

Accounting Standard

AASB 1052
December 2007

Disaggregated Disclosures



Australian Government

**Australian Accounting
Standards Board**

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Level 7
600 Bourke Street
Melbourne Victoria
AUSTRALIA

Postal address:
PO Box 204 Collins Street West
Victoria 8007
AUSTRALIA

Phone: (03) 9617 7637
Fax: (03) 9617 7608
E-mail: publications@aaasb.com.au
Website: www.aasb.com.au

Other Enquiries

Phone: (03) 9617 7600
Fax: (03) 9617 7608
E-mail: standard@aaasb.com.au

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BASIS FOR CONCLUSIONS

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Australian Accounting Standard AASB 1052 *Disaggregated Disclosures* is set out in paragraphs 1 to 21. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. AASB 1052 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

PREFACE

Background

Australian Accounting Standards incorporate International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB), with the addition of paragraphs on the applicability of the Standard in the Australian environment.

Some Australian Accounting Standards also include requirements that are specific to Australian entities. In most instances, these requirements are restricted to not-for-profit entities, including public sector entities, or include additional disclosures that address domestic, regulatory or other issues.

Reasons for Issuing this Standard

AAS 27 Financial Reporting by Local Governments, *AAS 29 Financial Reporting by Government Departments* and *AAS 31 Financial Reporting by Governments* were first issued in 1991, 1993 and 1996 respectively. While AASs 27, 29 and 31 had been subject to a number of limited reviews since then, the requirements in these Standards needed a comprehensive review because:

- (a) there had been significant developments in Australian financial reporting, in particular adopting International Financial Reporting Standards (IFRSs) within Australian Accounting Standards, for reporting periods beginning on or after 1 January 2005. As a result of these developments, uncertainties emerged as to the application of cross-references to other Australian Accounting Standards and the override provisions in AASs 27, 29 and 31 that made the requirements in AASs 27, 29 and 31 take precedence over other requirements;
- (b) local governments, government departments and governments were subject to requirements that differed from requirements applicable to other not-for-profit entities and for-profit entities contained in Australian Accounting Standards. An objective of the Board is to put in place transaction-neutral Standards that will treat like transactions and events consistently;
- (c) the Board had made significant progress in its project on the harmonisation of Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS) so far as it relates to the General Government Sector (GGS) and the whole of government of the federal, state and territory governments. It was therefore particularly timely to review the requirements in AAS 31;

- (d) they did not reflect contemporary accounting thought; and
- (e) they did not reflect the current style of writing standards, which is to specify principles rather than rules, and requirements rather than encouragements.

The Board intends to continue with its policy of developing a common accounting standards framework for both for-profit and not-for-profit entities whilst acknowledging differences in some areas. The Board is committed to having a platform of topic-based transaction-neutral Standards that will apply to the public sector.

Review of AASs 27, 29 and 31

The Board initiated a project for reviewing the requirements in AASs 27, 29 and 31, divided into two phases comprising a short-term and a longer-term review.

The primary focus in the short term has been on relocating, where necessary, the requirements in AASs 27, 29 and 31, substantively unamended (with some exceptions), into topic-based Standards.

In the longer term the focus will be on improving the requirements for each topic-based issue where necessary. The longer-term review will be carried out in stages as outlined in the AASB's Public Sector Policy Paper *Australian Accounting Standards and Public Sector Entities*.

AASB 1052 in the Context of the Review of AASs 27, 29 and 31

The Board decided to relocate the requirements relating to reporting of disaggregated information by local governments from AAS 27 and government departments from AAS 29, substantively unamended (with some exceptions, as noted in Appendix A), into a new topic-based Standard.

The Board outlined its short-term proposals in Exposure Draft ED 156 *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31*, which was issued in June 2007.

Main Features of this Standard

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 July 2008. Early adoption is permitted for annual reporting periods beginning on or after 1 January 2005, but before 1 July 2008, provided there is early adoption for the same annual reporting period of the following pronouncements being issued at about the same time, as applicable:

- (a) AASB 1004 *Contributions*;
- (b) AASB 1049 *Whole of Government and General Government Sector Financial Reporting*;
- (c) AASB 1050 *Administered Items*;
- (d) AASB 1051 *Land Under Roads*;
- (e) AASB 2007-9 *Amendments to Australian Accounting Standards arising from the Review of AASs 27, 29 and 31*; and
- (f) AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*.

Main Requirements

This Standard, which only applies to general purpose financial statements of local governments and government departments, requires disclosure of:

- (a) financial information by function or activity by local governments; and
- (b) financial information about service costs and achievements by government departments.

In relation to local governments, this Standard requires disclosure of:

- (a) the nature and objective of each function/activity;
- (b) the carrying amounts of assets reliably attributable to each function/activity;
- (c) income (with component revenues from related grants disclosed separately as a component thereof) and expenses for the reporting period that are reliably attributable to each function/activity; and

- (d) a reconciliation of the above disclosures to related information in the complete set of financial statements.

In relation to government departments, this Standard requires disclosure of:

- (a) in summarised form, the identity and purpose of each major activity undertaken;
- (b) if not otherwise disclosed in, or in conjunction with, the government department's complete set of financial statements, a summary of the government department's objectives;
- (c) expenses that are reliably attributable to each major activity, showing separately each major class of expenses;
- (d) income that is reliably attributable to each major activity, showing separately user charges, income from government and other income by major class of income; and
- (e) the assets deployed and liabilities incurred that are reliably attributable to each major activity.

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

This Standard contains relevant requirements relating to reporting of disaggregated information by local governments and government departments that have been relocated from AAS 27 *Financial Reporting by Local Governments* and AAS 29 *Financial Reporting by Government Departments* in substantially unamended form (with some exceptions, as noted in Appendix A). Accordingly, the development of this Standard did not involve consideration of International Public Sector Accounting Standards (IPSASs) issued by the International Public Sector Accounting Standards Board or International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board.

The longer-term review of disaggregated disclosures for local governments and government departments will involve consideration of International pronouncements.

AASB 1052 and IPSASs

IPSAS 18 *Segment Reporting* addresses segment reporting issues and specifies requirements for all public sector entities other than government business enterprises. It contains more detailed requirements and guidance than this Standard. For example, IPSAS 18:

- (a) defines a segment as a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources;
- (b) provides detailed guidance on determining segments;
- (c) requires specific disclosures about segments, including segment revenue, expenses, assets, liabilities and capital expenditure; and
- (d) requires specific disclosures for assets that are jointly used by two or more segments.

AASB 1052 and IFRSs

IAS 14 *Segment Reporting*, which is superseded when applicable by IFRS 8 *Operating Segments*, does not apply to the general purpose financial statements of local governments and government departments. IAS 14 and IFRS 8 specify requirements that differ substantially from the requirements in this Standard.

ACCOUNTING STANDARD AASB 1052

The Australian Accounting Standards Board makes Accounting Standard AASB 1052 *Disaggregated Disclosures*.

Dated 13 December 2007

D.G. Boymal
Chair – AASB

ACCOUNTING STANDARD AASB 1052

DISAGGREGATED DISCLOSURES

Objective

- 1 The objective of this Standard is to specify principles for reporting:
 - (a) financial information by function or activity by local governments; and
 - (b) financial information about service costs and achievements by government departments.
- 2 Disclosures made in accordance with this Standard provide users with information relevant to assessing the performance of a local government or government department, including accountability for resources entrusted to it.

Application

- 3 **Subject to paragraphs 4 and 5, this Standard applies to general purpose financial statements of local governments and government departments.**
- 4 **Paragraphs 11 to 14 only apply to general purpose financial statements of local governments.**
- 5 **Paragraphs 15 to 21 only apply to general purpose financial statements of government departments.**
- 6 **This Standard applies to annual reporting periods beginning on or after 1 July 2008.**
- 7 **This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 July 2008,**

provided there is early adoption for the same annual reporting period of the following pronouncements being issued at about the same time, as applicable:

- (a) **AASB 1004 Contributions;**
- (b) **AASB 1049 Whole of Government and General Government Sector Financial Reporting;**
- (c) **AASB 1050 Administered Items;**
- (d) **AASB 1051 Land Under Roads;**
- (e) **AASB 2007-9 Amendments to Australian Accounting Standards arising from the Review of AASs 27, 29 and 31; and**
- (f) **AASB Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities.**

- 8 This Standard does not specify disaggregated disclosure requirements for whole of governments or General Government Sectors (GGSs). The requirements for disaggregated disclosures for whole of governments and GGSs are contained in AASB 1049.
- 9 **The requirements specified in this Standard apply to the complete set of financial statements where information resulting from their application is material in accordance with AASB 1031 Materiality.**
- 10 **When applicable, this Standard, together with the Standards referred to in paragraph 7, supersede:**
- (a) **AAS 27 Financial Reporting by Local Governments as issued in June 1996, as amended; and**
 - (b) **AAS 29 Financial Reporting by Government Departments as issued in June 1998, as amended.**

Classification According to Function or Activity by Local Governments

Paragraphs 11 to 14 only apply to local governments.

- 11 **The complete set of financial statements of a local government shall disclose in respect of each broad function or activity:**
- (a) **by way of note:**

- (i) **the nature and objectives of that function/activity; and**
- (ii) **the carrying amount of assets that are reliably attributable to that function/activity; and**
- (b) **by way of note or otherwise:**
 - (i) **income for the reporting period that is reliably attributable to that function/activity, with component revenues from related grants disclosed separately as a component thereof; and**
 - (ii) **expenses for the reporting period that are reliably attributable to that function/activity.**

12 The information provided by way of note in accordance with paragraph 11 shall be aggregated and reconciled to agree with the related information in the financial statements of the local government.

13 This Standard requires disclosure of information about the assets, income and expenses of the local government according to the broad functions or activities of the local government, whether they be related to service delivery or undertaken for commercial objectives. Disclosure of this information assists users in identifying the resources committed to particular functions/activities of the local government, the costs of service delivery that are reliably attributable to those functions/activities, and the extent to which the local government has recovered those costs from income that is reliably attributable to those functions/activities. Function/activity classification of financial information will also assist users in assessing the significance of any financial or non-financial performance indicators reported by the local government.

14 AASB 114 *Segment Reporting* and AASB 8 *Operating Segments* are not applicable to local governments. The bases considered appropriate for identifying broad functions or activities of local governments would not necessarily accord with the criteria for identification of segments contained in those Standards. However, preparers of the complete set of financial statements may find that the guidance contained in those Standards is useful in identifying the income, expenses and assets that are reliably attributable to the broad functions or activities of the local government.

Disclosure of Service Costs and Achievements by Government Departments

Paragraphs 15 to 21 only apply to government departments.

- 15 The complete set of financial statements of a government department shall disclose:**
- (a) in summarised form, the identity and purpose of each major activity undertaken by the government department during the reporting period;**
 - (b) if not otherwise disclosed in, or in conjunction with, the government department's complete set of financial statements, a summary of the government department's objectives;**
 - (c) expenses reliably attributable to each of the activities identified in (a) above, showing separately each major class of expenses; and**
 - (d) income reliably attributable to each of the activities identified in (a) above, showing separately user charges, income from government and other income by major class of income.**
- 16 The complete set of financial statements of a government department shall also disclose the assets deployed and liabilities incurred that are reliably attributable to each of the activities identified in paragraph 15(a).**
- 17** Government departments are required to achieve service delivery as well as financial objectives. Accordingly, a government department's performance is assessed by reference to the effectiveness, economy and efficiency with which the government department achieves its service delivery and financial objectives. Financial information is therefore only a subset of the information necessary to enable an adequate assessment of a government department's performance. Accordingly, the complete set of financial statements is presented as part of an annual report that discloses information about such matters as the government department's objectives and service delivery achievements during the reporting period. To enhance the quality of information available for assessing performance, paragraph 15 requires that a summary of the government department's objectives be disclosed in the complete set of financial statements where the

government department's annual report does not include this disclosure.

- 18 Paragraphs 15 and 16 require disclosure of information about the expenses, income, assets and liabilities attributable to the major activities of a government department for the reporting period. This information is relevant in assessing the effectiveness, efficiency and economy of operations and of resource allocation decisions. It is also necessary for reviewing existing expenditure commitments and service delivery arrangements, and for considering the long-term funding implications of new initiatives.
- 19 However, in some instances it may not be possible to reliably attribute all expenses, income, assets and liabilities to each of the major activities of a government department. Paragraphs 15 and 16 require that the complete set of financial statements of a government department only disclose, on an activity by activity basis, information about the expenses, income, assets and liabilities that can be reliably attributed to major activities.

Identifying Major Activities of Government Departments

- 20 Judgement is required to identify those activities of a government department that warrant separate disclosure in the complete set of financial statements. Exercising this judgement involves a consideration of the following:
- (a) the objectives of the government department;
 - (b) the likely users of the general purpose financial statements;
 - (c) the activity level that may be relevant to users' assessments of the performance of the government department; and
 - (d) the concept of materiality as set out in the *Framework for the Preparation and Presentation of Financial Statements* and AASB 1031.
- 21 AASB 1050 also contains requirements relating to the disclosure of administered income and expenses attributable to a government department's activities. The principles in this Standard are used in satisfying the requirements in AASB 1050.

APPENDIX A

COMPARISON OF AASB 1052 WITH AASs 27 AND 29

This Appendix accompanies, but is not part of, AASB 1052.

This Standard reproduces the material relating to disaggregated disclosures contained in AAS 27 and AAS 29, except that:

- (a) Appendix 1 to AAS 27 contained an illustrative example of the disclosures required in respect of the broad functions/activities of a local government. This Standard does not provide an illustration;
- (b) AAS 29 (paragraph 12.7.2) encouraged a government department to disclose the assets deployed and liabilities incurred that are reliably attributable to each of its activities. This Standard (paragraph 16) requires such disclosure; and
- (c) this Standard (paragraph 21) notes that its principles are used in satisfying the requirement in AASB 1050 *Administered Items* to disclose administered income and expenses attributable to a government department's activities. AASs 27 and 29 contained no such reference.

The following table provides source references to paragraphs 11 – 21 of this Standard, most of which were derived from AASs 27 and 29. It is provided to facilitate an understanding of, and assist in the application of, the requirements in this Standard.

Paragraphs in AASB 1052	Relevant source paragraphs in AASs 27 & 29
11 – 14	86 – 89 of AAS 27
15 – 20	12.7 – 12.7.4 of AAS 29
21	New paragraph

BASIS FOR CONCLUSIONS

This Basis for Conclusions accompanies, but is not part of, AASB 1052.

Introduction

BC1 This Basis for Conclusions summarises the Board's considerations in developing this Standard in the context of the Board's 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*.

Background

BC2 The Board considered it timely to review the requirements in AASs 27, 29 and 31, in particular to:

- (a) review the extent to which local governments, government departments and governments should continue to be subject to requirements that differ from requirements applicable to other not-for-profit entities and for-profit entities contained in Australian Accounting Standards. The Board concluded that differences should be removed, where appropriate and timely, to improve the overall quality of financial reporting;
- (b) bring requirements applicable to local governments, government departments and governments up-to-date with contemporary accounting thought;
- (c) consider the implications of the outcomes of its project on the harmonisation of Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS), in particular on the requirements in AAS 31;
- (d) decide whether the encouragements in AASs 27, 29 and 31 should be made mandatory or removed; and
- (e) remove uncertainty in the application of cross-references to other Australian Accounting Standards and the override provisions in AASs 27, 29 and 31 that made the requirements in AASs 27, 29 and 31 take precedence over other requirements.

BC3 The Board considered the following alternative mechanisms for implementing the approach of updating and improving the

requirements for local governments, government departments and governments:

- (a) review the requirements in AASs 27, 29 and 31 and where appropriate:
 - (i) amend other Australian Accounting Standards to pick up any issues that are addressed in AASs 27, 29 and 31 that are not adequately addressed in the latest Australian Accounting Standards and have them apply to local governments, government departments and governments; or
 - (ii) create public sector specific topic-based Standards; and consequently withdraw AASs 27, 29 and 31; or
- (b) review AASs 27, 29 and 31 and re-issue them in light of the latest Australian Accounting Standards, retaining/amending where necessary any issues that are addressed in AASs 27, 29 and 31 that are not adequately addressed in the latest Australian Accounting Standards.

BC4 The Board chose alternative (a) given the improvements in the quality of financial reporting by local governments, government departments and governments since AASs 27, 29 and 31 were first issued.

BC5 Where the Board identified that the material in AASs 27, 29 and 31 could be improved within time and resource constraints, improvements have been made. Much of the material in AASs 27, 29 and 31 has been retained substantively unamended. Improvements will be progressed in due course in line with the AASB's Public Sector Policy Paper *Australian Accounting Standards and Public Sector Entities*.

BC6 The first stage of the short-term review of the requirements in AASs 27, 29 and 31 was the preparation of a paragraph-by-paragraph analysis of each of AASs 27, 29 and 31, listing each paragraph of each Standard alongside corresponding Standards or other pronouncements that would apply to local governments, government departments or governments in the absence of AASs 27, 29 and 31. The Board's conclusions and rationale for the treatment of each paragraph in the context of the review were also provided in the analysis. The Board's primary focus was on dealing with the requirements from the three Standards in such a way as to not leave a vacuum.

- BC7 Each paragraph from AASs 27, 29 and 31 was classified as being:
- (a) no longer needed or adequately dealt with in other Standards;
 - (b) more appropriately dealt with in other Standards; or
 - (c) not adequately and/or appropriately dealt with in other Standards and therefore should be retained or improved and incorporated into other Standards.

The paragraph-by-paragraph analyses considered by the AASB in developing the Exposure Draft ED 156 *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31* that gave rise to this Standard are available on the AASB website. They support, but do not form part of, this Basis for Conclusions.

- BC8 In reviewing the paragraphs, the Board noted that some material in AASs 27, 29 and 31 would, under the current style of writing Standards, be located in a separate Basis for Conclusions. Given the short-term nature of the review of AASs 27, 29 and 31, the Board concluded that explanations of technical issues that both originated in and are being relocated from AASs 27, 29 and 31 should, when appropriate, be located in the body of the Standard to which they are relocated.
- BC9 The Board decided not to retain the illustrative general purpose financial reports provided in AASs 27, 29 and 31, because their purpose, which was to provide an educational tool in the initial stages of accrual reporting by local governments, government departments and governments, is no longer needed.
- BC10 The remainder of this Basis for Conclusions focuses on issues specific to disaggregated disclosures.

Disaggregated Disclosures

- BC11 The Board decided to retain, substantially unchanged, the requirements relating to segment-like reporting from paragraphs 86 to 89 of AAS 27 and paragraphs 12.7 to 12.7.4 of AAS 29 and relocate them into a separate new topic-based Standard. Because of the differing requirements, the Board concluded that they should be expressed separately for local governments and government departments. A longer-term separate project on disaggregated disclosures for local governments and government departments will be progressed in due course.

- BC12 The Board considered relocating the material into AASB 114 *Segment Reporting* (and subsequently AASB 8 *Operating Segments*), but rejected this option consistent with its intention to retain requirements substantively unchanged in the short term. The guidance in AASB 114 (and AASB 8), which is not applicable to not-for-profit entities or for-profit government departments, comprehensively addresses segment reporting issues and specifies requirements that differ substantially from those required under AASs 27, 29 and 31.
- BC13 The Board considered whether for-profit government departments should be subject to AASB 114 (and AASB 8) rather than this Standard. The Board noted that for-profit government departments typically do not exist in practice. Consistent with the general approach to the short-term review of AASs 27, 29 and 31, and because AAS 29 applied to government departments, including for-profit government departments, the Board decided that for-profit government departments should continue to adopt policies that are consistent with not-for-profit government departments to the extent previously required by AAS 29. This approach will be reviewed as part of the Board's longer-term consideration of the definition of government departments in the context of the reporting entity concept.
- BC14 Paragraph 12.7.2 of AAS 29 encouraged the disclosure of information about assets deployed and liabilities incurred in relation to each major activity undertaken by a government department. Consistent with paragraph BC2(d), the Board decided that, in relation to disaggregated information, assets deployed and liabilities incurred in relation to and reliably attributable to each major activity undertaken by a government department should be required to be disclosed (see paragraph 16). The information is relevant in assessing the effectiveness, efficiency and economy of operations and of resource allocation decisions.
- BC15 The Board decided not to retain the requirements relating to segment-like reporting from paragraphs 15.12 to 15.12.2 of AAS 31. It is not necessary for this Standard to specify disaggregated disclosure requirements for governments, as AASB 1049 *Whole of Government and General Government Sector Financial Reporting* addresses disaggregated disclosure requirements for governments.