a partial consolidation basis (see paragraph 19).

BC5 This focus on the GGS and consequently the partial consolidation approach is consistent with the 'through the eyes of management' approach being adopted by the International Accounting Standards Board (IASB) in relation to segment reporting. Government is managed using GGS information prepared on a partial consolidated basis because, essentially, the GGS equates to the budget sector of Australian governments, and reporting of budget outcomes is a major focus.

BC6 The Board's decisions reflect that:

- (a) the GGS of the federal or a state or territory government is a significant sector of that government that warrants prominence in financial reporting;
- (b) GGS financial information is relevant to users and is widely distributed;
- (c) GGS financial information should be made available to the public in a manner that meets the key AASB *Framework for the Preparation and Presentation of Financial Statements* characteristics of comparability, understandability, relevance, reliability and timeliness; and
- (d) GGS financial information is necessary to provide a link to budgets, which are a means by which governments outline their taxing policies and resource allocation decisions (see paragraphs BC36-BC40).

BC7 An alternative view considered is that, because a GGS is a sector of the whole of government, GGS financial information prepared on a partial consolidation basis should be included in the whole of government GPF. When that GGS financial information is presented in a financial report that is separate from the whole of government GPF, it should be characterised as a special purpose financial report. However, as explained above, the Board decided that, because the

Standard prescribes the form and content of the GGS financial report, it is not necessary to take such an approach.

Relationship between GGS and Whole of Government Financial Reports [Paragraph 8]

BC8 The Board concluded that, because of the relationship between the GGS (partially consolidated) financial report and the whole of government (fully consolidated) financial report, the GGS financial report should not be made available prior to the whole of government financial report being made available. Furthermore, the GGS financial report should include a cross-reference to the whole of government financial report (see paragraph 40(e)). This approach ensures that GGS financial reports are given due prominence within an appropriate context. That context is the whole of government financial reports that provide information about all the resources controlled by the government.

BC9 Board consultations indicated that most jurisdictions would be able to meet the requirement to make the whole of government financial report available at the same time as the GGS financial report is prepared in the short term. One jurisdiction faced a number of impediments, including legislative provisions, to achieving completion of the whole of government financial report at the same time as a GGS financial report could be prepared. The Board therefore decided to specify a mandatory operative date for the Standard of the year beginning 1 July 2008, and to allow early adoption (see paragraphs 3 and 4). The Board's decision not to permit the preparation and presentation of GGS financial reports at an earlier date than for the whole of government financial report is consistent, by analogy, with the requirements in AASB 127 *Consolidated and Separate Financial Statements* that parent entity financial reports cannot be prepared and presented unless consolidated financial statements are available.

BC10 Prior to this Standard, Australian Accounting Standards anticipated that sectors of the whole of government (including the GGS) might be disclosed in the whole of government financial report in the form of disaggregated information. That is, separate financial reporting of a GGS was not contemplated. The Board considered whether, consistent with the disaggregated information approach, the proposals in International Public Sector Accounting Standards Board (IPSASB) Exposure Draft ED 28 *Disclosure of Financial Information about the General Government Sector* should be adopted in Australia. IPSASB ED 28 proposed that when a government elects to disclose information about its GGS in its whole of government financial reports, that information would conform with the accounting policies of the whole

of government financial report except for consolidation requirements and the accounting for investments in controlled PNFC sector and PFC sector entities. The Board concluded that such an approach would not adequately facilitate the presentation of GGS information and GFS information with appropriate prominence.

BC11 To improve users' understanding of the relationship between the GGS and whole of government financial reports, the Board also decided to mandate a number of additional disclosures (see paragraphs BC30-BC32).

GAAP or GFS [Paragraph 10]

BC12 The Board considered whether GAAP or GFS principles should prevail in the GGS financial report. The Board concluded that GAAP definition, recognition and measurement principles should be applied in accordance with other Australian Accounting Standards, unless otherwise specified to accommodate GFS principles. In the interests of GAAP/GFS harmonisation, the Board decided that GAAP presentation principles should be modified to accommodate GFS principles.

BC13 In particular, the Board's decisions facilitate GAAP/GFS harmonisation for GGS financial reporting by:

- (a) adopting GAAP definition, recognition and measurement principles, with the exception of full consolidation (paragraph 19) and the basis of measurement of the equity interests in PNFC sector and PFC sector entities (paragraph 20);
- (b) amending presentation requirements to encompass a comprehensive operating statement (paragraphs 24 and 29) that retains the GAAP classification system but overlays it with a transactions/other economic flows classification system based on GFS (paragraphs 30 and 31);
- (c) expanding disclosure requirements to accommodate, on the face of the statements, key fiscal aggregates required by GFS (paragraphs 27, 32 and 38) and the distinction between cash flows relating to investing in financial assets for policy purposes and for liquidity management purposes adopted by GFS (paragraph 37); and
- (d) specifying supplementary disclosure requirements, including reconciliations to GFS measures of key fiscal aggregates and explanations of differences between GAAP and GFS (paragraph 42).

BC14 The Board's decision to adopt GAAP with limited exceptions was made on the basis that the accounting prescribed under Australian Accounting Standards is appropriate for events that occur within the not-for-profit sector, including the GGS. The Board noted that, in developing those Australian Accounting Standards, where the International Financial Reporting Standards (IFRSs) upon which the Standards are based do not sufficiently deal with not-for-profit circumstances, Aus paragraphs have been inserted by the Board or separate Standards issued to deal with those circumstances.

BC15 The Board decided to utilise the GFS principles related to the distinction between transactions and other economic flows for presentation purposes as it facilitates GAAP/GFS harmonisation in a number of areas – especially at the key fiscal aggregates level. The Board formed the view that applying the GFS principles in this way is possible without breaching the principles of GAAP because the GAAP classification system has been retained but overlaid with the GFS classification system. Furthermore, GAAP disclosure requirements have been retained but also certain GFS key fiscal aggregates have been required.

BC16 An alternative approach to adopting GAAP with limited exceptions would have been to decide, for the purposes of preparing GGS financial reports, that the GFS framework should apply. Making that declaration in a Standard would mean, in relation to GGS financial reports, that GFS would become part of GAAP. However, the Board formed the view that its objective of promulgating an Australian Accounting Standard that provides useful information in a financial reporting context could be achieved without overriding entirely the GAAP framework. Accordingly, the Board's starting point was the principles and framework of GAAP, and the Board concluded that to simply adopt GFS in the Standard would be an inappropriate approach. To have adopted the GFS framework and principles as the starting point for the development of the Standard within the GAAP context, would have required the Board to become closely involved with all elements of the GFS framework. This would include any ongoing changes to the GFS framework, over which the Board has no control.

Limitation of GAAP Options [Paragraph 13]

BC17 The Board concluded that, where other Australian Accounting Standards allow optional treatments, only those treatments that align with GFS should be applied in a GGS financial report. The Board concluded that this is appropriate because it results in the selection of the accounting policies that advance the objective of GAAP/GFS harmonisation. The Board noted that this would in turn improve consistency and comparability between jurisdictions.

BC18 This approach, which results in mandating a particular accounting policy or limiting an otherwise broader choice of policies, is a crucial element of GAAP/GFS harmonisation as it facilitates the adoption of GFS treatments within the GAAP framework.

BC19 A contrary view considered by the Board is that GGS financial reports should apply all Australian Accounting Standards, without exception, including the full range of options in those Standards. Under this view, any options available under GAAP would be available to the GGS even where they do not align with GFS. It was also suggested that mandating particular options undermines the transaction neutrality principle. The Board rejected this view as not supporting the objective of GAAP/GFS harmonisation.

Adoption of ABS GFS [Paragraph 13]

BC20 The Board concluded that the Standard should cross-reference to the GFS Manual published by the ABS as amended from time to time, rather than the International Monetary Fund's *Government Finance Statistics Manual 2001* (IMF GFSM 2001). It did so, notwithstanding the context of international harmonisation, on the basis that:

- (a) the ABS has a similar role to the role that the Board plays for GAAP. That is, the ABS GFS Manual refines the generic requirements of IMF GFSM 2001 into more specific and relevant requirements for the Australian context, and the Board refines the requirements of IFRSs in issuing Australian equivalents to IFRSs in relation to not-for-profit entities. [Chapter 7 of the ABS GFS Manual includes a section on the relationship of the ABS GFS Manual to IMF GFSM 2001];
- (b) there is no compelling reason for preferring IMF GFSM 2001 over the ABS GFS Manual. Both the IMF and the ABS are independent authorities; and
- (c) Australia remains ahead of international developments in the field of GAAP/GFS harmonisation.

BC21 The reference to the ABS GFS Manual is an ambulatory reference, rather than a static one. This means that the ABS GFS Manual referred to in the Standard is that which may be amended from time to time rather than necessarily the 2005 version. In the absence of an ambulatory reference, it may be necessary for the Board to revise its Standard each time a revision occurred.

Presentation of Key Fiscal Aggregates [Paragraphs 16, 27, 32 and 38]

BC22 The Board concluded that, as well as requiring presentation of the usual GAAP aggregates, the Standard should require or allow certain GFS named key fiscal aggregates to be presented on the face of the financial statements. These aggregates reflect some of the reporting features of the GFS system by including indicators of the macro-economic impact of a particular government's policy decisions relating to the GGS on the economy as a whole, and its overall financing impact on capital markets. These GFS aggregates are important to understand a GGS and therefore it is appropriate that they are displayed prominently in the financial statements.

BC23 The Board concluded that the key fiscal aggregates should be measured in a manner consistent with other amounts recognised on the face of the financial statements. The Board was mindful of the potential distortion of what might be regarded by some as 'pure GFS' measures of key fiscal aggregates. Nevertheless, the Board considered that the approach adopted in the Standard increases understanding as to the manner in which the key fiscal aggregates are derived and interconnected with the existing GAAP concepts.

BC24 Depending on the jurisdiction concerned, it is possible that the measurement differences will not be of great significance, and the Board expects that, over time, several of the measurement differences will be resolved. In any event, measurement differences are included in reconciliations and explanations that are required by paragraph 42(a) (see paragraph BC32).

BC25 The Board also noted some concerns that the GFS nomenclature was being used to describe the key fiscal aggregates. Despite these concerns, the same GFS nomenclature has been retained on the basis that to do otherwise would require the introduction of further definitions and terminology that could add to users' confusion. This approach is consistent with the Board's expectation that, over time, several of the differences will be resolved. The Board further noted that GAAP and GFS already share other terminology, such as assets and depreciation, despite being subject to different definition, recognition and measurement requirements.

Accounting for GGS Investments in PNFC Sector and PFC Sector Entities and Investments in Jointly Controlled Entities and Associates [Paragraphs 19, 20 and 23]

BC26 The issue of the accounting for GGS investments in PNFC sector and PFC sector entities is closely related to the basis on which the GGS financial report is prepared and to the issue of partial consolidation (see paragraphs BC2 to BC7).

BC27 The Board decided that, consistent with GFS principles and rules, entities that are controlled by government, but are not part of the GGS of the government, should be recognised in the financial report of the GGS as investments.

BC28 Furthermore, the Board concluded that, consistent with GFS principles, GGS controlling investments in PNFC sector and PFC sector entities should be measured at fair value where fair value can be reliably determined, and otherwise, at the carrying amount of net assets. When a GGS's controlling investment in a PNFC sector or PFC sector entity is measured at the government's proportional share of the carrying amount of net assets, again for consistency with GFS principles, it should be accounted for as a financial asset consistent with AASB 139 *Financial Instruments: Recognition and Measurement*, rather than as if it were an investment in an associate accounted for using the equity method of accounting.

BC29 The Board also concluded that investments in jointly controlled entities and associates should be measured using the equity method of accounting. This is on the basis that, consistent with paragraph 19 that prescribes the use of the consolidation procedures in AASB 127, the GGS financial report is treated as if it is a consolidated financial report rather than as 'separate financial statements', as that term is defined in AASB 127.

Additional Disclosures in Accounting Policy Note [Paragraph 40]

BC30 The Board concluded that additional disclosures relating to the nature of the GGS and its relationship to the whole of government financial report should be made as part of the note containing the summary of significant accounting policies. These disclosures are intended to help overcome concerns that users might perceive the GGS financial report as being a substitute for the whole of government financial report. Furthermore, they are intended to help users understand the nature of the GGS and its financial reports to provide a greater link to the budget outcome reports, which currently focus solely on the GGS.

Other Disclosures [Paragraph 42]

BC31 Given the nature of this Standard and the fact that it encompasses GFS concepts and definitions, the Board considered it appropriate to require additional disclosures. The additional disclosures include:

- (a) a list of entities within the GGS and changes that may have occurred since the previous reporting date and reasons for the changes (paragraph 42(c)). This disclosure informs users of the controlled entities that have been consolidated into the GGS financial report, and for the purposes of year to year comparisons, the changes to the list of entities. The reasons for changes should be capable of being traced back to the ABS GFS definition of the GGS and should reflect a fundamental change to the nature of an entity's functions and purpose;
- (b) a list of significant investments in PNFC sector and PFC sector entities (paragraph 42(d)). This disclosure informs users of the controlled entities that have not been consolidated into the GGS financial report and the effect of GGS management decisions to retain or divest these investments and their effect on the balance sheet of the GGS; and
- (c) the aggregate amount of dividends and distributions from PNFC sector and PFC sector entities to the GGS and the aggregate amount of the surplus or deficit of the PNFC sector and PFC sector entities for the reporting period (paragraph 42(e)). This disclosure provides further information about the relationship between the GGS and PNFC sector and PFC sector entities.

BC32 Given the manner in which the Board decided to deal with the presentation of the key fiscal aggregates on the face of the financial statements (see paragraphs BC22-BC25), the Board also decided that it is appropriate to stipulate certain disclosure requirements. Where the key fiscal aggregates presented differ from those measured in accordance with the ABS GFS Manual, a reconciliation of the two measures and/or an explanation of the differences is required so that users are informed about the relationship between GAAP and GFS.

Disaggregated Information [Paragraphs 48 and 49]

BC33 The Board concluded that disaggregated functional information disclosure requirements should be limited to expenses (excluding losses) recognised in operating result and assets. It noted that this disaggregation provides information that is useful in understanding the disbursement of the overall resources of government.

BC34 In drawing this conclusion, the Board took into account that AASB 114 *Segment Reporting* does not apply to not-for-profit entities. The Board is closely monitoring the work of both the IASB and the IPSASB on segment reporting, and this may lead to an amendment to the requirements for not-for-profit entities more generally.

BC35 The Board noted that governments are already providing comparable disaggregated information of GFS expenses and net acquisitions of GFS non-financial assets as part of their GFS reporting requirements and it does not appear to be unduly onerous. The Standard makes it clear that disaggregation should only occur where it can be reliably attributable to a function.

Budgetary Information [Paragraph 52]

BC36 The Board concluded that the Standard should require disclosure of budgetary information, including the original budgeted financial statements and explanations of major variances between the actual amounts presented on the face of the financial statements and corresponding GGS budget amounts.

BC37 The FRC's broad strategic direction makes specific mention of budgetary information. The direction is, among other things, to achieve an Australian Accounting Standard "... in which the outcome statements are directly comparable with the relevant budget statements".

BC38 This is not an area in which the IASB has developed an IFRS, nor had the IPSASB made sufficient progress on which the Board could base its proposals. However, New Zealand has addressed the issues in NZ IAS 1 *Presentation of Financial Statements* and FRS-42 *Prospective Financial Statements*.

BC39 The Board concluded that the 'presented' budget is more relevant to users than the 'adopted' budget. The presented budget is the one most widely publicised and, accordingly, is the primary reference point for any assessment of the reliability of budgeting, identification of major variances and assessment of the quality of stewardship in relation to the period. Therefore, the Standard mandates inclusion of the first budget presented to parliament. The Standard also allows for revised budgeted financial statements to be disclosed, acknowledging that revised budgets may occur late in the financial period and their disclosure can play a role in demonstrating an aspect of stewardship.

BC40 The Board concluded that the requirement for disclosure of explanations of major variances should be a key feature within the Standard. It did so on the basis that the information is useful and

relevant to users and that merely recording the amount of the variance is not sufficient to meet accountability needs. An explanation of major variances is critical if users are to find comparisons between actual and budget valuable input to their analysis of the performance of government. A similar requirement exists within NZ IAS 1 (paragraphs NZ41.1 and NZ41.2) – see also paragraph 70 of FRS-42.

Performance Indicators

BC41 The proposals in Exposure Draft ED 142 *Financial Reporting of General Government Sectors by Governments* relating to performance indicators were modelled on the requirements that were contained within AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments* at that time. Most respondents to ED 142 supported the principles but seemed to interpret the proposals as potentially mandating disclosure of performance indicators in the GGS financial reports. Many claimed it would be premature to mandate disclosure of performance indicators.

BC42 The Board decided to not retain the proposed requirements and guidance. It intends to consider issues relating to performance indicators more comprehensively in a separate project in due course.

Transitional Requirements [Paragraph 59]

BC43 The Board concluded that AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* should be applied by GGSs in their first financial report prepared in accordance with this Standard, with certain exceptions.

BC44 The Board concluded that the date of transition of the GGS is the date of transition used in the whole of government financial report on the basis that the GGS is part of the whole of government. The Board noted that to do otherwise would also inappropriately give rise to potential differences between the amounts in the GGS financial report and the whole of government financial report merely because of differences in dates of transition because some of the treatments in AASB 1 depend on the date of transition.

BC45 The Board concluded that GGSs should be relieved from the disclosure requirements on transition, including the reconciliation from previous GAAP to Australian equivalents to IFRSs, in paragraphs 38 to 46 of AASB 1. The Board considers that the disclosures would not be relevant given that the date of transition of the GGS is the same as the date of transition used in the whole of government financial report,

which is likely to be two or three years earlier than the first time the GGS applies this Standard.

BC47 The Board concluded that GGSs should be subject to the other aspects of AASB 1 to enable governments to avail themselves of the various forms of optional relief provided under AASB 1. The extent to which that relief is available is limited to some extent by the operation of paragraph 13 of the Standard, which requires GGSs to apply GFS treatments when they are available under GAAP.

ILLUSTRATIVE EXAMPLE A

This example accompanies, but is not part of, AASB 1049.

Illustration of an Acceptable Format and Content of Financial Statements, Reconciliation Notes, Explanations of Key Technical Terms, and Disaggregated Information

This Appendix provides an illustration of an acceptable format for the financial statements of a government's General Government Sector (GGS) that is consistent with the requirements of the Standard and the assumptions made for the purpose of the illustration. It also illustrates an acceptable style and format for reconciliation notes, explanations of key technical terms and disaggregated financial information.

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

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

The illustration does not purport to identify all possible differences between GAAP and GFS, nor to present on the face of the financial statements all the line items as might be required by a different set of assumptions. Additionally, it does not illustrate the disclosure of comparative period information, and notes required by paragraphs 40¹ and 42 (except the relevant reconciliation notes and explanations of key technical terms). It also does not illustrate the disclosure requirements of budgetary information (paragraphs 52 to 58), nor all the disclosures required by other Australian Accounting Standards.

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

¹ Illustrative Example B provides an example of the information to be included in the summary of significant accounting policies in accordance with paragraph 40.

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

	Notes	\$m
Revenue from Transactions		
Taxation revenue		209,178
Other revenue		
Interest, other than swap interest		1,304
Dividends and income tax equivalents from other sector entities		3,899
Dividends from associates (part of share of net profit/(loss) from associates)		1
Sales of goods and services		4,314
Other current revenues		2,684
		<u>221,380</u>
Expenses from Transactions		
Employee expenses		
Wages, salaries and supplements		(14,178)
Superannuation		(2,069)
Use of goods and services		(37,898)
Depreciation		(3,672)
Interest, other than swap interest and superannuation interest expenses		(4,201)
Subsidy expenses		(5,742)
Grants		(69,692)
Social benefits		(71,856)
Other expenses		
Superannuation interest expenses		(4,898)
Loss on write-off of financial assets at fair value through operating result		(380)
		<u>(214,586)</u>
NET RESULT FROM TRANSACTIONS – NET OPERATING BALANCE		6,794

Other Economic Flows – Included in Operating Result		
Other revenue		
Net swap interest revenue		340
Dividends from other sector entities		300
Net foreign exchange gains		599
Net gain on sale of non-financial assets		200
Net gain on financial assets or liabilities at fair value through operating result		2,220
Net actuarial gains ^a		840
Amortisation of non-produced assets		(75)
Doubtful debts		(500)
Share of net profit/(loss) from associates, excluding dividends		(51)
		<u>3,873</u>
OPERATING RESULT		<u>10,667</u>
Other Economic Flows – Other Movements in Equity		
Revaluations		1,552
Net gain on equity investments in other sector entities measured at proportional share of net assets/(liabilities)		1,072
Net gain on financial assets at fair value		1,000
		<u>3,624</u>
COMPREHENSIVE RESULT – TOTAL CHANGE IN NET WORTH		<u>14,291</u>
KEY FISCAL AGGREGATES		
NET LENDING/(BORROWING)	S2	7,467
<i>plus</i> Net acquisition/(disposal) of non-financial assets from transactions		<u>(673)</u>
NET OPERATING BALANCE	S1	6,794
<i>plus</i> Net other economic flows		7,497
TOTAL CHANGE IN NET WORTH	S3	<u>14,291</u>

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

^a Explanatory note: As noted in paragraph 14(d) of the Standard, an alternative treatment of net actuarial gains relating to defined benefit superannuation plans [consistent with paragraph 93B of AASB 119 *Employee Benefits*] would be to present them under the heading 'Other Movements in Equity'. Choosing that option would (consistent with AASB 119.93B) prevent the inclusion on the face of the operating statement of the opening and closing balances of accumulated surplus/(deficit) and the changes during the period (referred to in paragraph 97(b) of AASB 101 *Presentation of Financial Statements*).

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

	Notes	\$m
Assets		
<i>Financial Assets</i>		
Cash and deposits		10,591
Accounts receivable		16,748
Securities other than shares		24,188
Loans		18,060
Shares and other equity		
Investments accounted for using equity method		365
Investments in other sector entities		48,259
		<u>118,211</u>
<i>Non-Financial Assets</i>		
Produced assets		
Inventories		4,832
Machinery and equipment		38,867
Buildings and structures		14,152
Intangibles		1,250
Valuables		6,442
Non-produced assets		
Land		5,196
Intangibles		747
		<u>71,486</u>
TOTAL ASSETS		<u>189,697</u>

Liabilities	
Deposits held	364
Accounts payable	5,253
Securities other than shares	60,650
Loans	6,246
Unfunded superannuation liability	88,540
Provisions	28,094
TOTAL LIABILITIES	189,147
NET ASSETS/(LIABILITIES)	550
Accumulated surplus/(deficit)	(34,752)
Other reserves	35,302
NET WORTH	550

T

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

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

	Notes	\$m
Cash Flows from Operating Activities		
Cash received		
Taxes received		206,343
Sales of goods and services		4,314
Interest, excluding swap interest		1,304
Dividends and income tax equivalents receipts		3,900
Other receipts		2,935
		<u>218,796</u>
Cash paid		
Compensation of employees		(16,247)
Purchases of goods and services		(37,898)
Interest, excluding swap interest		(4,201)
Subsidies		(5,742)
Grants		(69,692)
Social benefits		(70,723)
Other payments		(2,134)
		<u>(206,637)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES		12,159
Cash Flows from Investing Activities		
<i>Non-Financial Assets</i>		
Sales of non-financial assets		1,734
Purchases of new non-financial assets		(4,504)
Net cash flows from investments in non-financial assets		<u>(2,770)</u>
<i>Financial Assets (Policy Purposes)</i>		
Distribution received		300
Increases in investments		(1,641)
Net cash flows from investments in financial assets (policy purposes)		<u>(1,341)</u>

<i>Financial Assets (Liquidity Management Purposes)</i>	
Sales of investments	500
Increases in investments	(3,500)
Net cash flows from investments in financial assets (liquidity management purposes)	<u>(3,000)</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES	(7,111)
Cash Flows from Financing Activities	
Cash received	
Advances received	356
Borrowing	13,241
Deposits received	899
Swap interest	1,912
Other financing	233
	<u>16,641</u>
Cash paid	
Advances paid	(312)
Borrowing	(14,720)
Deposits paid	(213)
Swap interest	(1,572)
Other financing	(765)
	<u>(17,582)</u>
NET CASH FLOWS FROM FINANCING ACTIVITIES	(941)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,107
Cash and cash equivalents at beginning of year	<u>6,484</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>10,591</u>
KEY FISCAL AGGREGATE	
Net cash flows from operating activities	12,159
Net cash flows from investments in non-financial assets	(2,770)
CASH SURPLUS/(DEFICIT)	U <u>9,389</u>

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

Note S1 – Reconciliation to GFS Net Operating Balance*

	Notes	\$m	Explanatory Notes
Net result from transactions – net operating balance		6,794	
Convergence differences			
Use of goods and services		(2,085)	a
Depreciation		2,110	b
Social benefits		94	c
Total convergence differences		<u>119</u>	
GFS NET OPERATING BALANCE		<u>6,913</u>	d

Note S2 – Reconciliation to GFS Net Lending/(Borrowing)*

Net lending/(borrowing)			
Convergence differences		7,467	
Relating to net operating balance	S1	119	
Relating to net acquisition/(disposal) of non-financial assets from transactions		<u>(100)</u>	e
Total convergence differences		19	
GFS NET LENDING/(BORROWING)		<u>7,486</u>	

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

Comprehensive result – total change in net worth		14,291	
Convergence differences			
Relating to net operating balance	S1	119	
Relating to other economic flows			
Dividends from other sector entities		(300)	f
Doubtful debts		500	g
Net gain on equity investments in other sector entities measured at proportional share of net assets/(liabilities)		390	h
Share of net profit/(loss) from associates (excluding dividends)		51	i
Revaluations		<u>995</u>	j
Total convergence differences		1,755	
GFS TOTAL CHANGE IN NET WORTH		<u>16,046</u>	

*Determined in accordance with the ABS GFS Manual.

Note T – Reconciliation to GFS Net Worth*

	Notes	\$m	Explanatory Notes
Net worth		550	
Convergence differences			
Assets			
Accounts receivable		1,800	k
Shares and other equity			
Investments accounted for using equity method		36	l
Investments in other sector entities		900	m
Fixed assets			
Machinery and equipment		(30,745)	n
Intangible fixed assets		(250)	o
Liabilities			
Provisions		94	p
Total convergence differences		<u>(28,165)</u>	
GFS NET WORTH		(27,615)	q

Note U – Reconciliation to GFS Cash Surplus/(Deficit)*

	Notes	\$m	Explanatory Notes
Cash surplus/(deficit)		9,389	
Convergence differences			
Adjustments to cash flows from investments in non-financial assets			
Finance leases and similar arrangements		(4)	r
GFS CASH SURPLUS/(DEFICIT)		<u>9,385</u>	s

*Determined in accordance with the ABS GFS Manual.

Explanatory Notes Supporting Illustrative Example A

Convergence Differences relating to the Operating Statement

Net Operating Balance

a Expenses from Transactions – Use of Goods and Services

The convergence difference of (\$2,085m) comprises:

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

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

b Expenses from Transactions – Depreciation

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

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

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

c Expenses from Transactions – Social Benefits

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

d Classification Difference Included in the GFS Net Operating Balance

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

Net Lending/(Borrowing)

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

The convergence difference of (\$100m) is explained as follows:

	Operating Statement \$m	GFS \$m	Convergence Difference \$m
Gross fixed capital formation	3,932	1,847	2,085
Depreciation	(3,747)	(1,562)	(2,185)
Change in inventory	300	300	-
Other transactions in non-financial assets	(1,158)	(1,158)	-
Net acquisition/(disposal) of non- financial assets from transactions	(673)	(573)	(100)

Net Other Economic Flows

f Other Economic Flows – Included in Operating Result – Other Revenue – Dividends from Other Sector Entities

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

g Other Economic Flows – Included in Operating Result – Doubtful Debts

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

h Other Economic Flows – Other Movements in Equity – Net Gain on Equity Investments in Other Sector Entities Measured at Proportional Share of Net Assets/(Liabilities)

The convergence difference of \$390m comprises:

\$90m: The net asset value (and therefore the change in net asset value) of other sector entities determined under GFS principles and rules differs from the net asset value (and therefore the change in net asset value) of the subsidiaries recognised in the balance sheet (being the net asset value that is consolidated into the whole of government financial report before elimination of intersector balances); and

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

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

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

j Other Economic Flows – Other Movements in Equity – Revaluations

The convergence difference of \$995m comprises:

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

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

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

Convergence Differences relating to the Balance Sheet

Net Worth

k Assets – Financial Assets – Accounts Receivable

The convergence difference of \$1,800m arises because GFS does not recognise doubtful debts, whereas a provision for doubtful debts is recognised in the balance sheet.

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

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

m Assets – Financial Assets – Shares and Other Equity – Investments in Other Sector Entities

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

n Assets – Non-Financial Assets – Produced Assets – Machinery and Equipment

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

o Assets – Non-Financial Assets – Produced Assets – Intangibles

The convergence difference of (\$250m) comprises:

(\$400m): GFS treats research and development costs as use of goods and services expense, whereas some are treated as acquisitions of intangible fixed assets for the balance sheet because some development activities are expected to bring benefits for more than one year; and

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

p Liabilities – Provisions

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

q Classification Difference Included in the GFS Net Worth

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

Convergence Differences relating to the Cash Flow Statement

Cash Surplus/(Deficit)

r Cash Flows from Investments in Non-Financial Assets

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

s Classification Differences Included in the GFS Cash Surplus/(Deficit)

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

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

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

The classification difference has no impact on the amount of the GFS Cash Surplus/(Deficit).

Key Technical Terms Used in the Financial Report

Y Selected Key Technical Terms Used in the Financial Report

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

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

Comprehensive result – total change in net worth is the net result of all items of income and expense recognised for the period. It is the aggregate of operating result and other movements in equity.

Financial asset is any asset that is:

- (a) cash;
- (b) an equity instrument of another entity;
- (c) a contractual right:
 - (i) to receive cash or another financial asset from another entity; or
 - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- (d) a contract that will or may be settled in the entity's own equity instruments and is:
 - (i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
 - (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

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

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

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

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

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

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

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

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

Net lending/(borrowing) is net operating balance minus the net acquisition/(disposal) of non-financial assets. It is also equal to

transactions in the net acquisition/(disposal) of financial assets minus the net incurrence of liabilities. It indicates the extent to which the government's GGS is either putting financial resources at the disposal of other sectors in the economy or utilising the financial resources generated by other sectors. It is an indicator of the financial impact of government activity on the rest of the economy.

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

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

Net worth is total assets less total liabilities. The change in net worth is the preferred measure for assessing the sustainability of fiscal activities.

Non-financial assets are all assets that are not 'financial assets'.

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

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

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

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

Other economic flows – see definition of 'net other economic flows' above.

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

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

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

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

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

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

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

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

Disaggregated Information

Z Functional Classification

	Expenses, excluding losses, included in operating result \$m	Assets \$m
General public services	(50,661)	7,149
Defence	(13,018)	55,759
Public order and safety	(2,401)	3,991
Education	(13,482)	6,175
Health	(31,971)	1,430
Social security and welfare	(69,036)	2,899
Housing and community amenities	(1,645)	3,952
Recreation and culture	(2,182)	2,145
Fuel and energy	(1,473)	707
Agriculture, forestry, fishing and hunting	(3,535)	1,837
Mining and mineral resources, other than fuels; manufacturing; and construction	(3,578)	1,797
Transport and communications	(4,295)	42,179
Other economic affairs	(1,431)	747
Other purposes ^b	(15,573)	58,930
TOTAL	(214,281)	189,697

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

ILLUSTRATIVE EXAMPLE B

This example accompanies, but is not part of, AASB 1049.

Illustration of an Extract from the Note Containing the Summary of Significant Accounting Policies

The following is an example of an extract from Note 1 of a financial report for a year (2009/10) subsequent to the first year of adoption of the Standard, consistent with the requirements of paragraph 40 of the Standard.

This financial report of the General Government Sector (GGS) of *[name of government]* has been prepared in accordance with AASB 1049 *Financial Reporting of General Government Sectors by Governments*, which requires compliance with all Australian Accounting Standards except those identified below. Its purpose is to provide users with information about the stewardship of the government in relation to its GGS and accountability for the resources entrusted to it; information about the financial position, performance and cash flows of the government's GGS; and information that facilitates assessments of the macro-economic impact of the government's GGS.

The GGS of *[name of government]* is a component of the Whole of Government of *[name of government]*. The GGS is determined in accordance with the principles and rules contained in the Australian Bureau of Statistics *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005* (ABS GFS Manual). Under the ABS GFS Manual, the GGS consists of all government units and non-profit institutions controlled and mainly financed by government. Government units are legal entities established by political processes that have legislative, judicial, or executive authority over other units and which provide goods and services to the community or to individuals on a non-market basis; and make transfer payments to redistribute income and wealth. Non-profit institutions are created for the purpose of producing or distributing goods and services but are not a source of income, profit or other financial gain for the government.

The Standard under which the GGS financial report is prepared does not require full application of AASB 127 *Consolidated and Separate Financial Statements* and AASB 139 *Financial Instruments: Recognition and Measurement*. Assets, liabilities, income, expenses and cash flows of government controlled entities that are in the Public Non-Financial Corporations sector and the Public Financial Corporations sector are not separately recognised in the GGS of *[name of government's]* financial statements. Instead, the GGS financial statements recognise an asset, being the controlling equity investment in those entities, and recognise a gain or loss relating to changes in the carrying amount of that asset, measured in

accordance with AASB 1049. Readers are referred to the Whole of Government general purpose financial report of *[name of government]* for the year ended 30 June 2010 for financial information that separately recognises assets, liabilities, income, expenses and cash flows of all entities under the control of the *[name of government]*.

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

The ABS GFS Manual also provides the basis upon which Government Finance Statistics (GFS) information that is contained in the financial report is prepared. In particular, notes disclosing key fiscal aggregates of net worth, net operating balance, total change in net worth, net lending/(borrowing) and cash surplus/(deficit) determined using the principles and rules in the ABS GFS Manual are included in the financial report, together with a reconciliation of those key fiscal aggregates to the corresponding key fiscal aggregates recognised in the financial statements.