

**Compiled AASB Standard**

**AASB 1049**

# **Whole of Government and General Government Sector Financial Reporting**

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This compiled Standard applies to annual reporting periods beginning on or after 1 January 2013 but before 1 July 2014. Early application is permitted. It incorporates relevant amendments made up to and including 18 December 2012.

Prepared on 23 September 2013 by the staff of the Australian Accounting Standards Board.



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Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (as amended) is set out in paragraphs 1 – 65 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 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.

## COMPILATION DETAILS

### **Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting* as amended**

This compiled Standard applies to annual reporting periods beginning on or after 1 January 2013 but before 1 July 2014. It takes into account amendments up to and including 18 December 2012 and was prepared on 23 September 2013 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Accounting Standard made by the AASB. Instead, it is a representation of AASB 1049 (October 2007) as amended by other Accounting Standards, which are listed in the Table below.

#### **Table of Standards**

<b>Standard</b>	<b>Date made</b>	<b>Application date (<i>annual reporting periods ... on or after ...</i>)</b>	<b>Application, saving or transitional provisions</b>
AASB 1049	30 Oct 2007	<i>(beginning)</i> 1 Jul 2008	see (a) below
AASB 2008-9	24 Sep 2008	<i>(beginning)</i> 1 Jan 2009	see (b) below
AASB 2011-3	20 May 2011	<i>(beginning)</i> 1 Jul 2012	see (c) below
AASB 2011-9	5 Sep 2011	<i>(beginning)</i> 1 Jul 2012	see (d) below
AASB 2011-10	5 Sep 2011	<i>(beginning)</i> 1 Jan 2013	see (e) below
AASB 2011-13	14 Dec 2011	<i>(beginning)</i> 1 Jul 2012	see (f) below
AASB 2012-8	17 Dec 2012	<i>(beginning)</i> 1 Jul 2012	–
AASB 2012-10	18 Dec 2012	<i>(beginning)</i> 1 Jan 2013	see (g) below
AASB 2013-1	5 Mar 2013	<i>(beginning)</i> 1 Jul 2014	not compiled*

\* The amendments made by this Standard are not included in this compilation, which presents the principal Standard as applicable to annual reporting periods beginning on or after 1 January 2013 but before 1 July 2014.

- (a) Entities may elect to apply this Standard to annual reporting periods beginning before 1 July 2008.
- (b) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided that AASB 101 *Presentation of Financial Statements* (September 2007) is also applied to such periods.
- (c) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2009 but before 1 July 2012.

- (d) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 July 2012.
- (e) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2013, provided that AASB 119 *Employee Benefits* (September 2011) is also applied to such periods.
- (f) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2009 but before 1 July 2012, provided that AASB 2011-3 *Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments* is also applied to such periods.
- (g) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2013.

### Table of Amendments to Standard

Paragraph affected	How affected	By ... [paragraph]
1	amended	AASB 2008-9 [5]
3-5	amended	AASB 2008-9 [6]
6	amended amended	AASB 2008-9 [6] AASB 2012-10 [69]
7	amended amended	AASB 2008-9 [7] AASB 2011-13 [8]
8	amended	AASB 2011-13 [9]
9 (preceding heading)	amended	AASB 2011-13 [10]
10	amended	AASB 2008-9 [8]
12	amended	AASB 2008-9 [9]
13	amended	AASB 2011-13 [11]
13A	added	AASB 2011-13 [11]
13B	added amended	AASB 2011-3 [7] AASB 2012-8 [5]
13C	added	AASB 2012-8 [5]
14	amended amended	AASB 2008-9 [10] AASB 2011-10 [18]
15	amended	AASB 2008-9 [5, 11]
16-17	amended	AASB 2008-9 [12]
18	amended	AASB 2011-13 [12]
18A-18D	added	AASB 2011-13 [12]
19	amended	AASB 2008-9 [13]
20	amended	AASB 2008-9 [14]
23	amended amended	AASB 2008-9 [15] AASB 2011-13 [13]
25 (and preceding heading)	deleted	AASB 2008-9 [16]
26	deleted	AASB 2008-9 [16]

<b>Paragraph affected</b>	<b>How affected</b>	<b>By ... [paragraph]</b>
27 (and preceding heading)	amended	AASB 2008-9 [5, 17]
29 (and preceding heading)	amended	AASB 2008-9 [18]
30	amended	AASB 2011-13 [14]
30A	added	AASB 2011-13 [14]
31	amended amended	AASB 2011-10 [18] AASB 2011-13 [14]
33	amended amended	AASB 2008-9 [19] AASB 2011-9 [25]
34	amended deleted	AASB 2008-9 [20] AASB 2011-10 [19]
34A (and preceding heading)	added	AASB 2008-9 [21]
34B	added amended	AASB 2008-9 [21] AASB 2011-13 [15]
35 (and preceding heading)	amended	AASB 2008-9 [5, 22]
37	amended	AASB 2008-9 [5]
38	amended	AASB 2008-9 [23]
39	amended amended amended amended	AASB 2008-9 [24] AASB 2011-3 [8] AASB 2011-13 [16] AASB 2012-8 [6]
39A	added	AASB 2011-3 [8]
40	amended	AASB 2008-9 [24]
41	amended amended	AASB 2008-9 [25] AASB 2011-13 [17]
42	amended	AASB 2011-13 [18]
43	amended	AASB 2008-9 [26]
44	amended amended	AASB 2008-9 [27] AASB 2011-13 [19]
45	amended	AASB 2008-9 [28]
47	amended	AASB 2008-9 [29]
48	amended amended	AASB 2008-9 [30] AASB 2011-13 [20]
50	amended	AASB 2011-13 [20]
51	amended	AASB 2008-9 [31]
52	amended amended	AASB 2008-9 [32] AASB 2011-13 [21]
53	amended	AASB 2008-9 [32]
54	amended	AASB 2008-9 [33]
55	amended	AASB 2011-13 [22]

<b>Paragraph affected</b>	<b>How affected</b>	<b>By ... [paragraph]</b>
58	amended	AASB 2008-9 [34]
59	amended amended	AASB 2008-9 [35] AASB 2011-13 [23]
63	amended amended	AASB 2011-13 [23] AASB 2012-10 [70]
64	amended amended	AASB 2008-9 [36] AASB 2011-13 [23]
65	amended	AASB 2008-9 [37]
65A	added deleted	AASB 2008-9 [38] AASB 2011-13 [24]
66-70	deleted	AASB 2011-13 [24]
Appendix A	amended amended	AASB 2008-9 [39] AASB 2011-3 [9]

### **Table of Amendments to Illustrative Examples**

<b>Paragraph affected</b>	<b>How affected</b>	<b>By ... [paragraph]</b>
Illustrative Examples	amended amended amended amended amended amended	AASB 2008-9 [40] AASB 2011-3 [10-12] AASB 2011-9 [26, 27] AASB 2011-13 [25-32] AASB 2011-10 [20, 21] AASB 2012-10 [71-73]

### **General Terminology Amendments**

The following amendments made by AASB 2008-9 are not shown in the above Tables of Amendments:

References to 'financial report(s)' were amended to 'financial statements', except in relation to specific Corporations Act references.

References to 'balance sheet(s)' and 'cash flow statement(s)' were amended to 'statement(s) of financial position' and 'statement(s) of cash flows' respectively, except in relation to ABS GFS Manual references.

References to 'operating statement(s)' were amended to 'statement(s) of comprehensive income'.



The phrases 'on the face(s) of', 'movements in equity' and 'transactions with owners as owners' were amended to 'in', 'changes in equity' and 'transactions with owners in their capacity as owners' respectively.

The following amendments made by AASB 2011-13 are not shown in the above Tables of Amendments:

References to 'other non-owner changes in equity' and 'other changes in equity' were amended to 'other comprehensive income'.

## **COMPARISON WITH IASB PRONOUNCEMENTS**

### **AASB 1049 and International Financial Reporting Standards**

There is no specific Standard issued by the International Accounting Standards Board dealing with whole of government financial statements and GGS financial statements.

Many of the issues addressed in this Standard are addressed in International Financial Reporting Standards (IFRSs). To the extent this Standard incorporates by cross-reference other Australian Accounting Standards, those Standards provide a comparison of this Standard with IFRSs. In addition, in some significant respects, this Standard amends the requirements of other Australian Accounting Standards for the purposes of whole of government financial statements and GGS financial statements, and thereby differs from the requirements in IFRSs. In relation to whole of government financial statements and GGS financial statements, differences relate to the presentation of the financial statements, especially the statement of comprehensive income, and notes. In relation to GGS financial statements, a difference relates 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.

## **ACCOUNTING STANDARD AASB 1049**

The Australian Accounting Standards Board made Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting* on 30 October 2007.

This compiled version of AASB 1049 applies to annual reporting periods beginning on or after 1 January 2013 but before 1 July 2014. It incorporates relevant amendments contained in other AASB Standards made by the AASB up to and including 18 December 2012 (see Compilation Details).

## **ACCOUNTING STANDARD AASB 1049**

### ***WHOLE OF GOVERNMENT AND GENERAL GOVERNMENT SECTOR FINANCIAL REPORTING***

#### **Objective**

- 1 The objective of this Standard is to specify requirements for *whole of government general purpose financial statements* and *General Government Sector (GGS) financial statements* of each *government*. This Standard requires compliance with other applicable Australian Accounting Standards except as specified in this Standard. It also requires disclosure of additional information such as reconciliations to *key fiscal aggregates* determined in accordance with the *ABS GFS Manual* and, for the whole of government, sector information (GGS, *Public Non-Financial Corporations (PNFC) sector* and *Public Financial Corporations (PFC) sector*). Whole of government financial statements and GGS financial statements prepared in accordance with this Standard provide users with:
  - (a) information about the stewardship by each government and accountability for the resources entrusted to it;
  - (b) information about the financial position, performance and cash flows of each government and its sectors; and
  - (c) information that facilitates assessments of the macro-economic impact of each government and its sectors.

## Application

- 2 **This Standard applies to each government's whole of government general purpose financial statements and GGS financial statements.**
- 3 **This Standard applies to annual reporting periods beginning on or after 1 January 2009.**  
[Note: For application dates of paragraphs changed or added by an amending Standard, see Compilation Details.]
- 4 **This Standard may be applied to annual reporting periods beginning before 1 January 2009, provided there is early adoption for the same annual reporting period of AASB 101 *Presentation of Financial Statements* (September 2007).**
- 5 **The requirements specified in this Standard apply where information resulting from their application is material in accordance with AASB 1031 *Materiality*.**
- 6 When applicable, this Standard supersedes AASB 1049 *Financial Reporting of General Government Sectors by Governments* (September 2006) and AAS 31 *Financial Reporting by Governments* (November 1996), as amended.

## Financial Statements to be Prepared

- 7 **A government shall prepare both whole of government financial statements and GGS financial statements, whether presented together or separately in accordance with the requirements of this Standard.**
- 8 **A government shall, at all times, make its GGS financial statements available at the same time that its whole of government financial statements are made available.**

## Compliance with Australian Accounting Standards and the ABS GFS Manual

- 9 **Unless otherwise specified in this Standard, the whole of government financial statements and the GGS financial statements shall adopt the same accounting policies and be prepared in a manner consistent with other applicable Australian Accounting Standards.**

- 10 With limited significant exceptions, this Standard requires the definition, recognition, measurement, classification, consolidation, presentation and disclosure requirements specified in other applicable Australian Accounting Standards to be adopted. This Standard only requires a different treatment from another applicable Australian Accounting Standard when the requirements of this Standard directly conflict with the requirements of that other Standard. In particular, in relation to the GGS, in conflict with AASB 127 *Consolidated and Separate Financial Statements*, paragraph 19 prohibits the consolidation of controlled entities in other sectors.
- 11 Where an Australian Accounting Standard:
- (a) explicitly excludes from its scope not-for-profit entities, such as AASB 114 *Segment Reporting* (and AASB 8 *Operating Segments*)<sup>1</sup>; 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, such as listed companies, that are required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001*, such as AASB 133 *Earnings per Share*;
- the whole of government financial statements and the GGS financial statements are not required to adopt the requirements of that Standard.
- 12 Paragraph Aus15.4 of AASB 101 applies to the whole of government. It does not apply to the GGS. Accordingly, the GGS is not required to disclose that its financial statements are general purpose financial statements or special purpose financial statements.
- 13 In satisfying paragraph 9 of this Standard, subject to paragraph 13A, 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.**
- 13A A government is not required to early adopt Australian Accounting Standards.**

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<sup>1</sup> AASB 8 (February 2007) is operative on or after 1 January 2009, with early adoption allowed. When applicable, AASB 8 supersedes AASB 114.

- 13B Subject to paragraph 13C, for the purpose of this Standard, a government shall apply the version of the ABS GFS Manual effective at the beginning of the previous annual reporting period or any version effective at a later date, as the basis for GFS information included in the financial statements under this Standard. The date on which amendments to the ABS GFS Manual become effective is, for the purpose of this Standard, the publication date if no effective date is specified by the ABS.**
- 13C A government may elect not to apply Chapter 2 *Amendments to Defence Weapons Platforms* of the ABS publication *Amendments to Australian System of Government Finance Statistics, 2005* (ABS Catalogue No. 5514.0) – published on the ABS website on 5 April 2011 – in the financial statements prepared in accordance with this Standard for reporting periods ending before 30 June 2015.**
- 14 Examples of particular optional treatments in Australian Accounting Standards that paragraph 13 of this Standard has the effect of limiting, include:
- (a) assets within the scope of AASB 116 *Property, Plant and Equipment*, AASB 138 *Intangible Assets* or AASB 140 *Investment Property* that may be measured at cost or at fair value. 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;
- (b) certain financial instruments that may be measured at fair value or on another basis under AASB 139 *Financial Instruments: Recognition and Measurement*. 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 statement of financial position may be mandated through paragraph 13 of this Standard, the accounting for changes in fair value in the statement of comprehensive income is not mandated by paragraph 13. Rather, changes in fair value are classified in the statement of comprehensive income 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 comprehensive income section of the statement of comprehensive income;
- (c) [deleted]
- (d) investments in jointly controlled entities that may be accounted for using the equity method of accounting or proportionate consolidation under AASB 131 *Interests in Joint Ventures*. Because proportionate consolidation is inconsistent with the ABS GFS Manual's principles and rules, paragraph 13 of this Standard has the effect of not allowing proportionate consolidation to be adopted;
- (e) cash flows from operating activities that may be reported using either the direct method or the indirect method in the statement of cash flows under AASB 107 *Statement of Cash Flows*. Because the direct method is consistent with the format of the cash flow statement under the ABS GFS Manual, paragraph 13 of this Standard has the effect of requiring the direct method to be adopted;
- (f) dividends paid by entities within the PNFC sector and PFC sector that may be classified by those sectors as a financing cash flow or as a component of cash flows from operating activities under AASB 107. Because classification as a financing cash flow is consistent with the format of the cash flow statement under the ABS GFS Manual, paragraph 13 of this Standard has the effect of requiring classification of dividends paid as a financing cash flow; and
- (g) government grants accounted for by entities within the PNFC sector and PFC sector in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*. In accordance with paragraphs 52(b)(i) and 53 of

this Standard, information about the PNFC sector and PFC sector disclosed for the whole of government is prepared in a manner consistent with the accounting policies adopted in the whole of government statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows. Therefore, the options in AASB 120 are not adopted and instead the principles in AASB 1004 *Contributions* are applied.

- 15 Certain Australian Accounting Standards do not prescribe specific treatments for all items and issues within their scope. An example is AASB 101, which specifies only the minimum line items to be presented in the statement of financial position and requires additional line items, headings and subtotals to be presented 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 balance sheet prepared for GFS purposes. Those ABS GFS Manual principles and rules are required to be applied in the presentation of the whole of government statement of financial position and the GGS statement of financial position to the extent that they do not conflict with AASB 101.
- 16 Subject to paragraphs 41(a)(i)(A) and 52(b)(ii)(A) of this Standard, key fiscal aggregates that are disclosed for the whole of government or the GGS, either because they are required by this Standard or a government elects to provide additional information, shall be measured in a manner that is consistent with amounts recognised in the corresponding statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows.**
- 17 This Standard requires certain information that is relevant to an assessment of the macro-economic impact of:
- (a) a whole of government and GGS to be included in the statements of financial position, statements of comprehensive income and statements of cash flows (see paragraphs 28, 32 and 37); and
  - (b) a government's sectors to be included in the sector statements of financial position, statements of comprehensive income and statements of cash flows required to be disclosed for the whole of government by paragraph 52(b)(i).

This Standard requires the information to be determined in a manner consistent with other amounts recognised in the statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows. 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 in the statement of financial position, statement of comprehensive income and statement of cash flows (see paragraphs 41(a)(i)(A) and 52(b)(ii)(A)).

- 18 A government may elect to disclose key fiscal aggregates (as defined) or other information 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.
- 18A Examples of additional disclosures that may be made voluntarily include the classification of *other economic flows* consistent with Table 7.4 of the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (ABS Catalogue No. 5514.0) 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.
- 18B 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 paragraphs 41(a)(i) and 52(b)(ii) 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.
- 18C Fiscal aggregates that are not measured in a manner consistent with recognised amounts or the ABS GFS Manual may be disclosed, but are not presented as key fiscal aggregates.
- 18D If a government elects to disclose aggregates that are not key fiscal aggregates, they are made in a way that clearly differentiates them from 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.**

## **GGG Investment in PNFC Sector and PFC Sector Entities**

- 20 A GGS equity investment in a government controlled entity that is within the PNFC sector or PFC sector shall be recognised as an asset in the GGS statement of financial position. It shall be measured:**
- (a) at fair value, where fair value is reliably measurable; or**
  - (b) at the government’s proportional share of the carrying amount of net assets of the PNFC sector or PFC sector entity before consolidation eliminations, where fair value is not reliably measurable and the carrying amount of net assets before consolidation eliminations is not less than zero; or**
  - (c) at zero, where fair value is not reliably measurable and the carrying amount of net assets of the PNFC sector or PFC sector entity before consolidation eliminations is less than zero.**

**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** If the carrying amount of net assets of a PNFC sector or PFC sector entity is less than zero, a liability may need to be recognised by the GGS to the extent a present obligation exists.
- 22** 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 comprehensive income, 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.
- 23** For the purposes of determining the carrying amount of 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 for the whole of government 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 presented in aggregate.

### **GGS Investment in Jointly Controlled Entities and Associates**

- 24 **Investments in jointly controlled entities and associates shall be measured using the equity method of accounting, unless the investment is classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, in which case AASB 5 is applied.**
- 25 [Deleted]
- 26 [Deleted]

### **Whole of Government and GGS Statements of Financial Position**

- 27 **The whole of government statement of financial position and the GGS statement of financial position, and notes thereto, shall be presented in a manner consistent with the requirements in AASB 101.**
- 28 **Net worth shall be presented in the whole of government statement of financial position and GGS statement of financial position, measured in a manner consistent with other amounts recognised in the respective statements of financial position.**

### **Whole of Government and GGS Statements of Comprehensive Income**

- 29 **The whole of government statement of comprehensive income and GGS statement of comprehensive income, and notes thereto, shall be presented in a manner consistent with the requirements for a single statement of comprehensive income in AASB 101.**

- 30 For the purpose of presentation, all amounts relating to an item included in the determination of comprehensive result (total change in net worth [before transactions with owners in their capacity as owners]) shall be classified as *transactions* or other economic flows in a manner that is consistent with applying the principles in the ABS GFS Manual from the GAAP perspective.**
- 30A In accordance with paragraph 30:
- (a) where GAAP and GFS both recognise the item in the reporting period, amounts relating to that item shall be classified in accordance with the ABS GFS Manual; and
  - (b) where GAAP recognises an item that GFS does not recognise in the reporting period, subject to paragraph 55(b), amounts relating to that item shall be classified by applying GFS principles to the underlying event giving rise to the amounts, as if the amounts were recognised under GFS, using an analogous GFS item.
- 31 The following examples illustrate how the approach in paragraphs 30 and 30A applies to particular items:
- (a) in both a whole of government and GGS financial reporting context, where GAAP and GFS both recognise the item in the reporting period:
    - (i) 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;
    - (ii) 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’;
    - (iii) remeasurements of the defined benefit liability (asset) relating to defined benefit superannuation plans are classified as other economic flows;

- (iv) changes in the fair value of investment property potentially comprise two components under GFS classification – consumption of capital and price changes. Accordingly, the expense arising from consumption of capital is classified as transactions and the gains and losses arising from 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; and
  - (v) bad debts expense is classified as transactions to the extent it is mutually agreed, otherwise it is classified as other economic flows; and
- (b) in both a whole of government and GFS financial reporting context, where GAAP recognises an item that GFS does not recognise in the reporting period:
- (i) income that arises from the amortisation of a prepayment received for a licence involving the licensee having rights over a specified period of time (that GFS treated in a previous period as a sale of intangible asset) is classified as transactions, by analogy with the GFS classification of the amortisation of a prepayment received for a service to be rendered;
  - (ii) doubtful debts expense that arises from the impairment of loans and receivables is classified as other economic flows, by analogy with the GFS classification of revaluation of financial assets;
  - (iii) an expense that arises from the initial recognition of the difference between the fair value of a concessionary loan and the transaction price (the loan proceeds) is classified as transactions, by analogy with the GFS classification of subsidies; and
  - (iv) an expense that arises from the initial recognition of a provision for decommissioning costs for which there is no counterparty that recognises a related financial asset is classified as transactions, by analogy with the GFS classification of an expense arising from the initial recognition of a liability. Subsequent changes in the measurement of such provisions arising from changes in estimates of the expenditure required to settle the present obligation are classified as other economic flows, by

analogy with the GFS classification of revaluation of liabilities; and

- (c) in a GGS financial reporting context, dividends from PNFC sector and PFC sector entities are classified as transactions to the extent the ABS GFS Manual accounts for them as dividends and otherwise as other economic flows.

In some cases the approach in paragraphs 30 and 30A facilitates the reduction of differences between GAAP and GFS, particularly at the key fiscal aggregate level. Illustrative Examples A and B illustrate the classification between transactions and other economic flows for some of the items listed above and other possible circumstances where items recognised in the whole of government statement of comprehensive income and the GGS statement of comprehensive income do not have GFS equivalents.

**32 The following shall be presented in the whole of government statement of comprehensive income and the GGS statement of comprehensive income:**

- (a) *net operating balance*;
- (b) **total change in net worth (before transactions with owners in their capacity as owners, where they exist); and**
- (c) *net lending/(borrowing) and its derivation from net operating balance*;

**measured in a manner consistent with other amounts recognised in the respective statements of comprehensive income.**

- 33 Under AASB 101, an entity may present a single statement of profit or loss and other comprehensive income, with profit or loss and other comprehensive income presented in two sections. The sections shall be presented together, with the profit or loss section presented first followed directly by the other comprehensive income section. An entity may present the profit or loss section in a separate statement of profit or loss. If so, the separate statement of profit or loss shall immediately precede the statement presenting comprehensive income. This Standard requires a single statement of profit or loss and other comprehensive income option to be adopted, and therefore requires all recognised income and expenses to be included in a single statement that presents the comprehensive result (total change in net worth [before transactions with owners in their capacity as owners, where they exist]).

34 [Deleted]

## **Whole of Government and GGS Statements of Changes in Equity**

- 34A The whole of government statement of changes in equity and the GGS statement of changes in equity, and notes thereto, shall be presented in a manner consistent with the requirements in AASB 101.**
- 34B Generally, transactions with owners in their capacity as owners do not arise in a GGS context because there is no ownership group identified for the GGS. They may arise in a whole of government context in relation to partly-owned subsidiaries. They may also arise between PNFC sector and PFC sector entities and their owner, the GGS.

## **Whole of Government and GGS Statements of Cash Flows**

- 35 The whole of government statement of cash flows and the GGS statement of cash flows, and notes thereto, shall be presented in a manner consistent with the requirements in AASB 107.**
- 36 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, in the whole of government statement of cash flows and the GGS statement of cash flows.**
- 37 The whole of government statement of cash flows and the GGS statement of cash flows shall also include *cash surplus/(deficit)* and its derivation, measured in a manner consistent with other amounts recognised in the respective statements of cash flows, without the deduction of the value of assets acquired under finance leases and similar arrangements.**

## **Illustrative Examples**

- 38 An example of an acceptable whole of government statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows format and GGS statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows format that are in accordance with this Standard is provided in Illustrative Examples A and B respectively.

## Notes

### Summary of Significant Accounting Policies

- 39** 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) for the whole of government and the GGS:
    - (i) a statement that the financial statements are prepared in accordance with this Standard;
    - (ii) a reference to the version of the ABS GFS Manual used as the basis for GFS information included in the financial statements, and when an entity has not applied the most recent version of the ABS GFS Manual (including when an entity has elected to adopt the relief available in paragraph 13C):
      - (A) this fact; and
      - (B) known or reasonably estimable information relevant to assessing the possible impact that application of the latest version of the ABS GFS Manual will have on the financial statements in the period of initial application; and
    - (iii) where the GGS financial statements and whole of government financial statements are presented separately from each other, a cross-reference to each other; and
  - (b) for the GGS only:
    - (i) a statement of the purpose for which the GGS financial statements are prepared;
    - (ii) a description of the GGS; and
    - (iii) a description of how the GGS financial statements differ from the whole of government financial statements in terms of the treatment of the government's investments in PNFC sector and PFC sector entities.



- 39A In complying with paragraph 39(a)(ii), an entity considers disclosing:
- (a) the version of the latest ABS GFS Manual;
  - (b) the nature of the impending change or changes in the ABS GFS Manual;
  - (c) the date by which application of the latest version of the ABS GFS Manual is required;
  - (d) the date as at which it plans to apply the latest version of the ABS GFS Manual initially; and
  - (e) either:
    - (i) a discussion of the impact that initial application of the latest version of the ABS GFS Manual is expected to have on the entity's financial statements; or
    - (ii) if that impact is not known or reasonably estimable, a statement to that effect.
- 40 An example of the information to be included in the summary of significant accounting policies disclosed for the GGS in accordance with paragraph 39 is provided in Illustrative Example C.

### **Other Explanatory Notes**

- 41 In addition to the disclosures required to be made in other explanatory notes in accordance with other applicable Australian Accounting Standards, the following disclosures shall be made:**
- (a) **for the whole of government and the GGS:**
    - (i) **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:**
      - (A) **the key fiscal aggregates measured in accordance with the ABS GFS Manual; and**
      - (B) **a reconciliation of the two measures of key fiscal aggregates and an explanation of the differences; and**

- (ii) **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; and**
- (iii) **explanations of key technical terms used; and**
- (b) **for the GGS:**
  - (i) **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;**
  - (ii) **a list of significant investments in PNFC sector and PFC sector entities, including:**
    - (A) **the name;**
    - (B) **proportion of ownership interest and, if different, proportion of voting power held; and**
    - (C) **the measurement basis adopted for the amount recognised in accordance with paragraph 20; and**
  - (iii) **the aggregate amount of dividends and other distributions to owners in their capacity as owners from PNFC sector and PFC sector entities to the GGS and the aggregate amount of the comprehensive result attributable to the GGS of the PNFC sector and PFC sector entities disclosed in the whole of government statement of comprehensive income by sector for the reporting period.**

42 In relation to the requirements in paragraph 41(a)(i), 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, measurement and certain classification 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) in a whole of government and GGS context:
  - (i) 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;

- (ii) provisions recognised as liabilities – in the absence of a counter-party recognising a related financial asset, the ABS GFS Manual does not recognise a liability arising from a constructive obligation;
  - (iii) inventories – under the ABS GFS Manual, inventories are measured at current prices, whereas under AASB 102 *Inventories* (as amended by AASB 2007-5 *Amendments to Australian Accounting Standard – Inventories Held for Distribution by Not-for-Profit Entities*), depending on their nature, inventories are measured at the lower of cost and net realisable value or at cost adjusted when applicable for any loss of service potential; and
  - (iv) investments in associates – under the ABS GFS Manual, those assets are measured at current prices where current prices exist, whereas under AASB 128 *Investments in Associates* the equity method of accounting generally applies; and
- (b) in a whole of government context only:
- (i) non-controlling interest in controlled entities – under the ABS GFS Manual, minority interest is classified as a liability and measured at current prices, whereas under AASB 127 non-controlling interest that is classified as equity is not remeasured; and
  - (ii) outgoing dividends – under the ABS GFS Manual, outgoing dividends are classified as an expense, whereas under AASB 101 a dividend is treated as a distribution to owners.

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

- 43 In relation to the whole of government, for the purpose of paragraph 41(a)(i)(A), the ABS GFS Manual key fiscal aggregate that corresponds to the requirement in paragraph 32(b) to present ‘total change in net worth before transactions with owners in their capacity as owners’ is ‘total change in net worth’ (after transactions with owners in their capacity as owners). Accordingly, the reconciliation required to be disclosed for the whole of government by

paragraph 41(a)(i)(B) is from ‘total change in net worth before transactions with owners in their capacity as owners’ as presented in accordance with paragraph 32(b) to ‘total change in net worth’ measured in accordance with the ABS GFS Manual. As noted in paragraph 34B, transactions with owners in their capacity as owners do not arise in a GGS context.

- 44 Some differences between GAAP and GFS requirements relate to differences in classification or differences in consolidation eliminations that 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. Examples of such differences include:
- (a) for both the whole of government and the GGS:
    - (i) AASB 132 *Financial Instruments: Presentation* classifies certain prepaid expenses as non-financial assets, whereas the ABS GFS Manual classifies them as financial assets;
    - (ii) AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* may classify an amount within provisions, whereas the ABS GFS Manual classifies them as accounts payable; and
    - (iii) paragraph 31(a)(iv) 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
  - (b) for the whole of government, consolidation eliminations. Under the ABS GFS Manual, certain transactions between the GGS and entities within the PNFC sector and PFC sector are not eliminated on whole of government consolidation, whereas under AASB 127 intragroup transactions that are not, in substance, transactions with external parties are eliminated in full. The GFS treatment has the effect of ‘grossing up’ both GFS revenue and GFS expenses by equal amounts and though the key fiscal aggregates remain the same, the differences in GAAP and GFS revenues and expenses should be disclosed. For example, a GGS may compensate a PNFC sector entity for a community service obligation, imposed by the GGS, that requires the PNFC sector entity to provide free services to a cohort of private individuals. The compensation provided by the GGS to the PNFC sector entity is not eliminated for whole of government reporting under the ABS GFS Manual (instead it is ‘rerouted’ through the household sector of the economy and

therefore treated as an expense of the GGS to the household sector, and an expense of the household sector to the PNFC sector entity, and therefore revenue of the PNFC sector entity).

- 45 The GGS is not subject to the disclosures required by paragraphs 41, 42, 43 and Aus43.1 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 In relation to the requirement in paragraph 41(a)(iii) to disclose explanations of key technical terms, 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 [before transactions with owners in their capacity as owners]);
  - (k) total change in net worth; and
  - (l) net debt.

An example of the disclosures required by paragraph 41(a)(iii) is provided in Illustrative Example D.

- 47 Paragraph 112 of AASB 101 requires additional information to be provided in notes that is not presented in the statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows but is relevant to an understanding of them. Consistent with this, the components of aggregate numbers

presented in those statements, including key fiscal aggregates, are disclosed in the notes where relevant.

### **Functional Information**

- 48 In respect of each broad function identified in Table 2.6 “Government Purpose Classification: Major Groups” of the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (ABS Catalogue No. 5514.0), the whole of government and the GGS shall disclose by way of note:**
- (a) a description of that function;**
  - (b) the carrying amount of assets recognised in the respective statements of financial position that are reliably attributable to that function; and**
  - (c) expenses, excluding losses, included in operating result in the respective statements of comprehensive income 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. A reconciliation of the aggregate amount of expenses, excluding losses, included in operating result to the aggregate of expenses from transactions recognised in the statement of comprehensive income shall be disclosed.**
- 50 Paragraph 48 requires disclosure of information about the recognised expenses, excluding losses, included in operating result and assets that are reliably attributable to broad functions determined to at least the ABS GFS Manual two-digit level of classification shown in Table 2.6 of the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (ABS Catalogue No. 5514.0). Disclosure of this information assists users in identifying the resources committed to particular functions 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 government.
- 51 AASB 114 (AASB 8) does not apply to the whole of government or the GGS. The bases used in the ABS GFS Manual for identifying functions do not necessarily accord with the criteria for identifying segments contained in AASB 114 (AASB 8). However, AASB 114

(AASB 8) may be useful in identifying the expenses, excluding losses, included in operating result and assets that are reliably attributable to each function. An example of the disclosures required by paragraphs 48(b) and 48(c) in respect of each function of the whole of government and the GGS is provided in Illustrative Examples A and B respectively.

#### **Whole of Government Sector Information**

- 52 The whole of government shall disclose by way of note, in respect of the GGS, PNFC sector and PFC sector as defined in the ABS GFS Manual:**
- (a) a description of each sector;**
  - (b) for each sector:**
    - (i) a statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows that are consistent with the whole of government's corresponding financial statements prepared in accordance with this Standard;**
    - (ii) where the key fiscal aggregates measured in accordance with the ABS GFS Manual differ from the key fiscal aggregates determined in a manner consistent with paragraph 16 of this Standard:**
      - (A) the key fiscal aggregates measured in accordance with the ABS GFS Manual; and**
      - (B) a reconciliation of the two measures of key fiscal aggregates and an explanation of the differences; and**
    - (iii) where the key fiscal aggregates measured in accordance with the ABS GFS Manual do not differ from the key fiscal aggregates determined in a manner consistent with paragraph 16, a statement of that fact; and**
  - (c) a reconciliation between the information disclosed for the sectors in total and the corresponding information in the whole of government's statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows (see, for example, Illustrative Example A).**

- 53 Sector information prepared in accordance with paragraph 52(b) is determined before consolidation eliminations. Accordingly, GGS investments in PNFC sector and PFC sector entities are included in the GGS information that is disclosed for the whole of government. They are measured at the carrying amount of net assets disclosed by the whole of government for the PNFC sector and PFC sector.
- 54 Notes to the sector statements of financial position, statements of comprehensive income, statements of changes in equity and statements of cash flows, other than those required by paragraph 52, are not required to be disclosed.
- 55 In relation to the requirements in paragraph 52(b)(ii), differences in the key fiscal aggregates determined under the ABS GFS Manual and consistent with paragraph 16 of this Standard arise from differences in definition, recognition, measurement and certain classification requirements. Each difference gives rise to the need for disclosure of a reconciliation and an explanation of the difference. Examples of such differences for the PNFC sector and the PFC sector include those identified in paragraph 42 of this Standard, as well as:
- (a) ownership interest in PNFC sector and PFC sector entities – in contrast to Australian Accounting Standards, under the ABS GFS Manual, the carrying amount of ownership interest in PNFC sector and PFC sector entities is deducted in the determination of net worth of those sectors. In particular:
    - (i) where the market value of ownership interest in PNFC sector and PFC sector entities is reliably measurable, GFS deducts it in determining net worth of those sectors. Accordingly, negative GFS net worth arises if the market value exceeds the recognised carrying amount of net assets. Under Australian Accounting Standards, the market value of ownership interest is not recognised; and
    - (ii) where ownership interest in PNFC sector and PFC sector entities is measured by GFS at the carrying amount of net assets, GFS net worth is nil. Under Australian Accounting Standards, the carrying amount of net assets is not deducted in determining net worth; and
  - (b) deferred tax assets and deferred tax liabilities of PNFC sector and PFC sector entities – the ABS GFS Manual does not recognise deferred tax assets and deferred tax liabilities that are recognised by PNFC sector and PFC sector entities in accordance with AASB 112 *Income Taxes*. Like the approach in paragraph 61A of AASB 112, a deferred tax revenue or expense



recognised in accordance with AASB 112 is classified in the statement of comprehensive income as a transaction or an other economic flow consistent with the underlying event giving rise to the related deferred tax asset or liability. For example, when a deferred tax liability arises from the revaluation of an asset, the related deferred tax expense is classified as an other economic flow because the asset revaluation itself is recognised as an other economic flow.

- 56 For the purpose of paragraph 52(b)(ii)(A), the ABS GFS Manual key fiscal aggregate that corresponds to the requirement implicit in paragraph 52(b)(i) to present 'total change in net worth before transactions with owners in their capacity as owners' for the PNFC sector and PFC sector is 'total change in net worth' (after transactions with owners in their capacity as owners). Accordingly, the reconciliation required to be disclosed by paragraph 52(b)(ii)(B) is from 'total change in net worth before transactions with owners in their capacity as owners' as presented in accordance with paragraph 52(b)(i) to 'total change in net worth' measured in accordance with the ABS GFS Manual.
- 57 A government may choose to disclose sectors in addition to the GGS, PNFC sector and PFC sector. For example, a government may disclose information about the total non-financial public sector, comprising the GGS and PNFC sector. Where that is the case, the additional sectors are disclosed on a comparable basis to the information disclosed for the GGS, PNFC sector and PFC sector.
- 58 The sector statements of financial position, statements of comprehensive income, statements of changes in equity and statements of cash flows could be presented in a single schedule that includes an adjustments column or row to facilitate reconciliation to the corresponding whole of government statements in accordance with paragraph 52(c). Alternatively, those sector financial statements may be presented in columns, with or without an adjustments column, in the whole of government statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows. Where an adjustments column is not provided in those whole of government financial statements, the reconciliation required by paragraph 52(c) is provided in the notes. Disclosure of the individual eliminations between the sectors is not required.

## Budgetary Information

**59** Where a whole of government or GGS budgeted:

- (a) statement of financial position;
- (b) statement of comprehensive income;
- (c) statement of changes in equity; or
- (d) statement of cash flows;

is presented to parliament, the whole of government or GGS, respectively, shall disclose for the reporting period:

- (e) that original budgeted financial statement presented to parliament, presented on a basis that is consistent with the presentation and classification bases prescribed for financial statements by this Standard; and
- (f) explanations of major variances between the actual amounts presented in the financial statements and corresponding original budget amounts.

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

61 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 59.

62 Any revised budget that is presented to parliament during the reporting period may be disclosed in addition to the original budget.

63 For the purpose of this Standard, governments are required to report the financial information required by paragraph 59 about their original budgets for the reporting period that are presented to parliament. This facilitates users of financial statements (including taxpayers) making and evaluating decisions about the allocation of scarce resources and for assessing the discharge of a government's accountability. The budget information is disclosed on the same presentation and classification bases as the financial statements, to facilitate a comparison of actual outcomes against the budget.

- 64 The whole of government and GGS statements of financial position, statements of comprehensive income, statements of changes in equity and statements of cash flows include information about the government, as determined in accordance with this Standard. To the extent the presentation and classification bases adopted in the first budget presented to parliament are not consistent with the corresponding financial statements, the budget presented to parliament is restated for budget disclosure purposes to align with the presentation and classification bases specified in this Standard. As the presentation and classification bases adopted in the budget are consistent with the financial statements, budget information may be presented in the statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows.
- 65 The explanations of major variances required to be disclosed by paragraph 59(f) are those relevant to an assessment of the discharge of accountability and to an analysis of performance of government. They include high-level explanations of the causes of major variances rather than merely the nature of the variances.

## APPENDIX A

### DEFINED TERMS

*This appendix is an integral part of AASB 1049.*

<b>ABS GFS Manual</b>	Australian Bureau of Statistics (ABS) publications <i>Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005</i> (ABS Catalogue No. 5514.0) and <i>Amendments to Australian System of Government Finance Statistics, 2005</i> (ABS Catalogue No. 5514.0) published on the ABS website.
<b>cash surplus/(deficit)</b>	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).
<b>General Government Sector (GGS)</b>	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, page 256).
<b>government</b>	The Australian Government, the Government of the Australian Capital Territory, New South Wales, the Northern Territory, Queensland, South Australia, Tasmania, Victoria or Western Australia.
<b>government units</b>	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, page 257).
<b>institutional unit</b>	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, page 257).
<b>key fiscal aggregates</b>	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 and its sectors on the economy. They are: opening net worth, net operating balance, 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).
<b>net lending/(borrowing)</b>	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, page 259).
<b>net operating balance</b>	This is calculated as income from transactions minus expenses from transactions. Based on the definition in the ABS GFS Manual (Glossary, page 259).
<b>net worth</b>	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, page 259).
<b>non-profit institution</b>	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, page 260).
<b>other economic flows</b>	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, page 260).
<b>Public Financial Corporations (PFC) sector</b>	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, page 261).
<b>Public Non-Financial Corporations (PNFC) sector</b>	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, page 261).
<b>quasi-corporation</b>	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, page 261).
<b>transactions</b>	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, page 263).
<b>whole of government general purpose financial statements (also referred to as ‘whole of government financial statements’ in this Standard)</b>	General purpose financial statements prepared by a government that are prepared in accordance with Australian Accounting Standards, including AASB 127 <i>Consolidated and Separate Financial Statements</i> , and thereby separately recognise 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**

### ***WHOLE OF GOVERNMENT AND GENERAL GOVERNMENT SECTOR FINANCIAL REPORTING***

*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 *Whole of Government and General Government Sector Financial Reporting*. 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.
- BC2 In developing the Standard, the Board first considered GAAP/GFS harmonisation issues from a General Government Sector (GGS) perspective. This resulted in the issue of AASB 1049 *Financial Reporting of General Government Sectors by Governments* in September 2006. It included a requirement that a government not make its GGS financial report available prior to its whole of government financial report being made available. The Board became aware that no jurisdiction intended to early adopt AASB 1049 (September 2006) because of this requirement, combined with concern that the whole of government accounting basis (then specified in AAS 31 *Financial Reporting by Governments*) was, at the time, different from the GGS accounting basis (specified in AASB 1049).
- BC3 In addressing this concern, the Board considered the extent to which the principles in AASB 1049 (September 2006) should apply to whole of government financial reporting. The Board concluded that the requirements for GAAP/GFS harmonised whole of government financial reports, incorporating requirements for information about the GGS, the Public Non-Financial Corporations (PNFC) sector and the Public Financial Corporations (PFC) sector, should be based on the principles in AASB 1049 (September 2006). This reflects the relationship between the GGS of a government, the other sectors of a government and the whole of government and is a response to an assessment of user needs. Given the relationship between the GGS and whole of government, an alternative approach that would result in fundamentally different accounting bases for GGS financial reports

and whole of government financial reports has the potential to confuse some users.

- BC4 The Board developed a separate Exposure Draft (ED 155 *Financial Reporting by Whole of Governments*) for the purpose of exposing its proposals for GAAP/GFS harmonisation requirements for whole of government financial reporting, rather than present the proposals integrated with the requirements in AASB 1049 (September 2006). However, the Board indicated its intention in ED 155 that the Standard to be developed would be an amended AASB 1049 that specifies, in an integrated way, the GAAP/GFS harmonised requirements for GGS financial reports and whole of government financial reports. The Board concluded that a single integrated Standard is justified on the basis that:
- (a) it more effectively acknowledges the strong relationship between whole of government financial reports and GGS financial reports. An integrated Standard is consistent with the requirement that GGS financial reports not be made available prior to the release of whole of government financial reports (see paragraphs BC18-BC20);
  - (b) it is more consistent with a topic-based approach to setting Standards; and
  - (c) it imposes a greater discipline on the Board to ensure that the requirements are expressed in the same way for GGS and whole of government, and only differ where intended.

## **GGs Financial Reports**

### **Preparation of GGS Financial Reports [Paragraphs 2 and 7]**

#### **The Nature of a GGS Financial Report**

- BC5 Due to the unique circumstances related to the GGS, its relationship to the whole of government (see paragraphs BC18-BC20) and its macro-economic significance, the Board concluded that a Standard should require the preparation of financial reports of a federal, state or territory government's GGS. The Board also supported the GGS presenting a financial report on the basis that whole of government financial reports are to be available at the same time as the GGS financial report (see paragraph BC18).
- BC6 The Board concluded that it is not necessary to specify whether the GGS is a reporting entity and whether the GGS 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**

- BC7 It is inherent in the definition of a GGS that government controlled entities within the PNFC sector and PFC sector are not consolidated in the GGS financial report (see paragraphs BC11-BC13). 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).
- BC8 This focus on the GGS and consequently the partial consolidation approach is consistent with, to some extent, the ‘through the eyes of management’ approach adopted in AASB 8 *Operating Segments*. The information used to manage a government includes 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.
- BC9 The Board’s decisions reflect that:
- (a) the GGS is a significant sector of a 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 characteristics of comparability, understandability, relevance, reliability and timeliness set out in AASB *Framework for the Preparation and Presentation of Financial Statements*; and
  - (d) GGS financial information is necessary to provide a link to GGS budgets, which are a means by which governments outline their taxing policies and resource allocation decisions (see paragraphs BC57-BC62 ).
- BC10 An alternative view considered by the Board is that, because a GGS is a sector of the whole of government, GGS financial information prepared on a partial consolidation basis should only be included in the whole of government GPFR (see also paragraph BC20). When that GGS financial information is presented in a financial report that

is separate from the whole of government GPFR, it should be characterised as a special purpose financial report. However, as explained in paragraph BC6, 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.

**Accounting for GGS Investments in PNFC Sector and PFC Sector Entities in GGS Financial Reports [Paragraphs 19 and 20]**

- BC11 The issue of the accounting for GGS investments in PNFC sector and PFC sector entities in the GGS financial report is closely related to the basis on which the GGS financial report is prepared and to the issue of partial consolidation (see paragraphs BC7-BC10).
- BC12 The Board decided that, consistent with GFS principles and rules, entities that are controlled by a government, but are not part of the GGS of the government, should be recognised in the GGS financial report as investments.
- BC13 Furthermore, the Board concluded that GGS controlling investments in PNFC sector and PFC sector entities should be measured at, depending on circumstances, fair value, the government's proportional share of the carrying amount of net assets (as a surrogate for fair value) or zero. Measurement at fair value, or at the government's proportional share of the carrying amount of net assets where fair value is not reliably measurable, is consistent with GFS. Not allowing investments to be measured below zero is consistent with the principles elsewhere in GAAP (for example, AASB 128 *Investments in Associates* does not allow negative investment values when using the equity method).
- BC14 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, 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.

**Accounting for GGS Investments in Jointly Controlled Entities and Associates in GGS Financial Reports [Paragraph 24]**

- BC15 The Board concluded that investments in jointly controlled entities and associates should be measured using the equity method of accounting, except when the investment is classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*. This is on the basis that, consistent with

paragraph 19 of this Standard that prescribes the use of the consolidation procedures in AASB 127 *Consolidated and Separate Financial Statements*, the GGS financial report is treated as if it is a consolidated financial report rather than as 'separate financial statements', as defined in AASB 127.

**Disclosures about the GGS in the Summary of Significant Accounting Policies Note [Paragraph 39(b)]**

BC16 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 in the GGS financial report 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, the disclosures 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, to the extent they focus solely on the GGS.

**Other Disclosures Specific to the GGS [Paragraph 41(b)]**

BC17 Given this Standard encompasses GFS concepts and definitions for the GGS, the Board considered it appropriate to require additional disclosures to be included in the GGS financial report. The additional disclosures include:

- (a) a list of entities within the GGS and any changes to that list since the previous reporting date and reasons for the changes (paragraph 41(b)(i)). 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 Manual 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 41(b)(ii)). 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 other distributions to owners as owners from PNFC sector and PFC sector entities

to the GGS and the aggregate amount of the comprehensive result of the PNFC sector and PFC sector entities that is attributable to the GGS for the reporting period (paragraph 41(b)(iii)). This disclosure provides further information about the relationship between the GGS and PNFC sector and PFC sector entities.

***Relationship between GGS Financial Reports and Whole of Government Financial Reports [Paragraphs 8 and 39(b)(iv)]***

- BC18 As noted in paragraph BC2, 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 39(b)(iv)). 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.
- BC19 Board consultations indicated that most jurisdictions would be able to meet the requirement for the whole of government financial report to be available at the time 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 that parent entity financial reports cannot be prepared and presented unless consolidated financial statements are available.
- BC20 Prior to this Standard, Australian Accounting Standards only anticipated that sectors of a 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 this 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*, since reflected in IPSAS 22

*Disclosure of Financial Information About the General Government Sector*, should be adopted in Australia. When a government elects to disclose information about its GGS in its whole of government financial reports, IPSAS 22 requires the information to conform with the accounting policies of the whole of government financial report (which are not GAAP/GFS harmonised) 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.

## **Whole of Government Financial Reports**

### **Specification of Requirements for Whole of Government Financial Reports**

BC21 AAS 31 was first issued in 1996 and specified requirements for general purpose financial reporting by governments. Since then, AAS 31 had only been subject to limited reviews, the most recent in June 1998.<sup>1</sup> The Board considered it timely to undertake a comprehensive review of the requirements in AAS 31 through two concurrent and interrelated AASB projects:

- (a) the GAAP/GFS Harmonisation project; and
- (b) the Short-term Review of the Requirements in AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments*.

BC22 This Standard, which is a result of the GAAP/GFS Harmonisation project, together with the new, amending and revised Standards being developed from the Short-term Review of the Requirements in AASs 27, 29 & 31, supersede AAS 31.

BC23 This Standard requires governments to prepare GPFRs that adopt applicable Australian Accounting Standards, except when otherwise specified (see paragraph 9). The Short-term Review of the Requirements in AASs 27, 29 & 31 retains or amends the AAS 31 requirements by amending, where appropriate, the Australian Accounting Standards that this Standard requires to be adopted by governments. The Bases for Conclusions accompanying Exposure

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<sup>1</sup> Although AAS 31A *Amendments to the Transitional Provisions in AAS 31* was issued in December 1999 and AASB 1045 *Land Under Roads: Amendments to AAS 27A, AAS 29 & AAS 31* was issued in October 2002, they only had the effect of extending the transitional provisions for land under roads.

Draft ED 156 *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31* and to accompany the resulting new, amending or revised Standards, contain the Board's rationale for its treatment of the requirements in AAS 31. This Basis for Conclusions provides the Board's rationale for adopting GAAP/GFS harmonisation principles for whole of governments.

- BC24 The Board concluded that adopting the GAAP/GFS harmonisation principles in this Standard would help ensure that the multiple needs of users for both GAAP and GFS based information prepared under a harmonised framework at a whole of government level (incorporating sector information) are satisfied.

### **Preparation of Whole of Government Financial Reports [Paragraphs 2 and 7]**

- BC25 Due to the nature of governments, the Board concluded that a Standard should continue to specify requirements for the preparation of whole of government GPFs of the federal and each state and territory government.

### **Consolidation of Non-resident Entities**

- BC26 Generally, the controlled entities that are not consolidated within the GGS would be consolidated under both GAAP and GFS in whole of government financial reports, and therefore one of the more controversial aspects dealt with in the context of GGS financial reporting (see paragraphs BC5-BC13) does not arise in the context of whole of government. However, a different kind of non-consolidation issue conceivably arises. Under GAAP, irrespective of residency, all controlled entities are consolidated. Under GFS, controlled non-residents are not consolidated. For example, an off-shore subsidiary of a PNFC sector entity or PFC sector entity is not consolidated under GFS because it is not part of the Australian economic territory. Instead GFS records the parent PNFC sector or PFC sector entity as having an equity investment in the non-resident subsidiary and deriving dividend income from it. The non-resident subsidiary is an institutional unit in the economic territory of the other economy that would be part of that other economy's private sector.
- BC27 The Board concluded that, consistent with AASB 127, all controlled entities should be consolidated on a line-by-line basis in whole of government financial reports. If material, the GFS non-consolidation of non-resident subsidiaries would be shown as a reconciling difference (see paragraphs BC40(c) and BC52). The Board noted

that Australian jurisdictions either do not have non-resident subsidiaries or have immaterial non-resident subsidiaries. Given that the issue is not significant in practice, the Board concluded that it is not necessary for the Standard to explicitly refer to the issue.

#### **Consolidation of PNFC Sector and PFC Sector Entities**

- BC28 The Board noted that under AASB 1049 (September 2006), and carried over with some clarification into this Standard, the GGS recognises its investment in PNFC sector and PFC sector entities at, depending on circumstances, fair value, proportional share of the carrying amount of net assets (as a surrogate for fair value) or zero (see paragraph BC13).
- BC29 The Board considered the whole of government consolidation implications of GGS investments in PNFC sector and PFC sector entities potentially being measured at fair value in GGS financial reports. The Board noted that if the whole of government financial report were to consolidate PNFC sector and PFC sector entities at fair value, this would result in the recognition of, among other things, internally generated goodwill. The Board concluded that it is not appropriate for a government to recognise internally generated goodwill, noting that internally generated goodwill is also not recognised under GFS. Accordingly, the Board concluded that PNFC sector and PFC sector entities should be consolidated at the carrying amount of their net assets on a line-by-line basis, determined in a manner consistent with GAAP/GFS harmonisation principles.
- BC30 The Board noted that no PNFC sector and PFC sector entities in any Australian jurisdiction currently have traded shares and therefore the principle in this Standard would be expected to result in the investments being measured at the carrying amount of net assets, which is consistent with GFS in these circumstances. Therefore, the question of consolidating PNFC sector and PFC sector entities at fair value is not expected to arise frequently in practice.

#### **Disclosure of Whole of Government Sector Information [Paragraph 52]**

##### **PNFC Sector and PFC Sector Information as Note Disclosure in Whole of Government Financial Reports**

- BC31 The Board concluded that financial statements for the GGS, PNFC sector and PFC sector and reconciliations between GFS and GAAP measures of key fiscal aggregates for each sector should be disclosed in the whole of government financial report. The Board concluded

that such information, together with related information, is sufficient to satisfy user needs in a general purpose financial reporting context and therefore it is not necessary to require the preparation of separate PNFC sector and PFC sector financial reports. To facilitate a presentation format that provides sufficient prominence to the various sectors relative to each other and the whole of government, the Board concluded that the sector financial statements could be presented:

- (a) as a table in the notes to the whole of government financial statements comprising all sectors, an adjustments column and the whole of government; or
- (b) on the face of the government's financial statements.

BC32 The Board considered whether to make the sector information disclosure requirements less onerous by only requiring disclosure of sector financial statements prepared on a GFS basis. The Board noted that this would in some respects broadly align with the 'through the eyes of management' approach adopted in AASB 8. However, the Board concluded that this approach should not be adopted because:

- (a) sectors are different in nature from operating segments;
- (b) such an approach would not be consistent with the approach to GAAP/GFS harmonisation adopted for the GGS financial report; and
- (c) there would be a potential for user confusion if GGS financial reports adopt an accounting basis fundamentally different from that used for the GGS financial information presented in the whole of government financial report.

BC33 The Board also considered whether to not require disclosure of reconciliations of GAAP and GFS measures of key fiscal aggregates for the PNFC sector and PFC sector (see paragraph BC52), noting a view expressed by some that having to provide such information is onerous for preparers. The Board concluded that such information is useful for a significant group of users and therefore should be included in the whole of government financial report.

BC34 The Board noted that a government may choose to present information about additional sectors, such as the total non-financial public sector (comprising the GGS and PNFC sector). The Board concluded that it is not necessary to prescribe the disclosure of additional sectors, because the GGS, PNFC sector and PFC sector comprise a comprehensive disaggregation of the whole of



government. However, where a government elects to disclose information about additional sectors, this should be made on a comparable basis. This ensures that information contained in the financial report is consistent.

### **GGG Investment in PNFC Sector and PFC Sector Entities**

BC35 The Board addressed the question of whether the GGS information disclosed in the whole of government financial report should be consistent with the GGS financial report or the whole of government consolidated amounts. It therefore considered whether GGS investments in PNFC sector and PFC sector entities should be disclosed, and how they should be measured (fair value, carrying amount of net assets or zero). The Board noted that if a GGS investment in PNFC sector and PFC sector entities were to be measured at fair value in the whole of government financial report's sector information disclosures, there would be a disconnect between that amount and the carrying amount of net assets disclosed for the PNFC sector and PFC sector.

BC36 The Board concluded that GGS investments in PNFC sector and PFC sector entities should be included in the sector information disclosures, and be measured at the carrying amount of net assets disclosed for the PNFC sector and PFC sector in the whole of government financial report. The Board notes that it is conceivable, although unlikely in practice, that information about the GGS investment in PNFC and PFC sectors in the GGS financial report might differ from the GGS financial information disclosed in the whole of government financial report. This is appropriate given the different contexts in which the two sets of GGS information are presented. GGS financial reports treat the GGS as akin to a separate reporting entity whereas the GGS information disclosed in whole of government financial reports treats the GGS as a sector of a reporting entity.

## **Issues Common to Whole of Government Financial Reports and GGS Financial Reports**

### **GAAP or GFS [Paragraph 9]**

BC37 The Board considered whether GAAP or GFS principles should prevail for financial reporting purposes. 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 particular, in the interests of GAAP/GFS harmonisation, the Board

concluded that GAAP presentation principles should be modified to accommodate GFS principles. Although this issue was considered in a GGS context, the Board concluded that there is no reason to adopt a different approach in a whole of government context.

- BC38 An alternative approach to adopting GAAP with limited exceptions would have been to decide, for the purposes of preparing financial reports, that the GFS framework should apply. Making that declaration in a Standard would mean 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 a 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.
- BC39 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 government. 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 or will be inserted by the Board or separate Standards have been or will be issued to deal with those circumstances.
- BC40 The Board's conclusion facilitates GAAP/GFS harmonisation for whole of government financial reports and GGS financial reports by:
- (a) amending presentation requirements to encompass a comprehensive operating statement (paragraphs 29 and 52(b)(i)) that retains the GAAP classification system but overlays it with a transactions/other economic flows classification system based on GFS (paragraphs 30 and 52(b)(i));
  - (b) expanding disclosure requirements to accommodate, on the face of the statements, key fiscal aggregates under GFS (paragraphs 28, 32, 37 and 52(b)(i)) and the distinction between cash flows relating to investing in financial assets for

policy purposes and for liquidity management purposes adopted by GFS (paragraphs 36 and 52(b)(i)); and

- (c) specifying supplementary disclosure requirements, including GFS measures of key fiscal aggregates, reconciliations between GAAP and GFS measures of key fiscal aggregates and explanations of differences between GAAP and GFS (paragraphs 41 and 52) – (see paragraphs BC48-BC53).

BC41 The Board decided to utilise the GFS principles related to the distinction between transactions and other economic flows for presentation purposes in the operating statement 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.

BC42 In a whole of government context, including the disclosure of information about the PNFC sector and PFC sector, the Board considered the manner in which transactions with owners as owners should be treated. It concluded that, because they are different in nature from amounts recognised on the face of the operating statement, such transactions should be disclosed in the notes or a separate statement. However, consistent with AASB 1049 (September 2006) and paragraph 97(b) and (c) of AASB 101 *Presentation of Financial Statements*, and subject to paragraph 93B of AASB 119 *Employee Benefits*, movements in reserves should be disclosed in notes, on the face of the operating statement or in a separate statement.

### **Limitation of GAAP Options [Paragraph 13]**

BC43 The Board concluded that, where other Australian Accounting Standards allow optional treatments, only those treatments that align with GFS should be applied. 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. Although this issue was considered in a GGS context, the Board concluded that there is no reason to adopt a different approach in a whole of government context.

BC44 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.

BC45 A contrary view considered by the Board is that all Australian Accounting Standards should apply, without exception, including the full range of optional treatments in those Standards. Under this view, any optional treatments available under GAAP would be available even where they do not align with GFS. It was also suggested that mandating particular optional treatments undermines the transaction neutrality principle. The Board rejected this view as not supporting the objective of GAAP/GFS harmonisation.

### **Adoption of ABS GFS Manual [Paragraph 13]**

BC46 The Board concluded that this 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 Accounting Standards 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.

Although this issue was considered in a GGS context, the Board concluded that there is no reason to adopt a different approach in a whole of government context.

BC47 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 is that which may be amended from time to time. In the absence of an ambulatory reference, it may be necessary for the Board to revise its Standard more frequently than would otherwise be the case.

## **Presentation of Key Fiscal Aggregates [Paragraphs 16, 28, 32, 37, 41(a)(i) and 52(b)(ii)]**

- BC48 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. Although this issue was considered in a GGS context, the Board concluded that there is no reason to adopt a different approach in a whole of government context. 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 on the economy as a whole, and its overall financing impact on capital markets. These GFS aggregates are important to an understanding of a GGS and a whole of government (including its sectors) and therefore they should be displayed with an appropriate level of prominence in the financial reports.
- BC49 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 increases understanding as to the manner in which the key fiscal aggregates are derived and interconnected with the existing GAAP concepts.
- BC50 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 the reconciliations and explanations required by paragraphs 41(a)(i)(B) and 52(b)(ii)(B) (see paragraph BC52).
- BC51 The Board also noted some concerns about the GFS nomenclature 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 cause confusion for users. 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.

BC52 Following the Board's decision to require the presentation of the key fiscal aggregates on the face of the financial statements, the Board also concluded that it is appropriate to stipulate certain disclosure requirements. Where the key fiscal aggregates presented on the face of the financial statements 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 to be disclosed so that users are informed about the relationship between GAAP and GFS.

BC53 The level of prominence of these disclosures is not prescribed in the Standard.

### **Disclosure of Functional Information [Paragraphs 48 and 49]**

BC54 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 a government. Although this issue was considered in a GGS context, the Board concluded that there is no reason to adopt a different approach in a whole of government context.

BC55 In drawing this conclusion, the Board took into account that AASB 114 *Segment Reporting* (and AASB 8) does not apply to not-for-profit entities. The Board is monitoring the implementation of the International Accounting Standards Board (IASB) and the IPSASB Standards on segment reporting, and this may lead to an amendment to the requirements for not-for-profit entities more generally.

BC56 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 59]**

BC57 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".

- BC58 The Board concluded that the Standard should require disclosure of certain budgetary information where budgetary information is presented to parliament, including the original budgeted financial statements. The Board also concluded that explanations of major variances between the actual amounts presented on the face of the financial statements and corresponding budget amounts should be disclosed. Although this issue was considered in a GGS context, the Board concluded that there is no reason to adopt a different approach in a whole of government context. In doing so, the Board noted that Australian Accounting Standards, including this Standard, do not prescribe the preparation of a budget. The Board also noted that governments typically budget on a GGS basis rather than on a whole of government basis.
- BC59 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, this Standard mandates inclusion of the first budget presented to parliament. This 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.
- BC60 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 the New Zealand Accounting Standard NZ IAS 1 *Presentation of Financial Statements* (paragraphs NZ41.1 and NZ41.2) – see also paragraph 70 of NZ FRS-42 *Prospective Financial Statements*.
- BC61 This is not an area in which the IASB has developed an IFRS. The Board considered IPSAS 24 *Presentation of Budget Information in Financial Statements* and concluded that it does not provide an appropriate basis for budgetary reporting in the Australian environment, particularly because it gives primacy to the budget basis over the accounting basis and contemplates explanations of variances being disclosed outside the financial report.

BC62 The Board also noted that, as part of the Uniform Presentation Framework, typically Australian jurisdictions publish GGS budget information together with budget information relating to the PNFC sector (and the Non-Financial Public Sector, comprising the GGS and PNFC sector) but not the PFC sector. The Board considered whether sector-based budgetary information should be required to be disclosed in the whole of government financial report. The Board concluded that because the PNFC sector and PFC sector are not required by Australian Accounting Standards to prepare separate financial reports, a requirement to disclose budget information for the PNFC sector and PFC sector in whole of government financial reports would be onerous and of limited use to users even if that budget information is presented to parliament. The Board also noted that GGS budgetary information is required to be disclosed in GGS financial reports in accordance with this Standard. Accordingly, the Board concluded that sector-based budgetary information should not be required to be disclosed in whole of government financial reports.

### **Performance Indicators**

BC63 The proposals in Exposure Draft ED 142 *Financial Reporting of General Government Sectors by Governments* (issued July 2005) relating to performance indicators were modelled on the requirements that were contained within AAS 27, AAS 29 and AAS 31 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.

BC64 The Board decided to not retain the proposed requirements and guidance for either whole of government financial reports or GGS financial reports. It intends to consider issues relating to performance indicators more comprehensively in a separate project in due course.

### **Transitional Requirements [Paragraphs 66-68]**

BC65 Consistent with the general approach adopted in this Standard, the Board decided that the requirements relating to changes in accounting policies in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* should apply to the first financial report prepared in accordance with this Standard and that it is not necessary to specify such a requirement in this Standard.

BC66 The Board noted that jurisdictions adopted Australian equivalents to IFRSs for their whole of government financial reports for annual



reporting periods ending on 30 June 2006 (under AAS 31 and AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*) and AASB 1049 requires the date of transition of the GGS to be the date of transition used in the whole of government financial reports. The Board also noted that all jurisdictions intended deferring adopting AASB 1049 (September 2006) until a whole of government harmonised Standard is in place (see paragraph BC2). Accordingly, the Board concluded that it is only necessary to provide specific transitional requirements in a whole of government GAAP/GFS harmonised Standard to the extent necessary to facilitate consistency between GGS and whole of government financial reporting and between GAAP and GFS.

- BC67 The Board concluded that AASB 1 should be applied by GGSs in their first financial report prepared in accordance with this Standard, with certain exceptions.
- BC68 As noted in paragraph BC66, the Board concluded that, in relation to the GGS, the date of transition should be the date of transition used in the whole of government financial report and that the whole of government elections under AASB 1 that align with GFS should be adopted by the GGS. This is on the basis that the GGS is part of the whole of government. The Board noted that to do otherwise would inappropriately give rise to potential differences between the amounts in the GGS financial report and the whole of government financial report.
- BC69 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.
- BC70 The Board also concluded that GGSs and whole of governments 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 to facilitate GAAP/GFS harmonisation. The extent to which that relief is available is limited to some extent by the operation of paragraphs 13, 66 and 68(c) of this Standard.

## **BASIS FOR CONCLUSIONS ON AASB 2008-9**

*This Basis for Conclusions accompanies, but is not part of, AASB 1049. The Basis for Conclusions was originally published with AASB 2008-9 Amendments to AASB 1049 for Consistency with AASB 101 (September 2008).*

### **Background**

- BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the conclusions in this Standard. Individual Board members gave greater weight to some factors than to others.

### **Significant Issues**

- BC2 AASB 101 *Presentation of Financial Statements* (as issued in October 2006) required the presentation of an income statement that included items of income and expense recognised in profit or loss. It required items of income and expense not recognised in profit or loss to be presented in the statement of changes in equity, potentially together with owner changes in equity. Revised AASB 101 (issued September 2007) includes requirements for income and expenses to be presented in one statement (a statement of comprehensive income) or in two statements (a separate income statement and a statement of comprehensive income), separately from owner changes in equity. As a result of these changes, revised AASB 101 more closely aligned with the principles in AASB 1049 (issued October 2007), and it became possible for AASB 1049 to rely more heavily on the principles in AASB 101 by cross-reference rather than express requirements directly in AASB 1049. The changes help reinforce the approach taken in AASB 1049 of relying on other Standards rather than re-expressing the principles in those Standards directly in AASB 1049.
- BC3 The Board noted that a consequence of relying on the revised AASB 101 is a requirement to present a statement of changes in equity. Previously, AASB 1049 contemplated information pertinent to a statement of changes in equity being presented in a note or a separate statement to the extent the information is not included in the statement of comprehensive income. This is because of the way in which superseded AASB 101 treated such items. For example, superseded AASB 101 required changes in reserves to be presented in what was then a statement of changes in equity (which included components of comprehensive income) or in the notes. It also contemplated transactions with owners in their capacity as owners

being presented in the statement of changes in equity or in the notes. Revised AASB 101 requires changes in reserves and transactions with owners in their capacity as owners to be presented in the statement of changes in equity. Therefore, this Standard amends AASB 1049 to require the presentation of a statement of changes in equity.

- BC4 With minor exceptions, the Board decided to align the terminology used in AASB 1049 with the terminology in revised AASB 101 to ensure greater consistency across the suite of Australian Accounting Standards. The reference to ‘comprehensive result’ and ‘operating result’ is retained, despite revised AASB 101’s use of the terms ‘total comprehensive income’ and ‘profit or loss’. The Board concluded that, for the purpose of the Standard, the terms ‘comprehensive result’ and ‘operating result’ are more appropriate in a not-for-profit public sector context.
- BC5 Consistent with revised AASB 101, the financial statement titles ‘balance sheet’, ‘operating statement’ and ‘cash flow statement’ have been replaced by ‘statement of financial position’, ‘statement of comprehensive income’ and ‘statement of cash flows’ respectively. However, the Board notes that, consistent with the flexibility on statement titles allowed for in revised AASB 101, whole of governments and GGSs would not be restricted by AASB 1049 to using the titles used in AASB 1049.
- BC6 The Board decided that the transitional requirements in the revised AASB 1049 should not be available to governments that have previously applied AASB 1049 as issued in October 2007. This is because the transitional requirements should only be available once, on the initial transition to GAAP/GFS harmonisation.
- BC7 Following feedback on AASB 1049 from constituents the Board decided to clarify that:
- (a) the whole of government statement of comprehensive income disclosures referred to in paragraph 41(b)(iii) of AASB 1049 relate to the sector statements of comprehensive income that are disclosed for the whole of government; and
  - (b) the budget information disclosure requirements in paragraph 59 of AASB 1049 only relate to the budgeted financial statement(s) that were initially presented to parliament.
- BC8 To assist in implementing the changes to AASB 1049 the Board decided to incorporate the changes into the Illustrative Examples in

the Standard, including the addition of illustrations of the statement of changes in equity.

BC9 Following feedback from constituents on ED 163 the Board decided:

- (a) to require that, where the revised AASB 1049 is applied to annual reporting periods beginning before 1 January 2009, there is early adoption for the same annual reporting period of AASB 101 (September 2007). This will help to ensure consistency in application of the two Standards; and
- (b) to illustrate the statement of changes in equity for the whole of government by sector in a down-the-page, rather than an across-the-page, format in an attempt to make it more understandable.

## BASIS FOR CONCLUSIONS ON AASB 2011-3

*This Basis for Conclusions accompanies, but is not part of, AASB 1049. The Basis for Conclusions was originally published with AASB 2011-3 Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments (May 2011).*

### Background

- BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board (AASB) considerations in reaching the conclusions in this Standard. Individual Board members gave greater weight to some factors than to others.
- BC2 Given the substantial change to financial reporting brought about by AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (October 2007), the Board decided to undertake a post-implementation review of that Standard. The objective was to identify any material issues at an operational level with a view to improving financial reporting. The post-implementation review included consideration of the consistency of application of AASB 1049 across jurisdictions.
- BC3 Various methods were used to identify the AASB 1049 implementation issues, some of which are the subject of this Standard. These methods included consulting with personnel with AASB 1049 implementation experience from each jurisdiction's Department of Treasury and Finance and Auditor-General's Office.
- BC4 After reviewing the implementation issues identified, the Board proposed amendments to AASB 1049 in Exposure Draft ED 211 *Proposed Amendments to AASB 1049* (Issued in March 2011). The Exposure Draft was structured to focus on two sets of proposals:
- (a) Part 1, open for a 30-day comment period, relates to the definition of the ABS GFS Manual, relief from adopting the latest version of the ABS GFS Manual, and related disclosures; and
  - (b) Part 2, open for a 90-day comment period, relates to other proposals.

Part 1 had a 30-day comment period because of the Board's aim to provide relief as early as possible from the requirement to adopt the latest version of the ABS GFS Manual, so that the relief would be available for the reporting period ending on 30 June 2011. Therefore,

this Standard arises from the Part 1 proposals in ED 211. The second set of proposals will be considered in due course.

## **Issues Giving Rise to Amendments to AASB 1049**

### **Orderly Adoption of Changes to the ABS GFS Manual [paragraphs 13B, 39(a)(ii) & 39A]**

- BC5 The Board considered how best to draft requirements into AASB 1049 that would help facilitate the orderly adoption of future amendments to the ABS GFS Manual for the purposes of GAAP/GFS harmonised financial reporting. The Board noted that there are potentially two broad aspects to this issue:
- (a) the manner in which a change to the ABS GFS Manual should be initially adopted in the GAAP/GFS harmonised financial statements for the purposes of determining GFS information included in those statements; and
  - (b) the time lag to allow between the change being issued and it becoming mandatory for the GAAP/GFS harmonised financial statements.
- BC6 In relation to the manner in which a change in the ABS GFS Manual should be initially adopted, the Board noted that if AASB 1049 were to override, or even merely clarify, GFS transitional arrangements, it would arguably go beyond the Board's role, and potentially result in the Board interpreting or effectively modifying the ABS GFS Manual. To avoid this, consistent with the approach in AASB 1049, the Board decided that AASB 1049 should adopt the ABS GFS Manual as it is. The Board noted that to do otherwise would create the potential for there to be a permanent difference between the amounts presented as GFS in the financial statements and amounts published by the ABS. However, the Board noted this decision only pertains to GFS information, and therefore GAAP requirements (including those relating to retrospectivity in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*) apply, unamended, to the manner in which a change in accounting policy is initially adopted.
- BC7 In relation to time lag, the Board noted that providing relief through a 'time lag' has the potential to give rise to temporary differences between the amounts presented as GFS in the financial statements and amounts published by the ABS. After considering alternative approaches on how to give an effective time lag between the issue of an amendment to the ABS GFS Manual and when it becomes

mandatory for GAAP/GFS harmonised financial reporting purposes, the Board decided AASB 1049 should specify that references to the ABS GFS Manual are to the version of the Manual effective at the beginning of the previous annual reporting period or any version effective at a later date. The Board decided to allow jurisdictions to adopt a version of the ABS GFS Manual for AASB 1049 financial reporting purposes, even if that version was not effective until after the beginning of the reporting period, consistent with the Board's usual policy of allowing early adoption of Australian Accounting Standards.

BC8 The Board noted that this approach is broadly aligned with the Board's normal approach to specifying transitional requirements for changes to GAAP because it:

- (a) specifies, albeit in an ambulatory two year lagged way, a mandatory operative date for changes to the ABS GFS Manual;
- (b) provides a reasonable time for entities to implement changes to the ABS GFS Manual that could affect comparative information; and
- (c) allows, but does not require, entities to adopt changes to the ABS GFS Manual prior to mandatory operative dates.

BC9 The Board also noted that this approach would warrant an amendment to paragraph 39 of AASB 1049, to help ensure users are informed about the version of the ABS GFS Manual adopted as the basis for GFS information included in financial statements. Consequently, amendments are made to Illustrative Example C 'Extract from the Note Containing the Summary of Significant Accounting Policies of a General Government Sector', which provides an illustration of disclosures required by paragraph 39. Also, consistent with paragraph 30 of AASB 108 relating to new but not yet effective Standards, the Board decided that AASB 1049 should require the disclosure of information about the latest version of the ABS GFS Manual that has not yet had an impact on the financial statements.

BC10 To address concerns about uncertainties that arise from the ABS potentially not specifying effective dates for amendments to the ABS GFS Manual, the Board decided to clarify that the date on which amendments to the ABS GFS Manual become effective is, for the purpose of AASB 1049, the publication date if no effective date is specified by the ABS.

## **Definition of the ABS GFS Manual [Appendix A]**

BC11 The Board decided that the ABS GFS Manual continues to be the appropriate authoritative source for GFS matters that are pertinent to general purpose financial reporting. After consulting with the ABS, which had clarified the boundaries of the ABS GFS Manual on its website since ED 211 was issued, the Board also decided the ABS GFS Manual should be defined as “Australian Bureau of Statistics publications *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (ABS Catalogue No. 5514.0) and *Amendments to Australian System of Government Finance Statistics, 2005* (ABS Catalogue No. 5514.0) published on the ABS website”. Consequently, amendments are made to the illustrated explanation of the key technical term ‘Government Finance Statistics (GFS)’ provided in Illustrative Example D ‘Key Technical Terms Used in the Complete Sets of Financial Statements’ to make it consistent with the revised definition of the ABS GFS Manual.



## **BASIS FOR CONCLUSIONS ON AASB 2011-13**

*This Basis for Conclusions accompanies, but is not part of, AASB 1049. The Basis for Conclusions was originally published with AASB 2011-13 Amendments to Australian Accounting Standard – Improvements to AASB 1049 (December 2011).*

### **Background**

- BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board (AASB) considerations in reaching the conclusions in this Standard. Individual Board members gave greater weight to some factors than to others.
- BC2 Given the substantial change to financial reporting brought about by AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (October 2007, as amended), the Board decided to undertake a post-implementation review of that Standard. The objective was to identify any material issues at an operational level with a view to improving financial reporting. The post-implementation review included consideration of the consistency of application of AASB 1049 across jurisdictions.
- BC3 Various methods were used to identify the AASB 1049 implementation issues that gave rise to the amendments in this Standard. These methods included consulting with personnel with AASB 1049 implementation experience from each jurisdiction's Department of Treasury and Finance and Auditor-General's Office.
- BC4 The Board noted that the post-implementation review work to date has not identified any major flaws in the Standard. However, the Board identified a number of aspects of AASB 1049 where improvements could be made. After reviewing the implementation issues identified, the Board issued Exposure Draft ED 211 *Proposed Amendments to AASB 1049* containing proposals to amend AASB 1049 to clarify some of its requirements.
- BC5 The Board issued AASB 2011-3 *Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments* [AASB 1049] in May 2011. The amendments in AASB 2011-3 arise from the proposals in ED 211 relating to the definition of the ABS GFS Manual, and related disclosures. AASB 2011-3 was issued early so that the relief would be available for the reporting period ending on 30 June 2011.

BC6 The amendments in this Standard arise from the remaining proposals in ED 211, with the bases for amendments outlined in paragraphs BC7-BC22. In addition, the Board decided that some issues raised in the post-implementation review did not warrant amendments to AASB 1049, on the bases outlined in paragraphs BC23-BC40.

## **Issues giving Rise to Amendments to AASB 1049**

### **Alignment to terminology used in AASB 101**

BC7 Consistent with the terminology used in AASB 101 *Presentation of Financial Statements*, wherever the term ‘other non-owner changes in equity’ or ‘other changes in equity’ is used in AASB 1049 to refer to the other comprehensive income section in the statement of comprehensive income, the Board decided to amend the term to ‘other comprehensive income’.

### **Preparation of GGS and Whole of Government Financial Statements [paragraph 7]<sup>1</sup>**

BC8 Consistent with the original intention of paragraph 7 of AASB 1049 (see for example paragraphs BC5 and BC25 of AASB 1049) the Board decided to clarify within the body of the Standard that both whole of government and GGS financial statements are required to be prepared. The amendment addresses the concern that some could conceivably interpret AASB 1049 as merely specifying requirements for financial statements if they are prepared.

### **Relative Timing and Cross-Referencing of GGS and Whole of Government Financial Statements [paragraphs 8, 39(a) and 39(b)]**

BC9 AASB 1049 previously allowed GGS financial statements to be made available later than whole of government financial statements being made available. Where the GGS financial statements were presented separately from the whole of government financial statements, a cross-reference from the GGS financial statements to the whole of government financial statements was required to be made. The Board decided that AASB 1049 should be amended to require, at all times, GGS and whole of government financial statements to be made available at the same time and cross-referenced to each other. This is on the basis that:

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<sup>1</sup> References to paragraphs in the headings of this Basis for Conclusions are to paragraphs in AASB 1049.

- (a) GGS financial statements provide useful information (e.g. budgetary information) for users, and users should receive such information on a timely basis;
- (b) GGS financial statements provide a bridge between a government's budget and its whole of government financial statements; and
- (c) given that GGS is a sector of whole of government, whole of government financial statements provide a context to the GGS financial statements.

### **Adoption of Options in GAAP that align with GFS [paragraphs 13-15]**

#### **Early Adoption of New or Revised Standards**

BC10 The Board noted that paragraph 13 of AASB 1049 could be interpreted as requiring early adoption of a new or revised Standard if its adoption is more in line with GFS than the requirements of the Standard being superseded. The Board decided that such an interpretation is not the intention of paragraph 13 as it would potentially undermine the Board's intention of facilitating the orderly adoption of new or revised requirements. Accordingly, the Board decided to amend AASB 1049 to clarify that AASB 1049, in mandating a particular accounting policy or limiting an otherwise broader choice of policies for the objective of GAAP/GFS harmonisation, does not require that a new or revised Standard must be adopted early, even if early adoption would more quickly allow alignment with GFS.

#### **Disclosure of Key Fiscal Aggregates**

##### **Presentation of Additional Fiscal Aggregates [paragraphs 16 & 18]**

BC11 The Board noted that AASB 1049 allows jurisdictions to disclose fiscal aggregates that are additional to the key fiscal aggregates required by AASB 1049. However, the Board noted the concern that, in practice, these other fiscal aggregates are not necessarily clearly distinguished from those key fiscal aggregates in the financial statements. To address this concern, the Board decided that AASB 1049 should be amended to require a clear differentiation between key fiscal aggregates and other fiscal aggregates, to help avoid potential confusion for users.

**Disclosure of Other Measures of Key Fiscal Aggregates [paragraphs 16, 18, 41(a)(i) & 52(b)(ii)]**

BC12 AASB 1049 previously only allowed key fiscal aggregates measured in a manner consistent with recognised amounts or the ABS GFS Manual to be disclosed. Other measures of key fiscal aggregates were not allowed to be disclosed. The Board decided that AASB 1049 should be amended to allow disclosure of other measures of key fiscal aggregates (i.e. not measured in a manner consistent with recognised amounts or the ABS GFS Manual) on the basis that preparers should not be prevented from disclosing information they believe is useful to users, as long as it does not detract from the information required by the Standard. Accordingly, paragraphs 41(a)(i) and 52(b)(ii) have been amended by removing the requirement that prohibits the disclosure of other measures of key fiscal aggregates. Furthermore, the amendments to paragraph 18 in AASB 1049 clarify that other measures of key fiscal aggregates should not be presented as key fiscal aggregates, to help avoid potential confusion for users.

**Determination of the Amount to be Recognised for GGS Investments in PNFC and PFC Sector Entities [paragraphs 20(c), 21 & 23(c)]**

BC13 Paragraph 20 of AASB 1049 requires GGS controlling investments in PNFC sector and PFC sector entities to be measured at, depending on circumstances, fair value, or the government's proportional share of the carrying amount of net assets, or zero. Therefore, an investment is not recognised at an amount below zero. As noted in paragraph BC13 of AASB 1049 measurement at fair value, or at the government's proportional share of the carrying amount of net assets where fair value is not reliably measurable, is consistent with GFS. That paragraph also notes that not allowing investments to be measured below zero is consistent with the principles elsewhere in GAAP (for example, AASB 128 *Investments in Associates* does not allow negative investment values when using the equity method).

BC14 With that background, in relation to paragraph 20 of AASB 1049, the Board noted the view of some practitioners that paragraph 23(c) of AASB 1049 is inconsistent with paragraph 20(c) because paragraph 23(c), which refers to 'net basis', implies individual amounts may be less than zero whereas paragraph 20(c) requires individual amounts to be not less than zero for the purposes of measuring a GGS equity investment in a PNFC sector or PFC sector entity. Consistent with the rationale in paragraph BC13 of

AASB 1049, the Board decided the last sentence of paragraph 23(c) should be amended to be consistent with paragraph 20(c).

### **Classification of Items between Transactions and Other Economic Flows [paragraphs 30, 31 & 55(b)]**

BC15 The Board acknowledged the view that paragraph 30 should be amended to provide further guidance for the classification of items between transactions and other economic flows to help facilitate greater consistency in its application by jurisdictions, particularly for circumstances where items arising under GAAP are not recognised under GFS in the reporting period. The Board noted that for circumstances where items arising under GAAP are also recognised under GFS in the reporting period, the principle for classification between transactions and other economic flows are already in AASB 1049. The Board decided to amend AASB 1049 to clarify the principle for classification between transactions and other economic flows in circumstances where items arising under GAAP are not recognised under GFS in the reporting period. In addition, to assist in applying the clarified principle, the Board decided to provide additional examples of how the clarified principles would apply in particular circumstances.

BC16 Related to this issue, the Board considered whether classification of GAAP items that are also recognised under GFS in the reporting period should be grouped together, and presented separately in the statement of comprehensive income from classification of GAAP items that are not recognised under GFS in the reporting period. However, the Board decided against imposing such a requirement, on the basis that it was not identified as an issue in the post-implementation review of AASB 1049.

### **Defence Weapons Platforms [paragraphs 31(a)(v) and 44(a)(iv) of AASB 1049, and the Illustrative Examples A and B accompanying AASB 1049]**

BC17 Consistent with the ABS GFS Manual, which now recognises and measures defence weapons platforms in the same way as other non-financial assets, the relevant paragraphs in AASB 1049 and the relevant sections of the Illustrative Examples accompanying AASB 1049 are amended. There would now be no convergence difference between GAAP and GFS in relation to defence weapons platforms.

### **Transactions with Owners as Owners in a GGS Context [paragraph 34B]**

BC18 The Board noted that, although not common, transactions with owners in their capacity as owners that are not eliminated on consolidation could arise because of non-controlling interest attributable to entities outside the GGS. Therefore, the Board decided that paragraph 34B should be amended to acknowledge that this could occur.

### **Interpretation of ‘presented on a basis that is consistent with’ in the Context of Budgetary Information [paragraphs 59(e), 63 & 64]**

BC19 Paragraph 59(e) of AASB 1049 required disclosure of the original budgeted financial statements, presented on a basis that is consistent with the basis prescribed for the financial statements by AASB 1049. The Board noted that some practitioners questioned the meaning of ‘presented on a basis that is consistent with’. In particular, it was questioned whether the budget would be required to be recast solely for presentation and classification or whether the requirement extends to recognition and measurement. The Board noted the practical difficulties of recasting for recognition and measurement differences – e.g. retrospectively determining ‘budgeted’ fair values when hindsight is likely to influence such a determination. Therefore, the Board decided that paragraph 59(e) of AASB 1049 should be amended to clarify that the budget should be recast solely for presentation and classification matters, not for recognition and measurement matters. This amendment gave rise to consequential amendments to paragraphs 63 and 64 to focus them on presentation and classification.

BC20 In relation to the requirement in paragraph 59(f) to disclose explanations of major variances between actual and budget amounts, the Board noted that variances might arise from recognition and measurement principles adopted in the budget being different from the recognition and measurement principles adopted in the financial statements.

### **Transitional Requirements [paragraphs 65A, 66, 67, 68, 69 & 70]**

BC21 The Board noted it is no longer necessary to specify transitional requirements because all jurisdictions have previously first-time

adopted AASB 1049 for their whole of government and GGS financial statements.

### **Tax-effect Accounting by GGS [Explanatory Note r(ii) to the Illustrative Examples accompanying AASB 1049]**

BC22 The Board noted that of those jurisdictions that recognise deferred tax liabilities at the PNFC/PFC level, only some reflect corresponding amounts in the GGS statement of financial position as deferred tax assets. The Board also noted:

- (a) the view that, from a GAAP perspective, such ‘mirror’ accounting can be justified given the amount is known in a ‘closed system’ (i.e. the taxpayer and taxing authority are within the government); and
- (b) the question of whether the amounts are in the nature of a tax or distribution to owners as owners.

After considering these issues, the Board considered whether to remove the text in square brackets in Explanatory Note r(ii) on the basis that the subject matter of that text is beyond the scope of the GAAP/GFS Harmonisation project. However, the Board noted that the tax regime assumed is in the context of an illustrative example and thus is non-prescriptive. The Board decided to retain the text, on the basis that it provides a useful explanation of why there is no convergence difference for GGS in relation to deferred tax balances as illustrated in Example A, with some editorial amendments to the text to clarify that the tax regime assumed is for the purpose of an illustrative example.

### **Significant Issues that did not give rise to Amendments to AASB 1049**

#### **Purpose of the GGS Financial Report [paragraphs 12 & BC6]**

BC23 The Board noted that paragraph 12 does not require disclosure of whether GGS financial statements are general purpose financial statements or special purpose financial statements and considered whether the absence of such a requirement gives rise to implementation issues. The Board decided AASB 1049 should not be amended in relation to this issue at this time because the AASB 1049 approach to the issue has not created insurmountable practical problems for jurisdictions, particularly because, in practice,

GGS financial statements are not presented separately from the general purpose financial statements of the whole of government. The Board notes that, in due course, it may be appropriate to revisit the way AASB 1049 deals with the issue, depending on the outcome of future work to be undertaken on the Board's Differential Reporting project.

### **Adoption of Options in GAAP that align with GFS [paragraphs 13 & 14]**

#### **Examples of Particular Optional Treatments in GAAP**

BC24 The Board noted the view that the Board should fully analyse optional treatments in GAAP and specify directly in AASB 1049 those treatments to be adopted, to avoid the need for preparers to refer directly to the ABS GFS Manual. The Board decided that the relatively principles-based approach in AASB 1049 should be retained, rather than including an exhaustive list of GAAP options that align with GFS, on the basis that it is not the Board's role to interpret GFS. Also, the Board decided to monitor the development of any further guidance by other interested parties on this issue and expressed a willingness to collaborate with Treasuries and the ABS in developing such guidance if Treasuries decide to develop separate guidance.

BC25 The Board noted that some practitioners questioned the application of paragraph 12 of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* in the context of aligning optional treatments in GAAP with GFS and whether the wording in that paragraph of 'most recent pronouncements of other standard setting bodies' included the ABS GFS Manual.

Paragraph 12 of AASB 108 states:

"In making the judgement described in paragraph 10, management may also consider the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources in paragraph 11."

The Board decided that the ABS GFS Manual should not be included in the AASB 108 hierarchy, on the basis that GFS, per se, is not a part of GAAP.



### **Presentation of the Whole of Government/GGS Statements of Financial Position [paragraph 15]**

- BC26 The Board noted that the Illustrative Examples accompanying AASB 1049 subclassify non-financial assets between 'produced' and 'non-produced' categories even though the ABS GFS Manual does not explicitly require such a subclassification. The Board decided it is not necessary to amend AASB 1049 to remove the subclassification because the Illustrative Examples are not prescriptive.
- BC27 The Board also noted the view that AASB 1049 should be amended to clarify requirements relating to the presentation of statements of financial position based on liquidity. However, the Board decided it is not necessary to amend AASB 1049 in relation to this issue because the principles in AASB 1049 are sufficiently clear and the Illustrative Examples are not prescriptive.

### **Presentation of Operating Result on the Face [paragraph 29]**

- BC28 The Board noted the view that AASB 1049 should be amended to allow the operating result (a GAAP subtotal) not to be presented on the face of the single statement of comprehensive income on the basis that its presentation on the face clutters the statement. This is consistent with a view that users are most interested in the 'net result from transactions – net operating balance', and that including the 'operating result' on the face has the potential to confuse users. However, the Board decided that paragraph 29 should continue to require jurisdictions to present the operating result on the face of the single statement of comprehensive income because, consistent with the fundamental basis upon which AASB 1049 was developed, such a presentation is required by AASB 101.

### **Treatment of Non-cash Items in relation to Cash Flow Statements [paragraphs 18 & 37]**

- BC29 The Board noted that some jurisdictions present the value of assets acquired under finance leases and similar arrangements on the face of the cash flow statements. The Board also noted the concern expressed by some about such non-cash flows being included in cash flow statements. However, the Board decided it is not necessary to amend AASB 1049 for this issue because it is already obvious in GAAP (including AASB 1049) that an entity should clearly distinguish between information that is and is not cash flow information.

## **GAAP/GFS Reconciliation Requirements [paragraphs 41(a)(i)(B) & 52(b)(ii)(B)]**

- BC30 The Board noted that AASB 1049 requires disclosure of reconciliations of GAAP and GFS measures of certain key fiscal aggregates, and an explanation of the differences. The Board also noted the view that such disclosures are unnecessary and therefore that the reconciliation requirement should be removed. However, the Board decided paragraphs 41(a)(i)(B) and 52(b)(ii)(B) should continue to require the reconciliations and explanations because they provide useful information for users in the context of GAAP/GFS harmonisation and the reconciliation schedule is a critical part of AASB 1049.
- BC31 On a related issue, the Board considered whether it is necessary to amend AASB 1049 to explicitly address the circumstances where GFS amounts determined by the ABS differ from and are published after amounts disclosed as GFS amounts in the financial statements. The question arises as to which GFS amounts should be reconciled to in the comparative information disclosed in the following year's financial statements. The Board decided that it is not necessary to explicitly address this issue in AASB 1049, noting that the GFS amounts previously reported in the financial statements would be the relevant amounts.

## **Disclosure of the Aggregates of Dividends and Other Distributions to Owners as Owners [paragraph 41(b)(iii)]**

- BC32 The Board noted that paragraph 41(b)(iii) requires the GGS financial statements to disclose the aggregate amount of dividends and other distributions to owners as owners from PNFC sector and PFC sector entities to the GGS. The Board also noted the suggestion that the wording in paragraph 41(b)(iii) should be amended because it is unclear as to what is meant by 'other distributions'. The Board decided paragraph 41(b)(iii) should not be amended in relation to this issue on the basis that there is apparently no significant issue in complying with the requirement in paragraph 41(b)(iii). The Board particularly noted it is a matter of professional judgement based on circumstances whether income tax equivalent income is in the nature of a distribution to owners as owners.
- BC33 The Board noted the view that paragraph 41(b)(iii) should be amended to require the disclosure of contributions from the GGS in its capacity as owner to PNFC sector and PFC sector entities to enable derivation of 'net distributions'. However, the Board noted

that typically such information is already disclosed and therefore it is not necessary for AASB 1049 to mandate it.

### **Carrying Amounts of Assets Attributable to Functions [paragraphs 48(b), 50 & 51]**

BC34 The Board noted that AASB 1049 requires disclosure of the carrying amount of recognised assets that are reliably attributable to each function (paragraph 48(b)). The Board also noted that the relevance of such a disclosure when it is not based on an ABS GFS Manual concept was questioned by some. The Board decided paragraph 48(b) should continue to require the disclosure on the basis that the disclosure would assist users in identifying resources committed to particular functions relative to the costs of service delivery that are reliably attributable to those functions, which facilitates comparisons between jurisdictions. The Board also noted that, in due course, its Disaggregated Disclosures project will address, amongst other things, issues raised in the post-implementation review of AASB 1049. The Board noted that retaining the requirement would avoid the risk of otherwise removing the requirement and then potentially reinstating it as a result of the Disaggregated Disclosures project.

### **‘Expenses, excluding Losses, included in Operating Result’ by Function [paragraphs 48(c), 50 & 51]**

BC35 Consistent with the decision to retain the requirement in AASB 1049 to disclose carrying amount of recognised assets that are reliably attributable to each function (see paragraph BC34), the Board decided to retain the requirement to disclose ‘expenses, excluding losses, included in operating result’ (paragraph 48(c)).

BC36 The Board noted that ‘expenses excluding losses’ is not explicitly described in AASB 1049. Furthermore, the Board noted the view that inclusion of this term in the functional information could confuse users (and preparers) as there is no clear definition of what is intended to be included in the calculation and that the phrase should be replaced with the phrase ‘expenses from transactions’, which would avoid the reconciliation required by paragraph 49. However, the Board decided paragraph 48(c) should not be amended for the following reasons:

- (a) if the reference to ‘excluding losses’ were omitted, it would seem to be anomalous to include losses, but not gains, given that gains and losses relating to an item might be netted off; and

- (b) 'expenses excluding losses' more closely aligns with GAAP than 'expenses from transactions', because 'expenses from transactions' does not include GAAP expenses classified as other economic flows.

### **Explanations of Variances from Budget [paragraphs 59(f) & 65]**

- BC37 The Board noted that the AASB 1049 requirement to include explanations of variances between budgeted and actual financial information was questioned by some practitioners for two primary reasons:
- (a) the requirement to explain variances is unnecessary as the variance explanations are not relevant to users because variance explanations are more relevant at entity level and the reasons for changes in budgetary assumptions are explained every time the budgets are updated; and
  - (b) the inclusion of unaudited budgetary information within the audited financial statements results in audit report comments in relation to budget information within the statements. In particular, whilst audit of variances between budgeted and actual data is possible at the higher levels, at a lower level there is insufficient evidence available to make assessments.
- BC38 The Board decided not to amend paragraph 59(f) in relation to this issue on the basis that disclosure of variance information provides useful information for users and facilitates the discharge of accountability by governments. Paragraph BC60 of AASB 1049 contains the Board's rationale for the requirement for disclosure of explanations of major variances between the actual amounts presented on the face of the financial statements and corresponding budget amounts.

### **Capital Management Disclosures**

- BC39 The Board considered whether the exemption provided by paragraph Aus1.7 of AASB 101 for whole of governments and GGSs from presenting certain capital management disclosures required by paragraphs 134-136 of AASB 101 should be retained or removed.
- BC40 The Board decided it would be inappropriate to reconsider the exemption as part of the post-implementation review of AASB 1049, on the basis that the issue should be considered in the context of a

broader range of not-for-profit entities than whole of governments and GGSs.

## **BASIS FOR CONCLUSIONS ON AASB 2012-8**

*This Basis for Conclusions accompanies, but is not part of, AASB 1049. The Basis for Conclusions was originally published with AASB 2012-8 Amendments to AASB 1049 – Extension of Transitional Relief for the Adoption of Amendments to the ABS GFS Manual relating to Defence Weapons Platforms (December 2012).*

### **Background**

- BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the conclusions in the Standard, following consideration of comments received in response to Exposure Draft ED 227 *Proposed Amendments to AASB 1049 – Extension of Transitional Relief for the Adoption of Amendments to the ABS GFS Manual relating to Defence Weapons Platforms*, issued in October 2012. Individual Board members gave greater weight to some factors than to others.
- BC2 On 5 April 2011, the ABS published on its website, Chapter 2 *Amendments to Defence Weapons Platforms* of the ABS publication *Amendments to Australian Government Finance Statistics, 2005* (ABS Catalogue No. 5514.0). Due to the interrelationship between the ABS GFS Manual and AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, the effect of the ABS Chapter 2 Amendments would be to require assets that are the subject of Chapter 2 to be measured at fair value, where reliably measurable, in the financial statements prepared in accordance with AASB 1049 for reporting periods beginning on or after 1 July 2012.

### **Considerations in extending the transitional relief**

- BC3 Prior to issuing ED 227, the Board considered a submission arguing that more time was needed to measure assets classified as defence weapons platforms at fair value, for the purposes of financial reporting under AASB 1049, due to the magnitude and complexity of the valuation exercise for such assets. Constituents familiar with the nature and quantity of the assets involved advised the Board that an extension of transitional relief for two years would be required to comply. The Board agreed that the extension is warranted, and considered that such an extension should be sufficient and therefore would not expect to provide further relief for such assets in the future.
- BC4 The Board also considered the existing disclosure requirements in paragraphs 39(a)(ii) and 39A of AASB 1049 and decided that, in principle, they would be adequate during the extended period in

which the ABS Chapter 2 Amendments are not applied in financial statements prepared in accordance with AASB 1049. However, to address concern that there might be potential confusion as to whether the disclosure requirements of paragraphs 39(a)(ii) and 39A would apply to an entity that elects to adopt the extended transitional relief, the Board decided to clarify in paragraph 39(a)(ii) that such an entity is regarded as not having applied the latest version of the ABS GFS Manual.

- BC5 One Board member, Ian McPhee, abstained from voting on the issue of this Standard, which has the potential to significantly affect only the Australian Government, due to his role as the Auditor-General of that Government.

## ILLUSTRATIVE EXAMPLES

*The following examples accompany, but are not part of, AASB 1049.*

	<i>Page</i>
<b>A Whole of Government Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and Selected Notes</b>	<b>82</b>
<b>B General Government Sector Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and Selected Notes</b>	<b>99</b>
<b>C Extract from the Note Containing the Summary of Significant Accounting Policies of a General Government Sector</b>	<b>119</b>
<b>D Key Technical Terms Used in the Complete Sets of Financial Statements</b>	<b>121</b>

Illustrative Examples A and B provide examples of acceptable formats for whole of government and GGS financial statements respectively, that are consistent with the requirements of this Standard and the assumptions made for the purpose of the illustrations. They also illustrate an acceptable style and format for reconciliation notes and functional information. Furthermore, sector information is illustrated for the whole of government in Illustrative Example A.

The styles and formats illustrated are not mandatory. Other styles and formats may be equally appropriate if they meet the requirements of this Standard.

To assist an understanding of the illustrations, particularly in relation to differences between GAAP and GFS, explanatory notes are provided at the end of Illustrative Example B and relate to both Illustrative Examples A and B. They do not form part of the illustrative financial statements or notes.

Illustrative Examples A and B do not purport to identify all possible differences between GAAP and GFS, nor to present in the financial statements all the line items as might be required by a different set of assumptions. Additionally, they do not illustrate the disclosure of comparative period information or the notes required by paragraphs 39<sup>1</sup>, 41 (except the relevant reconciliation notes)<sup>2</sup>, 52(a) and the explanation of differences required

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1 Illustrative Example C provides an example of the information to be included in the summary of significant accounting policies of the GGS in accordance with paragraph 39(b).

2 Illustrative Example D provides an example of the information to be included in the other explanatory notes of the whole of government and GGS regarding explanations of key technical terms in accordance with paragraph 41(a)(iii).



by 52(b)(ii)(B). They also do not illustrate the disclosure requirements of budgetary information (paragraphs 59-65), nor all the disclosures required by other Australian Accounting Standards.

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

## ILLUSTRATIVE EXAMPLE A

### Whole of Government Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and Selected Notes

#### Statement of Comprehensive Income for the Whole of Government of the ABC Government for the Year Ended 30 June 20XX

	Notes	\$m
<b>Revenue from Transactions</b>		
Taxation revenue		209,178
Other revenue		
Interest, other than swap interest		3,298
Dividends from associates (part of share of net profit/(loss) from associates)		3
Sales of goods and services		12,862
Other current revenues		2,792
		<u>228,133</u>
<b>Expenses from Transactions</b>		
Employee benefits expense		
Wages, salaries and supplements		(20,866)
Superannuation		(2,477)
Use of goods and services		(40,710)
Depreciation		(3,823)
Interest, other than swap interest and superannuation interest expenses		(4,841)
Subsidy expenses		(5,253)
Grants		(69,494)
Social benefits		(71,730)
Superannuation net interest expenses		(4,902)
Loss on write-off of financial assets at fair value through operating result		(380)
		<u>(224,476)</u>
<b>NET RESULT FROM TRANSACTIONS – NET OPERATING BALANCE</b>		<b>3,657</b>

	Notes	\$m
<b>Other Economic Flows – Included in Operating Result</b>		
Other revenue		
Net swap interest revenue		577
Net foreign exchange gains		2,120
Net gain on sale of non-financial assets		343
Net gain on financial assets or liabilities at fair value through operating result		265
Amortisation of non-produced assets		(119)
Doubtful debts		(604)
Share of net profit/(loss) from associates, excluding dividends		(26)
		<u>2,556</u>
<b>OPERATING RESULT</b>		<b><u>6,213</u></b>
<b>Other Economic Flows – Other Comprehensive Income</b>		
<i>Items that will not be reclassified to operating result</i>		
Revaluations		1,589
Remeasurements of the defined benefit liability		866
<i>Items that may be reclassified subsequently to operating result</i>		
Net gain on financial assets measured at fair value		2,946
		<u>5,401</u>
<b>COMPREHENSIVE RESULT – TOTAL CHANGE IN NET WORTH BEFORE TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS</b>		<b><u>11,614</u></b>
<b>KEY FISCAL AGGREGATES</b>		
<b>NET LENDING/(BORROWING)</b>	S2	<b>5,100</b>
<i>plus</i> Net acquisition/(disposal) of non-financial assets from transactions		<u>(1,443)</u>
<b>NET OPERATING BALANCE</b>	S1	<b>3,657</b>
<i>plus</i> Net other economic flows		7,957
<b>TOTAL CHANGE IN NET WORTH BEFORE TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS</b>	S3	<b><u>11,614</u></b>

**Statement of Financial Position for the Whole of Government of the ABC Government  
as at 30 June 20XX**

	Notes	\$m
<b>Assets</b>		
<i>Financial Assets</i>		
Cash and deposits		14,070
Accounts receivable		18,080
Securities other than shares		78,438
Loans		9,956
Advances		7,758
Shares and other equity		
Investments accounted for using equity method		695
Investments in other entities		1,142
		<u>130,139</u>
<i>Non-Financial Assets</i>		
Produced assets		
Inventories		5,346
Machinery and equipment		67,014
Buildings and structures		16,654
Intangibles		1,380
Valuables		6,867
Non-produced assets		
Land		9,876
Intangibles		1,193
		<u>108,330</u>
<b>TOTAL ASSETS</b>		<b><u>238,469</u></b>

	Notes	\$m
<b>Liabilities</b>		
Deposits held		81,311
Accounts payable		5,080
Securities other than shares		21,520
Borrowing		9,346
Superannuation		89,858
Provisions		30,298
<b>TOTAL LIABILITIES</b>		<b>237,413</b>
<b>NET ASSETS/(LIABILITIES)</b>		<b>1,056</b>
Accumulated surplus/(deficit)		(33,041)
Other reserves		34,097
<b>NET WORTH</b>	T	<b>1,056</b>

**Statement of Changes in Equity for the Whole of Government of the ABC Government  
for the Year Ended 30 June 20XX**

	Accumulated surplus/(deficit) \$m	Asset revaluation reserve \$m	Accumulated net gain on financial assets \$m	Total equity \$m
Equity at 1 July 20XX-1	(40,120)	16,887	12,675	(10,558)
Total comprehensive result	7,079	1,589	2,946	11,614
<b>EQUITY AT 30 JUNE 20XX</b>	<b>(33,041)</b>	<b>18,476</b>	<b>15,621</b>	<b>1,056</b>

**Statement of Cash Flows for the Whole of Government of the ABC Government  
for the Year Ended 30 June 20XX**

	Notes	\$m
<b>Cash Flows from Operating Activities</b>		
Cash received		
Taxes received		206,343
Sales of goods and services		10,624
Interest, excluding swap interest		3,298
Dividends from associates		3
Other receipts		3,161
		<u>223,429</u>
Cash paid		
Payments to and on behalf of employees		(19,996)
Purchases of goods and services		(41,019)
Interest, excluding swap interest		(4,841)
Subsidies		(5,253)
Grants		(69,494)
Social benefits		(70,597)
Other payments		(4,123)
		<u>(215,323)</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>8,106</b>
<b>Cash Flows from Investing Activities</b>		
<i>Non-Financial Assets</i>		
Sales of non-financial assets		3,036
Purchases of new non-financial assets		(5,238)
Net cash flows from investments in non-financial assets		<u>(2,202)</u>
<i>Financial Assets (Policy Purposes)</i>		
Purchases of investments		(1,641)
Net cash flows from investments in financial assets (policy purposes)		<u>(1,641)</u>

	Notes	\$m
<b>Financial Assets (Liquidity Management Purposes)</b>		
Sales of investments		1,778
Purchases of investments		(9,084)
Net cash flows from investments in financial assets (liquidity management purposes)		<u>(7,306)</u>
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(11,149)</b>
<b>Cash Flows from Financing Activities</b>		
Cash received		
Borrowing		9,692
Deposits received		6,947
Swap interest		3,617
Other financing		2,857
		<u>23,113</u>
Cash paid		
Borrowing		(15,325)
Deposits paid		(1,841)
Swap interest		(3,040)
Other financing		(1,870)
		<u>(22,076)</u>
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b><u>1,037</u></b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(2,006)</b>
Cash and cash equivalents at beginning of year		<u>16,076</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b><u>14,070</u></b>
<b>KEY FISCAL AGGREGATE</b>		
Net cash flows from operating activities		8,106
Net cash flows from investments in non-financial assets		<u>(2,202)</u>
<b>CASH SURPLUS/(DEFICIT)</b>	U	<b><u>5,904</u></b>

**R1 Statement of Comprehensive Income for the Whole of Government by Sector of the ABC Government  
for the Year Ended 30 June 20XX**

	Notes	GGS \$m	PNFC sector \$m	PFC sector \$m	Eliminations \$m	Whole of Government \$m
<b>Revenue from Transactions</b>						
Taxation revenue		209,178	-	-	-	209,178
Other revenue						
Interest, other than swap interest		1,304	113	3,969	(2,088)	3,298
Dividends and income tax from other sector entities		1,399	-	-	(1,399)	-
Dividends from associates (part of share of net profit/(loss) from associates)		1	2	-	-	3
Sales of goods and services		4,314	6,079	3,677	(1,208)	12,862
Other current revenues		2,684	130	176	(198)	2,792
		218,880	6,324	7,822	(4,893)	228,133
<b>Expenses from Transactions</b>						
Employee benefits expense						
Wages, salaries and supplements		(14,178)	(6,302)	(386)	-	(20,866)
Superannuation		(2,069)	(395)	(13)	-	(2,477)
Use of goods and services		(37,898)	(2,855)	(550)	593	(40,710)
Depreciation		(3,672)	(125)	(26)	-	(3,823)
Interest, other than swap interest and superannuation interest expenses		(4,201)	(513)	(2,215)	2,088	(4,841)
Subsidy expenses		(5,742)	-	-	489	(5,253)
Grants		(69,692)	-	-	198	(69,494)
Social benefits		(71,856)	-	-	126	(71,730)
Income tax expenses		-	(200)	(151)	351	-
Superannuation net interest expenses		(4,898)	(3)	(1)	-	(4,902)
Loss on write-off of financial assets at fair value through operating result		(380)	-	-	-	(380)
		(214,586)	(10,393)	(3,342)	3,845	(224,476)
<b>NET RESULT FROM TRANSACTIONS – NET OPERATING BALANCE</b>		<b>4,294</b>	<b>(4,069)</b>	<b>4,480</b>	<b>(1,048)</b>	<b>3,657</b>



	Notes	GGs \$m	PNFC sector \$m	PFC sector \$m	Eliminations \$m	Whole of Government \$m
<b>Other Economic Flows – Included in Operating Result</b>						
Other revenue						
Net swap interest revenue		340	69	168	-	577
Dividends from other sector entities		300	-	-	(300)	-
Net foreign exchange gains/(losses)		599	(3)	1,524	-	2,120
Net gain on sale of non-financial assets		200	145	(2)	-	343
Net gain on financial assets or liabilities at fair value through operating result		220	-	45	-	265
Amortisation of non-produced assets		(75)	(43)	(1)	-	(119)
Doubtful debts		(500)	(63)	(41)	-	(604)
Share of net profit/(loss) from associates, excluding dividends		(51)	25	-	-	(26)
		<b>1,033</b>	<b>130</b>	<b>1,693</b>	<b>(300)</b>	<b>2,556</b>
		<b>5,327</b>	<b>(3,939)</b>	<b>6,173</b>	<b>(1,348)</b>	<b>6,213</b>
<b>OPERATING RESULT</b>						
<b>Other Economic Flows – Other Comprehensive Income</b>						
<i>Items that will not be reclassified to operating result</i>						
Revaluations		1,552	20	17	-	1,589
Remeasurements of the defined benefit liability		840	21	5	-	866
<i>Items that may be reclassified subsequently to operating result</i>						
Net gain on equity investments in other sector entities measured at proportional share of the carrying amount of net assets/(liabilities)		1,072	-	-	(1,072)	-
Net gain on financial assets measured at fair value		1,000	15	1,931	-	2,946
		<b>4,464</b>	<b>56</b>	<b>1,953</b>	<b>(1,072)</b>	<b>5,401</b>
<b>COMPREHENSIVE RESULT – TOTAL CHANGE IN NET WORTH BEFORE TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS</b>						
		<b>9,791</b>	<b>(3,883)</b>	<b>8,126</b>	<b>(2,420)</b>	<b>11,614</b>
<b>KEY FISCAL AGGREGATES</b>						
<b>NET LENDING/(BORROWING)</b>	S2	<b>4,967</b>	<b>(3,347)</b>	<b>4,528</b>	<b>(1,048)</b>	<b>5,100</b>
<i>plus</i> Net acquisition/(disposal) of non-financial assets from transactions		(673)	(722)	(48)	-	(1,443)
<b>NET OPERATING BALANCE</b>	S1	<b>4,294</b>	<b>(4,069)</b>	<b>4,480</b>	<b>(1,048)</b>	<b>3,657</b>
<i>plus</i> Net other economic flows		5,497	186	3,646	(1,372)	7,957
<b>TOTAL CHANGE IN NET WORTH BEFORE TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS</b>	S3	<b>9,791</b>	<b>(3,883)</b>	<b>8,126</b>	<b>(2,420)</b>	<b>11,614</b>

**R2 Statement of Financial Position for the Whole of Government by Sector of the ABC Government  
as at 30 June 20XX**

	Notes	GGS \$m	PNFC sector \$m	PFC sector \$m	Eliminations \$m	Whole of Government \$m
<b>Assets</b>						
<i>Financial Assets</i>						
Cash and deposits		10,591	939	2,540	-	14,070
Accounts receivable		16,748	764	2,557	(1,989)	18,080
Securities other than shares		24,188	457	104,293	(50,500)	78,438
Loans		10,302	15	98	(459)	9,956
Advances		7,758	-	-	-	7,758
Shares and other equity						
Investments accounted for using equity method		365	330	-	-	695
Investments in other entities (excluding sector entities)		-	357	785	-	1,142
Investments in other sector entities		32,759	-	-	(32,759)	-
		102,711	2,862	110,273	(85,707)	130,139
<i>Non-Financial Assets</i>						
Produced assets						
Inventories		4,832	502	12	-	5,346
Machinery and equipment		54,367	12,546	101	-	67,014
Buildings and structures		14,152	1,821	681	-	16,654
Intangibles		1,250	115	15	-	1,380
Valuables		6,442	358	67	-	6,867
Non-produced assets						
Land		5,196	4,327	353	-	9,876
Intangibles		747	428	18	-	1,193
		86,986	20,097	1,247	-	108,330
<b>TOTAL ASSETS</b>		<b>189,697</b>	<b>22,959</b>	<b>111,520</b>	<b>(85,707)</b>	<b>238,469</b>

	Notes	GGS \$m	PNFC sector \$m	PFC sector \$m	Eliminations \$m	Whole of Government \$m
<b>Liabilities</b>						
Deposits held		364	10	80,937	-	81,311
Accounts payable		5,253	150	1,666	(1,989)	5,080
Securities other than shares		60,650	500	10,870	(50,500)	21,520
Borrowing		6,246	359	3,200	(459)	9,346
Deferred tax liability		-	506	-	(506)	-
Superannuation		88,540	768	550	-	89,858
Provisions		28,094	659	1,545	-	30,298
<b>TOTAL LIABILITIES</b>		<b>189,147</b>	<b>2,952</b>	<b>98,768</b>	<b>(53,454)</b>	<b>237,413</b>
<b>NET ASSETS/(LIABILITIES)</b>		<b>550</b>	<b>20,007</b>	<b>12,752</b>	<b>(32,253)</b>	<b>1,056</b>
Contributed Equity		-	6,900	350	(7,250)	-
Accumulated surplus/(deficit)		(20,324)	10,857	863	(24,437)	(33,041)
Other reserves		20,874	2,250	11,539	(566)	34,097
<b>NET WORTH</b>	T	<b>550</b>	<b>20,007</b>	<b>12,752</b>	<b>(32,253)</b>	<b>1,056</b>

**R3 Statement of Changes in Equity for the Whole of Government by Sector of the ABC Government for the Year Ended 30 June 20XX**

	Equity at 1 July 20XX-1 \$m	Total comprehensive result \$m	Dividends \$m	Equity at 30 June 20XX \$m
<b>GGS</b>				
Accumulated surplus/(deficit)	(26,491)	6,167	-	(20,324)
Asset revaluation reserve	12,161	1,552	-	13,713
Accumulated net gain on equity investments in other sector entities measured at proportional share of the carrying amount of net assets/(liabilities)	500	1,072	-	1,572
Accumulated net gain on financial assets measured at fair value	4,589	1,000	-	5,589
	(9,241)	9,791	-	550
<b>PNFC sector</b>				
Contributed equity	6,900	-	-	6,900
Accumulated surplus/(deficit)	15,334	(3,918)	(559)	10,857
Asset revaluation reserve	2,030	20	-	2,050
Accumulated net gain on financial assets measured at fair value	185	15	-	200
	24,449	(3,883)	(559)	20,007
<b>PFC sector</b>				
Contributed equity	350	-	-	350
Accumulated surplus/(deficit)	(4,526)	6,178	(789)	863
Asset revaluation reserve	1,690	17	-	1,707
Accumulated net gain on financial assets measured at fair value	7,901	1,931	-	9,832
	5,415	8,126	(789)	12,752
Eliminations	(31,181)	(2,420)	1,348	(32,253)
<b>Total Whole of Government</b>	<b>(10,558)</b>	<b>11,614</b>	<b>-</b>	<b>1,056</b>

Explanatory Note: Shares and contributed equity do not exist in a GGS context.

**R4 Statement of Cash Flows for the Whole of Government by Sector of the ABC Government  
for the Year Ended 30 June 20XX**

	Notes	GGS \$m	PNFC sector \$m	PFC sector \$m	Eliminations \$m	Whole of Government \$m
<b>Cash Flows from Operating Activities</b>						
Cash received						
Taxes received		206,343	-	-	-	206,343
Sales of goods and services		4,314	5,615	1,899	(1,204)	10,624
Interest, excluding swap interest		1,304	113	3,969	(2,088)	3,298
Dividends and income tax receipts		1,399	-	-	(1,399)	-
Dividends from associates		1	2	-	-	3
Other receipts		2,935	275	159	(208)	3,161
		<u>216,296</u>	<u>6,005</u>	<u>6,027</u>	<u>(4,899)</u>	<u>223,429</u>
Cash paid						
Income tax paid		-	(200)	(151)	351	-
Payments to and on behalf of employees		(16,247)	(3,397)	(352)	-	(19,996)
Purchases of goods and services		(37,898)	(3,151)	(559)	589	(41,019)
Interest, excluding swap interest		(4,201)	(513)	(2,215)	2,088	(4,841)
Subsidies		(5,742)	-	-	489	(5,253)
Grants		(69,692)	-	-	198	(69,494)
Social benefits		(70,723)	-	-	126	(70,597)
Other payments		(2,134)	(1,157)	(842)	10	(4,123)
		<u>(206,637)</u>	<u>(8,418)</u>	<u>(4,119)</u>	<u>3,851</u>	<u>(215,323)</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>9,659</b>	<b>(2,413)</b>	<b>1,908</b>	<b>(1,048)</b>	<b>8,106</b>
<b>Cash Flows from Investing Activities</b>						
<i>Non-Financial Assets</i>						
Sales of non-financial assets		1,734	1,234	68	-	3,036
Purchases of new non-financial assets		(4,504)	(689)	(45)	-	(5,238)
Net cash flows from investments in non-financial assets		<u>(2,770)</u>	<u>545</u>	<u>23</u>	<u>-</u>	<u>(2,202)</u>
<i>Financial Assets (Policy Purposes)</i>						
Dividends received out of proceeds from sale of PNFC sector assets		300	-	-	(300)	-
Purchases of investments		(1,641)	-	-	-	(1,641)
Net cash flows from investments in financial assets (policy purposes)		<u>(1,341)</u>	<u>-</u>	<u>-</u>	<u>(300)</u>	<u>(1,641)</u>

	Notes	GGS \$m	PNFC sector \$m	PFC sector \$m	Eliminations \$m	Whole of Government \$m
<b>Financial Assets (Liquidity Management Purposes)</b>						
Sales of investments		500	45	1,977	(744)	1,778
Purchases of investments		(3,500)	(5)	(9,934)	4,355	(9,084)
Net cash flows from investments in financial assets (liquidity management purposes)		(3,000)	40	(7,957)	3,611	(7,306)
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(7,111)</b>	<b>585</b>	<b>(7,934)</b>	<b>3,311</b>	<b>(11,149)</b>
<b>Cash Flows from Financing Activities</b>						
Cash received						
Borrowing		13,597	450	-	(4,355)	9,692
Deposits received		899	20	6,028	-	6,947
Swap interest		1,912	110	1,595	-	3,617
Other financing		233	169	2,455	-	2,857
		16,641	749	10,078	(4,355)	23,113
Cash paid						
Borrowing		(15,032)	(677)	(360)	744	(15,325)
Deposits paid		(213)	(7)	(1,621)	-	(1,841)
Swap interest		(1,572)	(41)	(1,427)	-	(3,040)
Dividends paid out of proceeds from sale of assets		-	(300)	-	300	-
Other dividends paid		-	(259)	(789)	1,048	-
Other financing		(765)	(990)	(115)	-	(1,870)
		(17,582)	(2,274)	(4,312)	2,092	(22,076)
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>(941)</b>	<b>(1,525)</b>	<b>5,766</b>	<b>(2,263)</b>	<b>1,037</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>1,607</b>	<b>(3,353)</b>	<b>(260)</b>	<b>-</b>	<b>(2,006)</b>
Cash and cash equivalents at beginning of year		8,984	4,292	2,800	-	16,076
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>10,591</b>	<b>939</b>	<b>2,540</b>	<b>-</b>	<b>14,070</b>
<b>KEY FISCAL AGGREGATE</b>						
Net cash flows from operating activities		9,659	(2,413)	1,908	(1,048)	8,106
Net cash flows from investments in non-financial assets		(2,770)	545	23	-	(2,202)
Dividends paid out of proceeds from sale of assets		-	(300)	-	300	-
Other dividends paid		-	(259)	(789)	1,048	-
<b>CASH SURPLUS/(DEFICIT)</b>	U	<b>6,889</b>	<b>(2,427)</b>	<b>1,142</b>	<b>300</b>	<b>5,904</b>

	Notes	GGS \$m	PNFC sector \$m	PFC sector \$m	Eliminations \$m	Whole of Government \$m	Explanatory Notes
<b>Note S1 – Reconciliation to GFS Net Operating Balance*</b>							
Net result from transactions – net operating balance		4,294	(4,069)	4,480	(1,048)	3,657	
Convergence differences							
Use of goods and services – development costs		(45)	(41)	-	-	(86)	a
Depreciation – development costs		6	5	-	-	11	b
Social benefits		94	-	-	-	94	c
Dividends to GGS from other sector entities		-	(259)	(789)	1,048	-	d
Total convergence differences		55	(295)	(789)	1,048	19	
<b>GFS NET OPERATING BALANCE</b>		<b>4,349</b>	<b>(4,364)</b>	<b>3,691</b>	<b>-</b>	<b>3,676</b>	e
<b>Note S2 – Reconciliation to GFS Net Lending/(Borrowing)*</b>							
Net lending/(borrowing)		4,967	(3,347)	4,528	(1,048)	5,100	
Convergence differences							
Relating to net operating balance	S1	55	(295)	(789)	1,048	19	
Relating to net acquisition/(disposal) of non-financial assets from transactions		(100)	(7)	(1)	-	(108)	f
Total convergence differences		(45)	(302)	(790)	1,048	(89)	
<b>GFS NET LENDING/(BORROWING)</b>		<b>4,922</b>	<b>(3,649)</b>	<b>3,738</b>	<b>-</b>	<b>5,011</b>	

	Notes	GGS \$m	PNFC sector \$m	PFC sector \$m	Eliminations \$m	Whole of Government \$m	Explanatory Notes
<b>Note S3 – Reconciliation to GFS Total Change in Net Worth*</b>							
Comprehensive result – total change in net worth before transactions with owners in their capacity as owners		9,791	(3,883)	8,126	(2,420)	11,614	
Convergence differences							
Relating to net operating balance	S1	55	(295)	(789)	1,048	19	
Relating to other economic flows							
Dividends to GGS out of proceeds from sale of PNFC sector assets		(300)	-	-	300	-	g
Doubtful debts		500	63	41	-	604	h
Net gain on equity investments in other sector entities measured at proportional share of the carrying amount of net assets/(liabilities)		390	-	-	(390)	-	i
Share of net profit/(loss) from associates (excluding dividends)		51	-	-	-	51	j
Revaluations – market value of investments		(55)	-	-	-	(55)	k(i)
Revaluations – intangible assets		130	12	-	-	142	k(ii)
Revaluations – property		-	10	-	(10)	-	k(iii)
Remeasurement of shares and other contributed capital		-	4,093	(7,378)	3,285	-	l
Total convergence differences		771	3,883	(8,126)	4,233	761	
<b>GFS TOTAL CHANGE IN NET WORTH</b>		<b>10,562</b>	<b>-</b>	<b>-</b>	<b>1,813</b>	<b>12,375</b>	

\* Determined in accordance with the ABS GFS Manual.



	GGS	PNFC sector	PFC sector	Eliminations	Whole of Government	Explanatory Notes
Notes	\$m	\$m	\$m	\$m	\$m	
<b>Note T – Reconciliation to GFS Net Worth*</b>						
Net worth	550	20,007	12,752	(32,253)	1,056	
Convergence differences						
Assets						
Accounts receivable	1,800	165	298	-	2,263	m
Shares and other equity						
Investments accounted for using equity method	36	-	-	-	36	n
Investments in other sector entities	900	-	-	(900)	-	o
Non-financial assets						
Machinery and equipment	(30,745)	-	-	-	(30,745)	
Intangible assets – research and development	(400)	(69)	-	-	(469)	p(i)
Intangible assets – no active market	150	-	-	-	150	p(ii)
Liabilities						
Provisions	94	-	-	-	94	q(i)
Deferred tax liability	-	506	-	(506)	-	q(ii)
Shares and other contributed capital	-	(20,609)	(13,050)	33,659	-	r
Total convergence differences	(28,165)	(20,007)	(12,752)	32,253	(28,671)	
<b>GFS NET WORTH</b>	<b>(27,615)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(27,615)</b>	s
<b>Note U – Reconciliation to GFS Cash Surplus/(Deficit)*</b>						
Cash surplus/(deficit)	6,889	(2,427)	1,142	300	5,904	
Convergence difference						
Adjustments to cash flows from investments in non-financial assets						
Finance leases and similar arrangements	(4)	-	-	-	(4)	t
<b>GFS CASH SURPLUS/(DEFICIT)</b>	<b>6,885</b>	<b>(2,427)</b>	<b>1,142</b>	<b>300</b>	<b>5,900</b>	u

\* Determined in accordance with the ABS GFS Manual.

## Disaggregated Information

### Z Functional Classification for Whole of Government

	Expenses, excluding losses, included in operating result 20XX \$m	Assets 20XX \$m
General public services	(52,194)	10,009
Defence	(13,018)	55,759
Public order and safety	(2,521)	5,587
Education	(14,156)	8,645
Health	(32,569)	2,002
Social security and welfare	(70,139)	4,045
Housing and community amenities	(1,727)	5,533
Recreation and culture	(2,291)	3,003
Fuel and energy	(1,546)	990
Agriculture, forestry, fishing and hunting	(3,711)	2,572
Mining and mineral resources, other than fuels; manufacturing; and construction	(3,756)	2,515
Transport and communications	(9,509)	37,051
Other economic affairs	(1,502)	1,046
Other purposes <sup>b</sup>	(15,576)	99,712
<b>TOTAL</b>	<b>(224,215)</b>	<b>238,469</b>

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.

#### *Reconciliation of 'expenses, excluding losses, included in the operating result' to 'expenses from transactions' in the statement of comprehensive income*

	20XX \$m
Expenses from transactions	224,476
Less: loss on write-off of financial assets at fair value through operating result	(380)
	<u>224,096</u>
Plus: amortisation of non-produced assets	119
<b>Expenses, excluding losses, included in operating result</b>	<b><u>224,215</u></b>

## ILLUSTRATIVE EXAMPLE B

### General Government Sector Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and Selected Notes

#### Statement of Comprehensive Income for the General Government Sector of the ABC Government for the Year Ended 30 June 20XX

	Notes	\$m
<b>Revenue from Transactions</b>		
Taxation revenue		209,178
Other revenue		
Interest, other than swap interest		1,304
Dividends and income tax from other sector entities		1,399
Dividends from associates (part of share of net profit/(loss) from associates)		1
Sales of goods and services		4,314
Other current revenues		<u>2,684</u>
		218,880
<b>Expenses from Transactions</b>		
Employee benefits expense		
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)
Superannuation net interest expenses		(4,898)
Loss on write-off of financial assets at fair value through operating result		<u>(380)</u>
		<u>(214,586)</u>
<b>NET RESULT FROM TRANSACTIONS – NET OPERATING BALANCE</b>		<b>4,294</b>

	Notes	\$m
<b>Other Economic Flows – Included in Operating Result</b>		
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		220
Amortisation of non-produced assets		(75)
Doubtful debts		(500)
Share of net profit/(loss) from associates, excluding dividends		(51)
		<u>1,033</u>
<b>OPERATING RESULT</b>		<b><u>5,327</u></b>
<b>Other Economic Flows – Other Comprehensive Income</b>		
<i>Items that will not be reclassified to operating result</i>		
Revaluations		1,552
Remeasurements of the defined benefit liability		840
<i>Items that may be reclassified subsequently to operating result</i>		
Net gain on equity investments in other sector entities measured at proportional share of carrying amount of net assets/(liabilities)		1,072
Net gain on financial assets measured at fair value		<u>1,000</u>
		4,464
<b>COMPREHENSIVE RESULT – TOTAL CHANGE IN NET WORTH</b>		<b><u>9,791</u></b>
<b>KEY FISCAL AGGREGATES</b>		
<b>NET LENDING/(BORROWING)</b>	S2	<b>4,967</b>
plus Net acquisition/(disposal) of non-financial assets from transactions		<u>(673)</u>
<b>NET OPERATING BALANCE</b>	S1	<b>4,294</b>
plus Net other economic flows		5,497
<b>TOTAL CHANGE IN NET WORTH</b>	S3	<b><u>9,791</u></b>

**Statement of Financial Position for the General Government Sector of the  
ABC Government as at 30 June 20XX**

	Notes	\$m
<b>Assets</b>		
<i>Financial Assets</i>		
Cash and deposits		10,591
Accounts receivable		16,748
Securities other than shares		24,188
Loans		10,302
Advances		7,758
Shares and other equity		
Investments accounted for using equity method		365
Investments in other sector entities		32,759
		<u>102,711</u>
<i>Non-Financial Assets</i>		
Produced assets		
Inventories		4,832
Machinery and equipment		54,367
Buildings and structures		14,152
Intangibles		1,250
Valuables		6,442
Non-produced assets		
Land		5,196
Intangibles		747
		<u>86,986</u>
<b>TOTAL ASSETS</b>		<u><b>189,697</b></u>

	Notes	\$m
<b>Liabilities</b>		
Deposits held		364
Accounts payable		5,253
Securities other than shares		60,650
Borrowing		6,246
Superannuation		88,540
Provisions		28,094
<b>TOTAL LIABILITIES</b>		<b>189,147</b>
<b>NET ASSETS/(LIABILITIES)</b>		<b>550</b>
Accumulated surplus/(deficit)		(20,324)
Other reserves		20,874
<b>NET WORTH</b>	T	<b>550</b>

**Statement of Changes in Equity for the General Government Sector of the ABC Government for the Year Ended 30 June 20XX**

	Accumulated surplus/(deficit)	Asset revaluation reserve	Accumulated net gain on equity investments in other sector entities	Accumulated net gain on other financial assets	Total equity
	\$m	\$m	\$m	\$m	\$m
Equity at 1 July 20XX-1	(26,491)	12,161	500	4,589	(9,241)
Total comprehensive result	6,167	1,552	1,072	1,000	9,791
<b>EQUITY AT 30 JUNE 20XX</b>	<b>(20,324)</b>	<b>13,713</b>	<b>1,572</b>	<b>5,589</b>	<b>550</b>

**Statement of Cash Flows for the General Government Sector of the  
ABC Government for the Year Ended 30 June 20XX**

	Notes	\$m
<b>Cash Flows from Operating Activities</b>		
Cash received		
Taxes received		206,343
Sales of goods and services		4,314
Interest, excluding swap interest		1,304
Dividends and income tax receipts		1,399
Dividends from associates		1
Other receipts		2,935
		<u>216,296</u>
Cash paid		
Payments to and on behalf 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>
		<b>9,659</b>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Cash Flows from Investing Activities</b>		
<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>		
Dividends received out of proceeds from sale of PNFC sector assets		300
Purchases of investments		(1,641)
Net cash flows from investments in financial assets (policy purposes)		<u>(1,341)</u>

	Notes	\$m
<b>Financial Assets (Liquidity Management Purposes)</b>		
Sales of investments		500
Purchases of investments		(3,500)
Net cash flows from investments in financial assets (liquidity management purposes)		<u>(3,000)</u>
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(7,111)</b>
<b>Cash Flows from Financing Activities</b>		
Cash received		
Borrowing		13,597
Deposits received		899
Swap interest		1,912
Other financing		233
		<u>16,641</u>
Cash paid		
Borrowing		(15,032)
Deposits paid		(213)
Swap interest		(1,572)
Other financing		(765)
		<u>(17,582)</u>
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b><u>(941)</u></b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>1,607</b>
Cash and cash equivalents at beginning of year		<u>8,984</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b><u>10,591</u></b>
<b>KEY FISCAL AGGREGATE</b>		
Net cash flows from operating activities		9,659
Net cash flows from investments in non-financial assets		<u>(2,770)</u>
<b>CASH SURPLUS/(DEFICIT)</b>	U	<b><u>6,889</u></b>



	Notes	\$m	Explanatory Notes
<b>Note S1 – Reconciliation to GFS Net Operating Balance*</b>			
Net result from transactions – net operating balance		4,294	
Convergence differences			
Use of goods and services – development costs		(45)	a
Depreciation – development costs		6	b
Social benefits		94	c
Total convergence differences		<u>55</u>	
<b>GFS NET OPERATING BALANCE</b>		<b><u>4,349</u></b>	e
<b>Note S2 – Reconciliation to GFS Net Lending/(Borrowing)*</b>			
Net lending/(borrowing)		4,967	
Convergence differences			
Relating to net operating balance	S1	55	
Relating to net acquisition/(disposal) of non-financial assets from transactions		<u>(100)</u>	f
Total convergence differences		(45)	
<b>GFS NET LENDING/(BORROWING)</b>		<b><u>4,922</u></b>	
<b>Note S3 – Reconciliation to GFS Total Change in Net Worth*</b>			
Comprehensive result – total change in net worth		9,791	
Convergence differences			
Relating to net operating balance	S1	55	
Relating to other economic flows			
Dividends to GGS out of proceeds from sale of PNFC sector assets		(300)	g
Doubtful debts		500	h
Net gain on equity investments in other sector entities measured at proportional share of the carrying amount of net assets/(liabilities)		390	i
Share of net profit/(loss) from associates (excluding dividends)		51	j
Revaluations – market value of investments		(55)	k(i)
Revaluations – intangible assets		<u>130</u>	k(ii)
Total convergence differences		771	
<b>GFS TOTAL CHANGE IN NET WORTH</b>		<b><u>10,562</u></b>	

\* Determined in accordance with the ABS GFS Manual.

	Notes	\$m	Explanatory Notes
<b>Note T – Reconciliation to GFS Net Worth*</b>			
Net worth		550	
Convergence differences			
Assets			
Accounts receivable		1,800	m
Shares and other equity			
Investments accounted for using equity method		36	n
Investments in other sector entities		900	o
Non-financial assets			
Machinery and equipment		(30,745)	
Intangible assets – research and development		(400)	p(i)
Intangible assets – no active market		150	p(ii)
Liabilities			
Provisions		94	q(i)
Total convergence differences		(28,165)	
<b>GFS NET WORTH</b>		<b><u>(27,615)</u></b>	s
<b>Note U – Reconciliation to GFS Cash Surplus/(Deficit)*</b>			
Cash surplus/(deficit)		6,889	
Convergence differences			
Adjustments to cash flows from investments in non-financial assets			
Finance leases and similar arrangements		(4)	t
<b>GFS CASH SURPLUS/(DEFICIT)</b>		<b><u>6,885</u></b>	u

\* Determined in accordance with the ABS GFS Manual.

## Disaggregated Information

### Z Functional Classification for General Government Sector

	Expenses, excluding losses, included in operating result 20XX \$m	Assets 20XX \$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)	13,418
Other economic affairs	(1,431)	747
Other purposes <sup>b</sup>	(15,573)	87,691
<b>TOTAL</b>	<b>(214,281)</b>	<b>189,697</b>

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.

#### *Reconciliation of 'expenses, excluding losses, included in operating result' to 'expenses from transactions' in the statement of comprehensive income*

	20XX \$m
Expenses from transactions	214,586
Less: loss on write-off of financial assets at fair value through operating result	(380)
	214,206
Plus: amortisation of non-produced assets	75
<b>Expenses, excluding losses, included in operating result</b>	<b>214,281</b>

## **Explanatory Notes Supporting Illustrative Examples A and B**

The following notes are for explanatory purposes only, and do not form part of the financial statements or accompanying notes illustrated in Illustrative Examples A or B.

The notes provide explanations of the convergence differences between the key fiscal aggregates presented in each of the financial statements and GFS measures of the key fiscal aggregates for the whole of government (including the sectors) and GGS.

### **Convergence Differences relating to the Statements of Comprehensive Income**

#### ***Net Operating Balance***

##### **a Expenses from Transactions – Use of Goods and Services**

The convergence difference of (\$45m) in the GGS and (\$41m) in the PNFC sector arises because 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 statement of comprehensive income because they are recognised as intangible 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 assets, even though some development activities are expected to bring benefits for more than one year (refer also to Note (b)).

The total difference of (\$86m) flows through to the whole of government amounts.

##### **b Expenses from Transactions – Depreciation**

The convergence difference of \$6m in the GGS and \$5m in the PNFC sector arises because GFS recognises a smaller amortisation of produced intangibles than is recognised as an expense from transactions in the statement of comprehensive income. 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 assets, even though some development activities may bring benefits for more than one year (refer also to Note (a)).

The total difference of \$11m flows through to the whole of government amounts.

**c Expenses from Transactions – Social Benefits**

The convergence difference of \$94m in the GGS 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. Therefore, GFS does not recognise the associated expense from transactions, whereas such an amount is recognised in the statement of comprehensive income and classified as expenses from transactions.

This difference flows through to the whole of government amounts.

**d Dividends to GGS from Other Sector Entities**

The convergence difference comprises (\$259m) in the PNFC sector and (\$789m) in the PFC sector because GFS treats dividends to owners as an expense, whereas such an amount is not recognised as an expense in the statement of comprehensive income because it is treated as a distribution to owners and therefore a direct debit to equity.

The total difference of (\$1,048m) does not flow through to the whole of government amounts as it arises from intersector transactions.

**e Other Differences Included in the GFS Net Operating Balance**

A classification difference arises in the whole of government and the GGS, 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 statement of comprehensive income, it is classified as loss on write-off of financial assets at fair value through operating result. [For the purpose of Illustrative Examples A and B, 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.

A GGS/PNFC elimination difference arises in respect of the treatment of \$25m of the social benefits. Under GFS, certain transactions between the GGS and entities within the PNFC and PFC sectors are not eliminated on consolidation, whereas under AASB 127 *Consolidated and Separate Financial Statements* intragroup transactions that are not in substance transactions with external parties are eliminated in full. The GFS treatment has the effect of ‘grossing up’ both GFS ‘revenue from transactions – other current revenues’ and GFS ‘expenses from transactions – grants’ of the whole of government by equal amounts even though the key fiscal aggregates remain the same. [For the purpose of this illustration, it is

assumed the GGS has compensated a PNFC entity for \$25m of community service obligations, imposed by the GGS, that requires the PNFC entity to provide free services to a cohort of private individuals.] The compensation provided by the GGS to the PNFC entity is not eliminated under GFS (instead it is 'rerouted' through the household sector of the economy and therefore treated as an expense of the GGS to the household sector, and an expense of the household sector to the PNFC entity and therefore revenue of the PNFC entity). This convergence difference has no impact on the amount of the whole of government's GFS Net Operating Balance. This difference does not affect the GGS or the PNFC and PFC sectors but impacts the total of revenues and expenses in the whole of government statement of comprehensive income.

***Net Lending/(Borrowing)***

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

The convergence differences are explained as follows:

	Statement of Comprehensive Income \$m	GFS \$m	Convergence explanations Difference \$m	For see notes
<i>GGS</i>				
Gross fixed capital formation	3,932	1,847	2,085	(a)
Depreciation	(3,747)	(1,562)	(2,185)	(b) #
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)	
<i>PNFC Sector</i>				
Gross fixed capital formation	342	301	41	(a)
Depreciation	(168)	(120)	(48)	(b) #
Change in inventory	(9)	(9)	-	
Other transactions in non-financial assets	(887)	(887)	-	
Net acquisition/(disposal) of non-financial assets from transactions	(722)	(715)	(7)	

	Statement of Comprehensive Income \$m	GFS \$m	Convergence Difference \$m	For Convergence explanations see notes
<i>PFC Sector</i>				
Gross fixed capital formation	18	18	-	#
Depreciation	(27)	(26)	(1)	
Change in inventory	2	2	-	
Other transactions in non-financial assets	(41)	(41)	-	
Net acquisition/(disposal) of non-financial assets from transactions	(48)	(47)	(1)	
<i>Whole of Government</i>				
Gross fixed capital formation	4,292	2,166	2,126	(a)
Depreciation	(3,942)	(1,708)	(2,234)	(b) #
Change in inventory	293	293	-	
Other transactions in non-financial assets	(2,086)	(2,086)	-	
Net acquisition/(disposal) of non-financial assets from transactions	(1,443)	(1,335)	(108)	

# Depreciation shown in the statement of comprehensive income column includes both depreciation and amortisation from non-produced assets. Note (b) explains the convergence difference so far as it relates to the item described as depreciation in the statement of comprehensive income. The convergence differences shown in this note also include the amounts for 'amortisation of non-produced assets' presented in the statement of comprehensive income of \$75m for the GGS, \$43m for the PNFC sector and \$1m for the PFC sector.

#### *Net Other Economic Flows*

#### **g Other Economic Flows – Included in Operating Result – Other Revenue – Dividends to GGS from the sale of PNFC sector assets**

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

This difference does not flow through to the whole of government amounts as it arises from intersector transactions.

**h Other Economic Flows – Included in Operating Result – Doubtful Debts**

The convergence differences of \$500m in the GGS, \$63m in the PNFC sector and \$41m in the PFC sector arise because GFS does not recognise doubtful debts, whereas the statement of comprehensive income 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.

The total difference of \$604m flows through to the whole of government amounts.

**i Other Economic Flows – Other Comprehensive Income – Net Gain on Equity Investments in Other Sector Entities Measured at Proportional Share of the Carrying Amount of Net Assets/(Liabilities)**

The convergence differences comprise:

\$90m in the GGS: The carrying amount of net assets (and therefore the change in carrying amount of net assets) of other sector entities determined under GFS principles and rules differs from the carrying amount of net assets (and therefore the change in carrying amount of net assets) of the subsidiaries recognised in the statement of financial position (being the carrying amount of net assets determined before elimination of intersector balances).

The difference is therefore equivalent to the total of those convergence differences affecting the total change in net worth impacting either through the net operating balance (itemised in Note S1 of Illustrative Example A) or other economic flows (other than transactions with owners in their capacity as owners in the form of dividends paid – itemised in Note S3 of Illustrative Example A). The components are:

	\$m
Use of goods and services – development costs [PNFC]	(41)
Depreciation – development costs [PNFC]	5
Doubtful debts [PNFC]	63
Doubtful debts [PFC]	41
Revaluations – intangible assets [PNFC]	12
Revaluations – property [PNFC]	10
<b>TOTAL</b>	<u><u>90</u></u>



\$300m in the GGS: 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 because it is funded from proceeds from sale of assets), whereas the statement of comprehensive income recognises it as dividend revenue and classifies it as other economic flows (refer also to Note g). Under GFS, the holding gain on other sector entities is determined after taking into account additions to and withdrawals from equity that have occurred.

The total difference of \$390m does not flow through to the whole of government amounts as it arises from intersector items.

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

The convergence difference of \$51m arises in the GGS 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 statement of comprehensive income. GFS recognises the decrease in the market value of investments in associates of \$55m as an other economic flow (refer to Note k(ii)), and the dividends on such investments of \$1m as dividend revenue from transactions.

This difference flows through to the whole of government amounts.

**k Other Economic Flows – Other Comprehensive Income – Revaluations**

The convergence differences comprise:

- k(i)** (\$55m) in the GGS because 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 statement of comprehensive income. Consistent with the equity method of accounting, the statement of comprehensive income 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 j).

This difference flows through to the whole of government amounts.

- k(ii)** \$130m in the GGS and \$12m in the PNFC sector because GFS recognises the net increase in the revalued intangible assets as an other economic flow, whereas it is not recognised in the statement of comprehensive income. 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.

The total difference of \$142m flows through to the whole of government amounts.

- k(iii)** \$10m in the PNFC sector because while GFS recognises the gross increase in the revalued asset (in Illustrative Example A, assumed to have arisen from an upward asset revaluation of properties), it does not recognise as an offset part of the increase in the revalued asset as being due to a corresponding increase in the deferred tax liability. (Refer also to Note q(ii))

This difference does not flow through to the whole of government amounts as the whole of government does not have a deferred tax liability.

#### **l Remeasurement of Shares and Other Contributed Capital**

The convergence differences of \$4,093m in the PNFC sector and (\$7,378m) in the PFC sector arise because GFS measures net worth as assets less liabilities less share capital/contributed capital (remeasured). Because in Illustrative Example A PNFC and PFC sectors are 100 per cent owned by the GGS, the GFS net worth, and therefore the GFS change in net worth, of these sectors is zero. In effect, all of the convergence differences that impact on the comprehensive result are netted off for the PNFC and PFC sectors against the GFS remeasurement of shares and other contributed capital.

The total difference of (\$3,285m) does not flow through to the whole of government amounts as they relate to the GGS ownership interest in PNFC/PFC sectors.

## Convergence Differences relating to the Statements of Financial Position

### *Net Worth*

#### **m Assets – Financial Assets – Accounts Receivable**

The convergence differences of \$1,800m in the GGS, \$165m in the PNFC sector and \$298m in the PFC sector arise because GFS does not recognise doubtful debts, whereas a provision for doubtful debts is recognised in the statement of financial position.

This total difference of \$2,263m flows through to the whole of government amounts.

#### **n Assets – Financial Assets – Shares and Other Equity – Investments Accounted for Using Equity Method**

The convergence difference of \$36m arises in the GGS 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 statement of financial position.

This difference flows through to the whole of government amounts.

#### **o Assets – Financial Assets – Shares and Other Equity – GGS Investments in Other Sector Entities**

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

The difference is therefore equivalent to the total of those convergence differences affecting Net Worth (as itemised in Note T). The components are:

	\$m
Amounts receivable [PNFC]	165
Amounts receivable [PFC]	298
Intangible assets – research and development [PNFC]	(69)
Deferred tax liability [PNFC]	506
<b>TOTAL</b>	<b><u>900</u></b>

This difference does not flow through to the whole of government amounts as it arises from an intersector item.

**p Assets – Non-Financial Assets – Produced Assets – Intangibles**

The convergence differences comprise:

- p(i)** (\$400m) in the GGS and (\$69m) in the PNFC sector because GFS treats research and development costs as use of goods and services expenses from transactions, whereas some are treated as acquisitions of intangible assets for the statement of financial position because some development activities are expected to bring benefits for more than one year.

This total difference of (\$469m) flows through to the whole of government amounts.

- p(ii)** \$150m in the GGS because GFS recognises the revaluation of certain intangible assets, whereas those intangible assets have not been revalued in the statement of financial position because there is no active market (in accordance with paragraph 81 of AASB 138).

This difference flows through to the whole of government amounts.

**q Liabilities – Provisions**

The convergence differences comprise:

- q(i)** \$94m in the GGS because GFS does not recognise certain provisions that are recognised in the statement of financial position as liabilities (for example, to the extent that they arise from constructive obligations for which there is no counterparty recognising a related financial asset).

This difference flows through to the whole of government amounts.

- q(ii)** \$506m in the PNFC sector because GFS does not recognise the deferred tax liability.

This difference does not flow through to the whole of government amounts as it arises from a PNFC sector liability that is not a whole of government liability.

[Note: Depending on the arrangements operating in a particular jurisdiction, a GGS, as an income tax collector, may not be able to recognise a related revenue unless it meets the criteria in AASB 1004 *Contributions*. Under the tax regime assumed for the purpose of this example, the GGS, as the tax collector, does not recognise deferred tax balances because the tax events associated with the PNFC sector's deferred

tax balances have not occurred, even though from the PNFC sector's viewpoint, the event is the recognition of the underlying assets and/or liabilities in accordance with AASB 112 *Income Taxes*. This treatment in the GGS accords with GFS, which does not recognise deferred tax assets. Therefore, no convergence difference arises.]

**r Shares and Other Contributed Capital**

The convergence differences of (\$20,609m) in the PNFC sector and (\$13,050m) in the PFC sector arise because GFS measures net worth as assets less liabilities less shares/contributed capital, whereas shares/contributed capital are not deducted in the determination of GAAP net worth. Because in this example GFS measures shares/contributed capital of the PNFC and PFC sectors at the carrying amount of net assets of those sectors, PNFC and PFC sector GFS net worth is nil.

The total difference of (\$33,659m) does not flow through to the whole of government amounts as they relate to the GGS ownership interest in the PNFC and PFC sectors.

**s Classification Difference Included in the GFS Net Worth**

A classification difference arises in the GGS 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.

This difference flows through to whole of government amounts.

**Convergence Differences relating to the Statements of Cash Flows**

***Cash Surplus/(Deficit)***

**t Cash Flows from Investments in Non-Financial Assets**

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

This difference flows through to the whole of government amounts.

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

For the whole of government and GGS, amounts of \$41,019m and \$37,898m respectively have been recognised as payments for purchases of goods and services from operating activities in the statement of cash flows.

Under GFS, the corresponding amounts are \$41,105m and \$37,943m respectively.

The convergence difference of \$45m in the GGS is due to capitalised development costs that are classified as purchases of non-financial assets – which are investing activities in the statement of cash flows.

For the PNFC sector, an amount of \$3,151m has been recognised as payments for purchases of goods and services from operating activities in the statement of cash flows. Under GFS, the corresponding amount is \$3,192m.

The convergence difference of \$41m comprises capitalised development costs that are classified as purchases of non-financial assets – which are classified as investing activities in the statement of cash flows.

The total convergence difference of \$86m flows through to whole of government.

These classification differences have no impact on the amount of the GFS Cash Surplus/(Deficit).

## ILLUSTRATIVE EXAMPLE C

### Extract from the Note Containing the Summary of Significant Accounting Policies of a General Government Sector

The following is an example of an extract from Note 1 of the financial statements for a year subsequent to the first year of adoption of this Standard, consistent with the requirements of paragraph 39. This example assumes that the GGS financial statements are presented separately from the whole of government financial statements, and that the most recent version of the ABS GFS Manual has been applied.

The financial statements of the General Government Sector (GGS) of [*name of the Government*] have been prepared in accordance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, which requires compliance with all Australian Accounting Standards except those identified below. The purpose of the financial statements is to provide users with information about the stewardship by the Government in relation to its GGS and accountability for the resources entrusted to it; information about the financial position, changes in net assets/(liabilities), 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 the Government*] is a component of the Whole of Government of [*name of the Government*]. The GGS is determined in accordance with the principles and rules contained in the Australian Bureau of Statistics publications:

- (a) *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (ABS Catalogue No. 5514.0); and
- (b) *Amendments to Australian System of Government Finance Statistics, 2005* (ABS Catalogue No. 5514.0)

published on the ABS website on [*publication date, or refer to effective date if specified by the ABS*] (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 statements are 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 the 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 statements of *[name of the Government]* for the year ended 30 June 20XX for financial information that separately recognises assets, liabilities, income, expenses and cash flows of all entities under the control of the *[name of the Government]*.

The ABS GFS Manual also provides the basis upon which Government Finance Statistics (GFS) information that is contained in the financial statements 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 statements, together with a reconciliation of those key fiscal aggregates to the corresponding key fiscal aggregates recognised in the financial statements.



## ILLUSTRATIVE EXAMPLE D

### Key Technical Terms Used in the Complete Sets of Financial Statements

This illustration provides an example of the presentation of explanations of selected key technical terms used in the Whole of Government and GGS Financial Statements and Selected Notes (Illustrative Examples A and B), as required by paragraph 41(a)(iii) of this Standard.

This illustration presents generic explanations, suitable in both a whole of government and GGS context, except where indicated. In instances where the generic definition is not necessarily appropriate, further guidance has been provided.

**Cash surplus/(deficit)** is net cash flows from operating activities plus net cash flows from acquisition and disposal of non-financial assets and less distributions paid. GFS cash surplus/(deficit) also deducts the value of assets acquired under finance leases and similar arrangements.

**Comprehensive result (total change in net worth before transactions with owners in their capacity as owners)**<sup>5</sup> is the net result of all items of income and expense recognised for the period. It is the aggregate of operating result and other comprehensive income, other than transactions with owners in their capacity as owners.

**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, classification and consolidation principles and rules.

**Financial asset** is any asset that is:

- (a) cash;
- (b) an equity instrument of another entity;

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<sup>5</sup> Explanatory note: The term 'transactions with owners in their capacity as owners' is most pertinent in a whole of government context. Such transactions may occur between the GGS, as owner, and the PNFC/PFC sectors and are therefore required to be disclosed in the sector information included in the whole of government financial statements. In addition, transactions with owners in their capacity as owners may occur in a whole of government context in relation to partly-owned subsidiaries. Accordingly, the GGS financial statements could use the alternative term 'Comprehensive result (total change in net worth)' defined as the net result of all items of income and expense recognised for the period. It is the aggregate of operating result and other changes in equity.

- (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.

**General Government Sector (GGS)** is the institutional sector comprising all government units and non-profit institutions controlled and mainly financed by government.

**Government Finance Statistics (GFS)** enable policymakers and analysts to study developments in the financial operations, financial position and liquidity situation of the government. More details about the GFS can be found in the Australian Bureau of Statistics (ABS) publications *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (ABS Catalogue No. 5514.0) and *Amendments to Australian System of Government Finance Statistics, 2005* (ABS Catalogue No. 5514.0) published on the ABS website.

**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 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 in financial assets (liquidity management purposes) 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 the carrying amount 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 carrying amount of net assets of the subsidiaries. The net gains are measured based on the proportional share of the subsidiary's carrying amount of net assets/(liabilities) before elimination of intersector balances.

**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 financial resources are placed at the disposal of the rest of the economy or the utilisation of financial resources generated by the rest of the economy. It is an indicator of the financial impact 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 from transactions – net operating balance** is revenue from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of 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.

**Net worth** is assets less liabilities and shares/contributed capital. For the GGS, net worth is assets less liabilities, since shares and contributed capital

do not exist in a GGS context<sup>6</sup>. It is an economic measure of wealth and reflects the contribution to the wealth of Australia. 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. They include 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 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 comprehensive income’.

**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.

**Public Financial Corporations (PFC) sector** is the institutional sector comprising resident government controlled corporations and quasi-corporations mainly engaged in financial intermediation or provision of auxiliary financial services.

**Public Non-Financial Corporations (PNFC) sector** is the institutional sector comprising resident government controlled corporations and quasi-corporations mainly engaged in the production of market goods and/or non-financial services.

**Quasi-corporation** is 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.

**Securities other than shares** are negotiable financial instruments serving as evidence of the obligations to settle by means of providing cash, a financial instrument, or some other item of economic value. The security normally

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<sup>6</sup> Explanatory note: The reference to shares/contributed capital is most pertinent in a whole of government context. As an alternative, the GGS financial statements could define ‘net worth’ as ‘assets less liabilities’ because shares and contributed capital do not exist in a GGS context.

specifies a schedule for interest payments and principal repayments. Some examples are: bills, bonds and debentures, commercial paper, and securitised mortgage loans.

**Social benefits** are transfers in cash or in kind to relieve households 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 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 used in production, and use of goods acquired for resale. Goods and services acquired for use as direct in-kind transfers to households or as grants 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 employees except for superannuation. It includes pay in cash or in-kind.

**Whole of government financial statements** are financial statements that are prepared in accordance with Australian Accounting Standards, including AASB 127 *Consolidated and Separate Financial Statements*, and thereby separately recognise assets, liabilities, income, expenses, and cash flows of all entities under the control of the government on a line-by-line basis.