

**Exposure Draft**

**ED 155**  
May 2007

# **Financial Reporting by Whole of Governments**

Prepared by the  
**Australian Accounting Standards Board**



**Australian Government**

---

**Australian Accounting  
Standards Board**

## **Commenting on this Exposure Draft**

Comments on this Exposure Draft should be forwarded so as to arrive by 17 August 2007. Comments should be addressed to:

The Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West Victoria 8007  
AUSTRALIA

A copy of all non-confidential submissions will be placed on public record on the AASB website: [www.aasb.com.au](http://www.aasb.com.au).

## **Obtaining a Copy of this Exposure Draft**

This Exposure Draft is available on the AASB website: [www.aasb.com.au](http://www.aasb.com.au). Alternatively, printed copies of this Exposure Draft are available by contacting:

The Customer Service Officer	Phone: (03) 9617 7637
Australian Accounting Standards Board	Fax: (03) 9617 7608
Level 7	E-mail: <a href="mailto:publications@aaasb.com.au">publications@aaasb.com.au</a>
600 Bourke Street	Postal address:
Melbourne Victoria	PO Box 204
AUSTRALIA	Collins Street West Victoria 8007

## **Other Enquiries**

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

COPYRIGHT

© 2007 Australian Accounting Standards Board (AASB).

ISSN 1030-5882

**ED 155**

2

**COPYRIGHT**

## CONTENTS

PREFACE

COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS

**ACCOUNTING STANDARD**  
**AASB 10XX FINANCIAL REPORTING BY**  
**WHOLE OF GOVERNMENTS**

	<i>Paragraphs</i>
Objective	1
Application	2 – 5
Compliance with Australian Accounting Standards	6 – 13
Components of a Whole of Government Financial Report	14 – 15
Balance Sheet	16 – 18
Operating Statement	19 – 25
Cash Flow Statement	26 – 29
Notes	
Summary of Significant Accounting Policies	30
Other Explanatory Notes	31 – 36
Functional Information	37 – 40
Sector Information	41 – 46
Budgetary Information	47 – 53
Transitional Requirements	54

Appendix:

A. Defined Terms *Page 32*

BASIS FOR CONCLUSIONS ON ED 155 *Page 35*

ILLUSTRATIVE EXAMPLE

A. Illustration of an Acceptable Format and Content of  
Financial Statements, Reconciliation Notes, Explanations of  
Key Technical Terms, Functional Information and Sector  
Information *Page 44*

CONSEQUENTIAL AMENDMENTS TO AASB 1049  
*Financial Reporting of General Government Sectors by*  
*Governments* *Page 45*

**ED 155**

3

**CONTENTS**

Australian Accounting Standard AASB 10XX *Financial Reporting by Whole of Governments* is set out in paragraphs 1-54 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 10XX is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the 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**

The Australian Accounting Standards Board (AASB) makes Australian Accounting Standards to be applied by:

- (a) entities required by the *Corporations Act 2001* to prepare financial reports;
- (b) all reporting entities engaged in either for-profit, not-for-profit or public sectors; and
- (c) any other entity that prepares general purpose financial reports.

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

Although IFRSs are developed to apply to for-profit entities, the AASB has decided to continue to make transaction-neutral accounting Standards. Accordingly, Australian Accounting Standards (including Australian equivalents to IFRSs) generally require the same accounting treatment for similar transactions occurring in both for-profit and not-for-profit entities, including public sector entities. An Australian equivalent to an IFRS uses the corresponding IFRS as the 'foundation' Standard to which the AASB adds material detailing its scope and applicability in the Australian environment. Additions are made, where necessary, to broaden the content of the Australian equivalent to an IFRS to cover domestic, regulatory or other issues.

In addition to making accounting Standards that are Australian equivalents to IFRSs, the AASB also continues to make other Australian Accounting Standards that are specific to the not-for-profit or public sectors or that are purely of a domestic nature.

#### **Exposure Drafts**

The use of an Exposure Draft is an essential component of the due process that the AASB follows before making a new or amending an existing Australian Accounting Standard. An Exposure Draft is designed to seek public comment on the AASB's proposals for a new Australian Accounting Standard or amendments to an existing Australian Accounting Standard.

## Reasons for Issuing this Exposure Draft

The issue of this Exposure Draft is part of the AASB's implementation of a Financial Reporting Council (FRC) broad strategic direction:

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

The AASB is implementing the FRC's broad strategic direction in two phases. Phase 1 relates to financial reporting by the Australian Government and the State and Territory governments and the sectors therein [General Government Sector (GGS), Public Non-Financial Corporations (PNFC) sector and Public Financial Corporations (PFC) sector]. Phase 2 relates to financial reporting by entities within the GGS, comprising financial reporting by government departments, statutory bodies, and other entities within the GGS.

As part 1 of phase 1, the AASB developed AASB 1049 *Financial Reporting of General Government Sectors by Governments* that specifies requirements for financial reporting by a government of its GGS, as defined in the Australian Bureau of Statistics (ABS) Manual *Australian System of Government Finance Statistics: Concepts, Sources and Methods*, available on the ABS website ([the ABS GFS Manual](#)).

As part 2 of phase 1, the AASB decided that a Standard should be developed that specifies GAAP/GFS harmonisation requirements for whole of government financial reporting, incorporating GGS, PNFC sector and PFC sector financial information. This Exposure Draft represents the Board's proposals for that Standard.

The proposals in this Exposure Draft do not have broader implications beyond whole of government financial reporting, including for entities within the GGS, which are to be addressed in phase 2. The Board will consider in due course the extent to which its decisions on GGS and whole of government financial reporting should be applied in phase 2.

The Board decided that it is not necessary to consider GAAP/GFS harmonisation issues for other public sector entities, including entities within

the PNFC sector and PFC sector, local governments and entities that GFS classifies as multi-jurisdictional such as universities.

At its 18 December 2006 meeting, the FRC agreed that, with the completion of phases 1 and 2, the requirements of the public sector strategic direction would be met (FRC Bulletin 2006/9 18 December 2006).

## **Main Features of this Exposure Draft**

To provide constituents with a timely opportunity to comment on the principles proposed to be included in a GAAP/GFS harmonised Standard for whole of governments, this Exposure Draft is being issued without an illustrative example. Illustrative Example A “Illustration of an Acceptable Format and Content of Financial Statements, Reconciliation Notes, Explanations of Key Technical Terms, Functional Information and Sector Information” will be issued for public comment once it is finalised.

This Exposure Draft presents proposals for GAAP/GFS harmonised financial reporting by whole of governments separately from the requirements for financial reporting by GGSs. However, the Board intends that the Standard to be developed from this Exposure Draft would incorporate the requirements for both whole of government financial reporting and GGS financial reporting.

The Board used AASB 1049 as the basis for developing this Exposure Draft. A marked-up copy of AASB 1049, highlighting the changes made to AASB 1049 to develop this Exposure Draft, is provided on the AASB website for the information of constituents.

## **Application Date**

It is proposed that the Standard to be developed from this Exposure Draft is applicable to annual reporting periods beginning on or after 1 July 2008, and that early adoption is permitted.

## **Main Requirements**

This Exposure Draft proposes:

- (a) that a government be required to prepare a general purpose whole of government financial report, which consolidates all controlled entities on a line-by-line basis, in accordance with the proposals in this Exposure Draft;
- (b) that the requirements in other Australian Accounting Standards be applied, unless otherwise specified;

- (c) that where Australian Accounting Standards allow for optional treatments, only those treatments aligned with the ABS GFS Manual be applied;
- (d) that where GFS information is included in the financial report because it is required by the Standard to be developed from this Exposure Draft or provided at the discretion of the government, only the principles and rules in the ABS GFS Manual for determining that information be applied;
- (e) that the financial statements include on their face information that is required by other Australian Accounting Standards, together with key fiscal aggregates, determined in a manner consistent with the other amounts recognised on the face and, in addition:
  - (i) the operating statement present, as well as the operating result, the comprehensive result (comprising all non-owner movements in equity – in contrast to the requirements in AASB 101 *Presentation of Financial Statements*). It also proposes that income and expenses be classified between transactions and other economic flows;
  - (ii) the cash flow statement present cash flows relating to investing in financial assets for policy purposes and for liquidity management purposes separately, determined in a manner consistent with the ABS GFS Manual; and
  - (iii) where specified key fiscal aggregates on the face of the financial statements differ from the corresponding key fiscal aggregates measured under the ABS GFS Manual, the ABS GFS Manual measure be disclosed in the notes together with a reconciliation of the two measures and an explanation of the differences.

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

- (f) that specified disclosures be included in the summary of significant accounting policies note and other explanatory notes to the financial statements;
- (g) that a description of each broad function of the government as specified in the ABS GFS Manual, and the assets, and expenses (excluding losses) included in operating result, that are reliably attributable to those functions be disclosed. It also proposes that this information be aggregated;

- (h) that a description of each sector (the GGS, PNFC sector and PFC sector) as defined in the ABS GFS Manual be disclosed. It also proposes that the financial statements and GAAP/GFS reconciliation notes for each sector that are consistent with the government's financial statements and reconciliation notes be disclosed. Furthermore, it proposes that this sector information be determined before elimination of intersector balances;
- (i) that where a government chooses to provide information about additional sectors, such as the total non-financial public sector (comprising the GGS and PNFC sector), this be presented on a comparable basis; and
- (j) that the original whole of government budgeted financial statements be disclosed, where they were presented to parliament, restated if necessary to align with the basis of the financial statements prepared in accordance with the Standard to be developed from this Exposure Draft. It also proposes that explanations of major variances between amounts in the original whole of government budgeted financial statements and actual amounts be disclosed.

As a result of potential amendments to the requirements in Australian Accounting Standards and the ABS GFS Manual or the interpretation of those requirements, differences between GAAP and GFS not contemplated in this Exposure Draft may eventuate. Unless the Board considers a potential difference and amends an Australian Accounting Standard to avoid the difference, a difference should be included in the reconciliations and/or explanations of differences proposed by paragraphs 31(a)(ii) and 41(b)(ii)B of this Exposure Draft. As issues emerge in the future, the Board will have regard to the implications for whole of government financial reports in deciding whether to amend a Standard to either avoid or confirm the existence of a difference.

## **GFS and its Relationship to GAAP Financial Reporting**

For GFS financial reporting purposes a government is regarded as comprising three sectors: the GGS, the PNFC sector and the PFC sector. Given its non-market nature and its important role as the vehicle by which a government implements its fiscal policy, it is useful to distinguish the GGS from the other, more market-oriented, government sectors. The GGS consists of all government units and non-profit institutions controlled and mainly financed by government. Government units are legal entities established by political processes that have legislative, judicial, or executive authority over other units and which provide goods and services to the community or to individuals on a non-market basis; and redistribute income and wealth by

means of taxes and other compulsory transfers. Non-profit institutions are created for the purpose of producing or distributing goods and services but are not permitted to be a source of income, profit or other financial gain for the government. The PNFC sector and PFC sector comprise government controlled entities that produce goods and services for the market and may be a source of profit or other financial gain to the government. They typically transact with outside consumers, frequently at arm's length in contestable markets.

GFS provides statistics for the assessment of the macro-economic impact of a government and each of the government's sectors. Chapter 2 of the ABS GFS Manual identifies a number of core analytical measures that this Exposure Draft proposes to be disclosed in the government's financial report for the whole of government and each sector. They include:

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

Although accrual accounting principles are applied under GFS for a government and each of the government's sectors, some of the definition, recognition, measurement, classification, consolidation and presentation principles and rules differ from GAAP. This Exposure Draft proposes the manner in which the differences between GAAP and GFS would be treated. In limited cases, the Exposure Draft proposes GAAP that better aligns with GFS. In other cases, it proposes to require or allow GFS information to be presented in addition to GAAP information, together with reconciliations between the two frameworks and explanations of the differences.

## **Request for Comments**

Comments are invited on any of the proposals in this Exposure Draft by 17 August 2007. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or critical on the major issues. The AASB regards both critical and supportive comments as essential to a balanced review of the issues and will consider all submissions, whether they address all specific matters, additional issues or only one issue.

## **Specific Matters for Comment**

The AASB would particularly value comments on:

- (a) the Board's intention to amend AASB 1049 to reflect its decisions arising out of this Exposure Draft and thereby issue a single integrated Standard that specifies requirements for both whole of government financial reports (incorporating GGS, PNFC sector and PFC sector financial information) and GGS financial reports;
- (b) the Board's intention to base whole of government general purpose financial reporting requirements on the principles adopted in AASB 1049 for GGS financial reporting;
- (c) the treatment of transactions with owners as owners and movements in reserves (paragraph 15). Such transactions may occur between the GGS and the PNFC/PFC sectors. They may also occur in a whole of government context in relation to partly owned subsidiaries. The Board is particularly interested in views on whether the differential treatment of transactions with owners as owners and movements in reserves is appropriate;
- (d) sector information (paragraphs 41-46). Given the potentially onerous nature of a requirement to disclose the financial statements and reconciliation notes for the GGS, PNFC sector and PFC sector in the whole of government financial report, the Board is particularly interested in views on whether the proposal in this Exposure Draft would provide the most effective way to meet users' needs for sector information;
- (e) budgetary information (paragraphs 47-53). The Board is particularly interested in views on whether:

- (i) whole of government budgetary information should only be required to be disclosed where whole of government budgeted financial statements are presented to parliament; and
  - (ii) sector budgetary information should not be required to be disclosed in the whole of government financial report;
- (f) transitional requirements (paragraph 54). In particular, the Board is interested in assessments of the costs and benefits of the approach proposed, which is to require the principles in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to apply to the first whole of government financial report prepared in accordance with the proposals in this Exposure Draft;
- (g) whether, overall, the proposals would result in financial reports that would be useful to users; and
- (h) whether the proposals are in the best interest of the Australian economy.

## **COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS**

### **AASB 10XX and International Public Sector Accounting Standards (IPSASs)**

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

At the date of issue, this Standard has no corresponding IPSAS relating specifically to whole of government financial reports. However, many of the issues addressed in this Standard are addressed in IPSASs. To the extent this Standard incorporates by cross-reference other Australian Accounting Standards, those Standards provide a comparison of this Standard with IPSASs. In some significant respects, this Standard amends the requirements of other Australian Accounting Standards for the purposes of whole of government financial reports and thereby differs from the requirements in IPSASs. Differences relate to the presentation of the financial statements, especially the operating statement, and notes.

*IPSAS 22 Disclosure of Financial Information About the General Government Sector* specifies requirements where a government elects to disclose financial information about the General Government Sector (GGS) in its whole of government financial reports. It differs from AASB 10XX in some significant respects because it does not accommodate Government Finance Statistics (GFS) principles to the same extent as AASB 10XX. For example, it does not contemplate a comprehensive operating statement classifying items as transactions or other economic flows and presenting GFS key fiscal aggregates on the face of the financial statements. Nor does it require the separate presentation of Public Non-Financial Corporations (PNFC) sector and Public Financial Corporations (PFC) sector information, nor a reconciliation to GFS measures of key fiscal aggregates.

*IPSAS 24 Presentation of Budget Information in Financial Statements* identifies disclosures that are to be made by public sector entities that are held publicly accountable for their compliance with, and performance against, approved budgets whether or not the budget and the financial statements are prepared and presented on the same basis (see paragraph IN3 of IPSAS 24). It differs from AASB 10XX requirements relating to budgetary information in some significant respects. Of particular note is that IPSAS 24 prohibits presentation of the budget on the accounting basis if the budget basis differs from the accounting basis, and requires disclosure of the final budget and a comparison of the final budget with the original budget.

## **AASB 10XX and International Financial Reporting Standards (IFRSs)**

There is no specific standard issued by the IASB dealing with whole of government financial reports.

Many of the issues addressed in this Standard are addressed in IASB Standards. To the extent this Standard incorporates by cross-reference other Australian Accounting Standards, those Standards provide a comparison of this Standard with IASB Standards. In some significant respects, this Standard amends the requirements of other Australian Accounting Standards for the purposes of whole of government financial reports and thereby differs from the requirements in IASB Standards. Significant differences relate to the presentation of the financial statements, especially the operating statement, and notes.

## ACCOUNTING STANDARD AASB 10XX

### ***FINANCIAL REPORTING BY WHOLE OF GOVERNMENTS***

#### **Objective**

- 1 The objective of this Standard is to specify requirements for *whole of government financial reports* of each *government* that are in addition to requirements for financial reports of the *General Government Sector (GGS)* of each government currently specified in AASB 1049 *Financial Reporting of General Government Sectors by Governments*. This Standard requires compliance with other Australian Accounting Standards except as specified in this Standard, and disclosure of additional information such as sector (*GGS, Public Non-Financial Corporations (PNFC) sector* and *Public Financial Corporations (PFC) sector*) information and reconciliations to *key fiscal aggregates* determined in accordance with the *ABS GFS Manual*. Whole of government financial reports prepared in accordance with this Standard provide users with:
  - (a) information about the stewardship of 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 the general purpose financial reports of each government.**
- 3 **This Standard applies to annual reporting periods beginning on or after 1 July 2008.**
- 4 **This Standard may be applied to annual reporting periods beginning before 1 July 2008.**
- 5 **The requirements specified in this Standard apply to the financial report where information resulting from their application is material in accordance with AASB 1031 *Materiality*.**

## Compliance with Australian Accounting Standards

- 6 **Unless otherwise specified in this Standard, the financial report shall be prepared in accordance with other Australian Accounting Standards.**<sup>1</sup>
- 7 With limited significant exceptions, this Standard requires the definition, recognition, measurement, classification, consolidation, presentation and disclosure requirements specified in other Australian Accounting Standards to be adopted in the financial report. This Standard only requires a different treatment from another Australian Accounting Standard when the requirements of this Standard directly conflict with the requirements of that other Standard. For example, in conflict with AASB 101 *Presentation of Financial Statements*, paragraphs 14 and 19 prescribe an operating statement that includes all recognised income and expenses on its face and do not require a separate statement of changes in equity.
- 8 **In satisfying paragraph 6 of this Standard, where compliance with the ABS GFS Manual would not conflict with Australian Accounting Standards, the principles and rules in the ABS GFS Manual shall be applied. In particular, certain Australian Accounting Standards allow optional treatments within their scope. Those optional treatments in Australian Accounting Standards aligned with the principles or rules in the ABS GFS Manual shall be applied.**
- 9 Examples of particular optional treatments in Australian Accounting Standards that paragraph 8 of this Standard has the effect of limiting, include:
- (a) assets within the scopes of AASB 116 *Property, Plant and Equipment*, AASB 138 *Intangible Assets* and AASB 140 *Investment Property* that may be measured at cost or at fair value. 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.

---

1 It is intended that the 'other Australian Accounting Standards' referred to in paragraph 6 are those that will be amended as a result of the Board's project on the short-term review of AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments*. Once that project has appropriately dealt with the requirements in AAS 31, it is anticipated that AAS 31 will be withdrawn. The Board is aiming to finalise its short-term review of AAS 31 to coincide with the issue of the Standard to arise from this Exposure Draft.

However, the fair value options allowed under AASB 116, AASB 138 and AASB 140 are not amended by paragraph 8 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 balance sheet may be mandated through paragraph 8 of this Standard, the accounting for changes in fair value in the operating statement is not mandated by paragraph 8. Rather, changes in fair value are classified in the operating statement in accordance with AASB 139. AASB 139 anticipates certain financial assets being classified as either:

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

However, the effect of paragraph 19 of this Standard is that the full amount is recognised on the face of the operating statement and included in either:

- (i) the calculation of operating result; or
  - (ii) the other movements in equity section of the operating statement (as illustrated in Illustrative Example A);
- (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* (as amended by AASB 2007-4 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments*). Because proportionate consolidation is inconsistent with the ABS GFS Manual's principles and rules, paragraph 8 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 cash flow statement under AASB 107 *Cash Flow Statements* (as amended by AASB 2007-4). Because the direct method is consistent with the format of the cash flow statement under the ABS GFS Manual, paragraph 8 of this Standard has the effect of requiring the direct method to be adopted; and
- (f) 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* (as amended by AASB 2007-4). In accordance with paragraphs 41(b)(i) and 42 of this Standard, information about the PNFC sector and PFC sector is prepared in a manner consistent with the accounting policies adopted in the whole of government financial report. Therefore, the options in AASB 120 are not adopted and instead the principles in AASB 1004 *Contributions* are applied.
- 10 Certain Australian Accounting Standards do not specify particular rules for an item or an issue within their scope. An example is AASB 101, which specifies only the minimum line items to be presented on the face of the balance sheet and requires additional line items, headings and subtotals to be presented on the face when such presentation is relevant to an understanding of the entity's financial position. The ABS GFS Manual specifies principles and rules for the presentation of a balance sheet prepared for GFS purposes. The ABS GFS Manual principles and rules are required to be applied in the presentation of the balance sheet to the extent that they do not conflict with AASB 101.

- 11 Subject to paragraphs 31(a)(i) and 41(b)(ii)A of this Standard, where key fiscal aggregates are included in the financial report either because they are required by this Standard or a government elects to provide additional information, they shall be measured in a manner that is consistent with amounts recognised on the face of the financial statements.**
- 12 This Standard requires certain information that is relevant to an assessment of the macro-economic impact of:
- (a) a government to be included on the face of the financial statements (see paragraphs 17, 22 and 28); and
  - (b) a government's sectors to be included in the sector financial statements required to be disclosed by paragraph 41(b)(i).

This Standard requires the information to be determined in a manner consistent with other amounts recognised on the face of the financial statements. Corresponding amounts, determined in accordance with the ABS GFS Manual, are required to be disclosed in the notes where they differ from the amounts presented on the face of the financial statements (see paragraphs 31(a)(i) and 41(b)(ii)A).

- 13 A government may elect to disclose key fiscal aggregates or other information in accordance with the ABS GFS Manual that are additional to the requirements of this Standard. If a government elects to make additional disclosures, they are made in a way that does not detract from the information prescribed in this Standard. Examples of additional disclosures that may be made voluntarily include the classification of *other economic flows* consistent with Table 7.4 of the ABS GFS Manual and additional key fiscal aggregates such as change in *net worth* due to revaluations and change in net worth due to other changes in the volume of assets. Consistent with the requirements in paragraph 11 of this Standard, additional key fiscal aggregates are measured in a manner consistent with recognised amounts. Consistent with paragraphs 31(a) and 41(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. Measures of key fiscal aggregates that are not in accordance with this Standard or the ABS GFS Manual are not disclosed as key fiscal aggregates.

## **Components of a Whole of Government Financial Report**

- 14 The financial report shall comprise:**

- (a) a balance sheet;
- (b) an operating statement;
- (c) a cash flow statement; and
- (d) notes, comprising a summary of significant accounting policies and other explanatory notes.

**A separate statement of changes in equity is not required.**

- 15 As specified in paragraph 19 of this Standard, the operating statement prescribed in this Standard incorporates into a single statement the information that would otherwise be required by AASB 101 to be presented in two separate statements – the income statement and the statement of changes in equity. Amounts of transactions with owners as owners are disclosed in the notes or a separate statement rather than on the face of the operating statement. Information about movements in reserves are disclosed in the notes, on the face of the operating statement or in a separate statement.

## **Balance Sheet**

- 16 **The face of the balance sheet and notes thereto shall be presented in accordance with the requirements in AASB 101.**
- 17 **Net worth shall be presented on the face of the balance sheet, measured in a manner consistent with other amounts recognised on the face of the balance sheet.**
- 18 An example of an acceptable balance sheet format that is in accordance with this Standard is provided in Illustrative Example A.<sup>2</sup>

## **Operating Statement**

- 19 **The operating statement shall include all items of income and expense recognised in a period. The face of the operating statement and notes thereto shall be presented in a manner consistent with the requirements for the income statement and statement of changes in equity in AASB 101.**
- 20 **All amounts relating to an item included in the determination of comprehensive result (total change in net worth before**

---

<sup>2</sup> As noted in the Preface, Illustrative Example A will be issued for public comment once it is finalised. This Exposure Draft makes reference to the yet to be finalised illustration in paragraphs 18, 21, 25, 29, 32, 35, 40 and 41(c).

**transactions with owners as owners) shall be classified as transactions or other economic flows in a manner that is consistent with the principles in the ABS GFS Manual.**

- 21 The following examples illustrate how the approach in paragraph 20 applies to particular items:
- (a) 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;
  - (b) 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’;
  - (c) actuarial gains and losses relating to defined benefit superannuation plans are classified as other economic flows, irrespective of whether they are included in the calculation of operating result or the other movements in equity section of the operating statement;
  - (d) changes in the fair value of investment property potentially comprises two components under GFS classification – consumption of capital and price changes. Accordingly, the consumption of capital is classified as transactions and the price changes are classified as other economic flows. Although the consumption of capital may be considered to be similar in nature to depreciation, it is not included in the line item that includes depreciation;
  - (e) depreciation of defence weapons platforms is classified as a transaction, by analogy with the GFS classification of depreciation of other plant and equipment;
  - (f) doubtful debts are classified as other economic flows, by analogy with the GFS classification of revaluation of other assets; and
  - (g) bad debts are classified as transactions to the extent they are mutually agreed, otherwise they are classified as other economic flows.

In some cases the approach in paragraph 20 facilitates the reduction of differences between GAAP and GFS, particularly at the key fiscal aggregate level. Illustrative Example A illustrates the classification between transactions and other economic flows for some of the items listed above and other possible circumstances where items recognised in the operating statement do not have GFS equivalents.

- 22 The following shall be presented on the face of the operating statement:**
- (a) *net operating balance*;**
  - (b) total change in net worth before transactions with owners as owners; and**
  - (c) *net lending/(borrowing)* and its derivation from net operating balance;**

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

- 23 Although AASB 101 requires certain income and expenses to be included in the statement of changes in equity rather than the income statement, this Standard requires all recognised income and expenses to be included in a single statement that presents the comprehensive result (total change in net worth before transactions with owners as owners). At least the same level of information required in the income statement and the statement of changes in equity relating to income and expenses recognised for the period is required to be presented on the face of the operating statement or in the notes, consistent with the requirements in AASB 101. For example, in accordance with paragraph 96(d) of AASB 101, an entity presents on the face of the operating statement, for each component of equity, the effects of changes in accounting policies and corrections of errors recognised in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- 24 As noted in paragraph 9(c), actuarial gains and losses relating to defined benefit superannuation plans may be recognised in full either through operating result or directly in other non-owner movements in equity. If the latter option is adopted, in accordance with paragraph 93B of AASB 119, the opening and closing balances of accumulated results and the changes during the period referred to in paragraph 97(b) of AASB 101 are not included on the face of the operating statement.

- 25 An example of an acceptable operating statement format that is in accordance with this Standard is provided in Illustrative Example A.

### **Cash Flow Statement**

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

### **Notes**

#### **Summary of Significant Accounting Policies**

- 30 **In addition to the disclosures required by other Australian Accounting Standards in the note containing the summary of significant accounting policies, the following disclosures shall be made prominently in that note:**
- (a) a statement that the financial report is prepared in accordance with this Standard; and
  - (b) a reference to the ABS GFS Manual as being the basis for GFS information that is included in the financial report.

#### **Other Explanatory Notes**

- 31 **In addition to the disclosures required to be made in other explanatory notes in accordance with other Australian Accounting Standards, the following disclosures shall be made:**
- (a) where the key fiscal aggregates measured in accordance with the ABS GFS Manual differ from the key fiscal aggregates provided pursuant to paragraph 11 of this Standard:

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

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

- (b) **where the key fiscal aggregates measured in accordance with the ABS GFS Manual do not differ from the key fiscal aggregates provided pursuant to paragraph 11, a statement of that fact;**
- (c) **information that corresponds to the information required to be disclosed in the notes by AASB 101, irrespective of the fact that, in relation to the operating statement, AASB 101 prescribes the preparation of two separate statements – an income statement and a statement of changes in equity; and**
- (d) **explanations of key technical terms used in the financial report.**

32 In relation to the requirements in paragraph 31(a), differences in the key fiscal aggregates determined under the ABS GFS Manual and pursuant to paragraph 11 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) doubtful debts – although the ABS GFS Manual recognises bad debts written off, it does not recognise write-downs of accounts receivable in relation to doubtful debts;
- (b) provisions recognised as liabilities – in the absence of a counterparty recognising a related financial asset, the ABS GFS Manual does not recognise a liability arising from a constructive obligation;
- (c) inventories – under the ABS GFS Manual, inventories are measured at current prices, whereas under AASB 102 *Inventories* (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 cost adjusted when applicable for any loss of service potential;

- (d) investments in associates – under the ABS GFS Manual those assets are measured at current prices where current prices exist whereas under AASB 127 *Consolidated and Separate Financial Statements* the equity method of accounting applies;
- (e) minority 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 minority interest that is classified as equity is not remeasured; and
- (f) 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 Example A illustrates some of these and other possible circumstances where differences arise and the manner in which they are reflected in reconciliation notes.

- 33 For the purpose of paragraph 31(a)(i), the ABS GFS Manual key fiscal aggregate that corresponds to the requirement in paragraph 22(b) to present ‘total change in net worth before transactions with owners as owners’ is ‘total change in net worth’ (after transactions with owners as owners). The reconciliation required to be disclosed by paragraph 31(a)(ii) in relation to total change in net worth is therefore from ‘total change in net worth before transactions with owners as owners’ as presented in accordance with paragraph 22(b) to ‘total change in net worth’ measured in accordance with the ABS GFS Manual.
- 34 Some differences between GAAP and GFS requirements relate to differences in classification or differences in elimination on consolidation 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 in the financial report. Examples of such differences include:
  - (a) AASB 132 *Financial Instruments: Presentation* classifies certain prepaid expenses as a non-financial asset that the ABS GFS Manual classifies as a financial asset;
  - (b) AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* may classify an amount within provisions that the ABS GFS Manual classifies as accounts payable;
  - (c) paragraph 21(d) 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;

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

35 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 as owners);
- (k) total change in net worth; and
- (l) net debt.

An example of the disclosures required by paragraph 31(d) is provided in Illustrative Example A.

- 36 Paragraph 103 of AASB 101 requires additional information to be provided in notes that is not presented on the face of the financial statements but is relevant to an understanding of them. Consistent with this, the components of aggregate numbers presented on the face of the financial statements, including key fiscal aggregates, are disclosed in the notes where relevant.

***Functional Information***

- 37 In respect of each broad function of the government identified in Table 2.6 “Government Purpose Classification: Major Groups” of the ABS GFS Manual, the financial report shall disclose by way of note:**

- (a) a description of that function;**
- (b) the carrying amount of assets recognised in the balance sheet that are reliably attributable to that function; and**
- (c) expenses, excluding losses, included in operating result for the reporting period that are reliably attributable to that function.**

- 38 The information provided by way of note in accordance with paragraph 37 shall be aggregated.**

- 39 Paragraph 37 requires disclosure of information about the recognised assets and expenses (excluding losses) included in operating result of the government that are reliably attributable to the broad functions of the government determined to at least the ABS GFS Manual two-digit level of classification shown in Table 2.6. Disclosure of this information assists users in identifying the resources committed to particular functions of the government 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.

- 40 AASB 114 *Segment Reporting* (AASB 8 *Operating Segments*)<sup>3</sup> does not apply to whole of government financial reports. The bases used in the ABS GFS Manual for identifying functions of a government do not necessarily accord with the criteria for identifying segments contained in AASB 114 (AASB 8). However, preparers of financial reports may find the guidance contained in AASB 114 (AASB 8) is useful in identifying the expenses (excluding losses) included in operating result and assets that are reliably attributable to each function of the government. An example of the disclosures required by paragraph 37(b) and (c) in respect of each function of the government is provided in Illustrative Example A.

***Sector Information***

- 41 **In respect of the GGS, PNFC sector and PFC sector as defined in the ABS GFS Manual, the financial report shall disclose by way of note:**
- (a) **a description of each sector;**
  - (b) **for each sector:**
    - (i) **a balance sheet, operating statement and cash flow statement that are consistent with the government's 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 11 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.**

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

---

<sup>3</sup> AASB 8 (February 2007) is operative on or after 1 January 2009, with early adoption allowed. When applicable, AASB 8 supersedes AASB 114.

**consistent with paragraph 11, a statement of that fact;  
and**

**(c) a reconciliation between the information disclosed for the sectors and the corresponding information in the government's financial statements (see, for example, Illustrative Example A).**

- 42 Sector information prepared in accordance with paragraph 41(b) is determined before elimination of intersector balances. Notes to the sector financial statements, other than those required by paragraph 41, are not required to be disclosed.
- 43 In relation to the requirements in paragraph 41(b)(ii), differences in the key fiscal aggregates determined under the ABS GFS Manual and consistent with paragraph 11 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 32 of this Standard, as well as:
- (a) ownership interest in PNFC sector and PFC sector entities – 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. For example, where it is reliably measurable, the market value of ownership interest in PNFC sector and PFC sector entities is deducted in the determination of net worth of those sectors. Accordingly, negative GFS net worth arises if the market value exceeds recognised net assets. Under AASB 127, the market value of ownership interest is not recognised. Where ownership interest in PNFC sector and PFC sector entities is measured at net assets, GFS net worth is nil; and
  - (b) deferred tax assets and deferred tax liabilities of PNFC sector and PFC sector entities – in the absence of a counter-party recognising a related liability or asset, 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*.
- 44 For the purpose of paragraph 41(b)(ii)A, the ABS GFS Manual key fiscal aggregate that corresponds to the requirement implicit in paragraph 41(b)(i) to present 'total change in net worth before transactions with owners as owners' is 'total change in net worth' (after transactions with owners as owners). The reconciliation required

to be disclosed by paragraph 41(b)(ii)B in relation to total change in net worth is therefore from 'total change in net worth before transactions with owners as owners' as presented in accordance with paragraph 41(b)(i) to 'total change in net worth' measured in accordance with the ABS GFS Manual.

- 45 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.
- 46 The sector financial statements could be presented in a single schedule that includes an adjustments column to facilitate reconciliation to the government financial statements in accordance with paragraph 41(c). Alternatively, the sector financial statements may be presented in columns, with or without an adjustments column, on the face of the government financial statements.

## **Budgetary Information**

- 47 **Where whole of government budgeted financial statements are presented to parliament, the financial report shall disclose for the period of the financial report:**
- (a) **the original budgeted financial statements, presented on a basis that is consistent with the basis prescribed for the whole of government financial statements by this Standard; and**
  - (b) **explanations of major variances between the actual amounts presented on the face of the financial statements and corresponding original budget amounts.**
- 48 **Comparative budgetary information in respect of the previous period need not be disclosed.**
- 49 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 47.
- 50 Any revised budget that is presented to parliament during the reporting period may be disclosed in addition to the original budget.

- 51 For the purpose of this Standard, governments are required to report financial information about their original budgets for the reporting period that are presented to parliament. This facilitates users of financial reports (including taxpayers) making and evaluating decisions about the allocation of scarce resources and for assessing the discharge of a government's accountability. Budget information is disclosed on the same basis, which includes in the same format, for the same scope and with the same content, as the accounting basis to facilitate a comparison of actuals against the budget.
- 52 The face of the financial statements includes information about the government determined in accordance with this Standard, being that required by other Australian Accounting Standards, as modified by this Standard. To the extent the first budget presented to parliament is not consistent with the information in the financial statements, the budget presented to parliament is restated for budget disclosure purposes to align with the accounting basis specified in this Standard. As the budget basis to be disclosed is consistent with the accounting basis, budget information at the government level may be presented on the face of the financial statements.
- 53 The explanations of major variances required to be disclosed by paragraph 47(b) 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.

## **Transitional Requirements**

- 54 The requirements relating to changes in accounting policies in AASB 108 apply to the first financial report prepared in accordance with this Standard.

## APPENDIX A

### DEFINED TERMS

*This appendix is an integral part of AASB 10XX.*

<b>ABS GFS Manual</b>	The Australian Bureau of Statistics (ABS) publication <i>Australian System of Government Finance Statistics: Concepts, Sources and Methods</i> as updated from time to time.
<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, p. 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, p. 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, p. 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, p. 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, p. 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, p. 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, p. 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, p. 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, p. 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, p. 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, p. 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, p. 263).
<b>whole of government financial report</b>	A financial report prepared by a government that is prepared in accordance with Australian Accounting Standards, including AASB 127 <i>Consolidated and Separate Financial Statements</i> , and thereby separately recognises assets, liabilities, income, expenses and cash flows of all entities under the control of the government on a line-by-line basis.

## **BASIS FOR CONCLUSIONS ON ED 155**

### ***FINANCIAL REPORTING BY WHOLE OF GOVERNMENTS***

#### **Introduction**

BC1 The Preface to this Exposure Draft outlines the broad strategic direction issued to the Australian Accounting Standards Board (AASB) by the Financial Reporting Council (FRC) that gave rise to ED 155 *Financial Reporting by Whole of Governments*. This Basis for Conclusions summarises the Board's considerations in developing the Exposure Draft. It focuses on the issues that the Board considers to be of greatest significance.

#### **Significant Issues**

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

BC2 AAS 31 *Financial Reporting by Governments* was first issued in 1996 and specified requirements for general purpose financial reporting by governments. Since then, AAS 31 has only been subject to a number of limited reviews, the most recent in June 1998.<sup>4</sup> It is now considered timely to undertake a comprehensive review of the requirements in AAS 31. This review is being progressed through two concurrent and interrelated AASB projects:

- (a) the GAAP/GFS Harmonisation project (part 2 of phase 1); and
- (b) the Short-term Review of the Requirements in AASs 27, 29 & 31.

If adopted, the proposals in the Exposure Drafts arising from these two projects will supersede AAS 31.

BC3 This Exposure Draft proposes that governments be required to prepare general purpose financial reports that adopt Australian Accounting

---

<sup>4</sup> Although AAS 31A *Amendments to the Transitional Provisions in AAS 31* was issued in December 1999, AASB 1045 *Land Under Roads: Amendments to AAS 27A, AAS 29 & AAS 31* was issued in October 2002 and AASB 2006-3 *Amendments to Australian Accounting Standards [AASB 1045]* was issued in October 2006, they only had the effect of extending the transitional provisions for land under roads.

Standards, except when otherwise specified (see paragraph 6 of this Exposure Draft). The Exposure Draft being developed under the Short-term Review of the Requirements in AASs 27, 29 & 31, to be issued shortly, will propose retaining or amending the current AAS 31 requirements by amending, where appropriate, the Australian Accounting Standards that this Exposure Draft proposes be adopted by governments. The Basis for Conclusions accompanying that Exposure Draft will contain the Board's rationale for its proposals for the requirements currently in AAS 31. This Basis for Conclusions provides the Board's rationale for adopting GAAP/GFS harmonisation principles for whole of governments.

- BC4 The Board has concluded that adopting the GAAP/GFS harmonisation principles proposed in this Exposure Draft 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 by the presentation of the whole of government financial reports.

### **Adoption of AASB 1049 Principles for Whole of Government Financial Reporting**

- BC5 AASB 1049 *Financial Reporting of General Government Sectors by Governments* specifies GAAP/GFS harmonisation principles for General Government Sector (GGS) financial reporting. It includes 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 has become aware that no jurisdiction intends to early adopt AASB 1049 because of this requirement combined with concern that the whole of government accounting basis (currently specified in AAS 31) is different from the GGS accounting basis (specified in AASB 1049).
- BC6 The Board decided to review the requirements applying to whole of government and revise them to overcome this concern. The Board consequently concluded that the broad principles in AASB 1049 are appropriate for whole of governments. 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 GGS and whole of government, an alternative approach that would result in different accounting bases for GGS financial reporting and whole of government financial reporting has the potential to confuse some users.
- BC7 The Board's Basis for Conclusions that accompanies AASB 1049 provides the Board's rationale for particular decisions in the GGS

context that equally apply in a whole of government (and Public Non-Financial Corporations (PNFC) sector and Public Financial Corporations (PFC) sector) context. This includes the rationale for requirements relating to:

- (a) the adoption of GAAP principles and accommodation of GFS principles (see paragraphs BC12-BC16 of AASB 1049, although see paragraph BC15 of this Basis for Conclusions);
- (b) the limitation of GAAP options (see paragraphs BC17-BC19 of AASB 1049);
- (c) the adoption of ABS GFS (see paragraphs BC20-BC21 of AASB 1049);
- (d) the presentation of key fiscal aggregates (see paragraphs BC22-BC25 of AASB 1049);
- (e) the disclosure of disaggregated information on a functional basis (see paragraph BC33-BC35 of AASB 1049); and
- (f) the disclosure of budgetary information (see paragraphs BC36-BC40 of AASB 1049, although see also paragraphs BC21-BC24 of this Basis for Conclusions).

BC8 Some of the issues that were addressed in a GGS context do not arise in a government context. These include:

- (a) the preparation of GGS financial reports on a partial consolidation basis (addressed in paragraphs BC2-BC7 of AASB 1049, although see also paragraphs BC11-BC14 of this Basis for Conclusions);
- (b) the relationship between GGS financial reports and whole of government financial reports (addressed in paragraphs BC8-BC11 of AASB 1049); and
- (c) the need for certain note disclosures (addressed in paragraphs BC30 and BC31 of AASB 1049). Some of the note disclosures required by AASB 1049 are specific to the GGS and therefore their equivalents for the government are not warranted.

BC9 Some issues addressed in a GGS context are not applicable in a whole of government context because of the consolidation elimination process. However, they are applicable in a sector context and therefore affect sector information disclosed in whole of government financial reports. These issues include accounting for GGS investments in

PNFC sector and PFC sector entities and investments in jointly controlled entities and associates (addressed in paragraphs BC26-BC29 of AASB 1049). In addition, GGS investments in PNFC sector and PFC sector entities give rise to certain issues in the context of the disclosure of sector information within whole of government financial reports that are not pertinent to GGS financial reporting. These additional issues are addressed in paragraphs BC19 and BC20 of this Basis for Conclusions.

## **Incorporation of Requirements into AASB 1049**

BC10 The Board decided to develop a separate Exposure Draft for the purpose of exposing its proposals for GAAP/GFS harmonisation requirements for whole of government financial reports, incorporating GGS, PNFC sector and PFC sector information, rather than present the proposals integrated with the requirements in AASB 1049. However, the Board intends that the Standard to be developed from this Exposure Draft will be an amended AASB 1049 which specifies, in an integrated way, the GAAP/GFS harmonised requirements for GGS financial reporting and whole of government financial reporting. The Board concluded that a single integrated Standard is justified on the basis that:

- (a) it imposes a greater discipline on the AASB to ensure that the requirements are expressed in the same way for GGS and whole of government, and only differ where intended;
- (b) it more effectively acknowledges the strong relationship between whole of government financial reports and GGS financial reports. An integrated Standard would be consistent with the fact that, under AASB 1049, GGS financial reports are not permitted to be made available prior to the release of whole of government financial reports; and
- (c) it is more consistent with a topic-based approach to setting Standards.

## **Consolidation of Controlled Entities**

### **Consolidation of non-resident entities**

BC11 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 AASB 1049 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.

BC12 The Board concluded that, consistent with GAAP (see paragraph BC7(a)) 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. 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**

BC13 The Board noted that under AASB 1049 the GGS must recognise its investment in PNFC sector and PFC sector entities at fair value where it is reliably measurable, and otherwise at the government's proportional share of the net asset value. The Board considered the consolidation implications of GGS investments in PNFC sector and PFC sector entities being measured at fair value in GGS financial reports. The Board concluded that the whole of government financial statements should be prepared in accordance with AASB 127, noting that to do otherwise, perhaps on a fair value basis, would have inappropriate implications. For example, it may result in the recognition of, among other things, internally generated goodwill.

BC14 The Board noted that no PNFC sector and PFC sector entities in any Australian jurisdiction currently have traded shares and therefore the principle in AASB 1049 would be expected to result in the investments being measured at 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. Accordingly, the Board concluded that it is not necessary to explicitly address the fair value versus net assets issue in the Standard.

## **Content of Operating Statement**

BC15 The Board concluded that a comprehensive income statement, along the lines of that prescribed in AASB 1049, is conducive to facilitating GAAP/GFS harmonisation in a whole of government context. Consistent with AASB 1049 and paragraph 97(b) and (c) of AASB 101 *Presentation of Financial Statements* and subject to paragraph 97B 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. The Board considered separately how transactions with owners as owners should be reported. It concluded that, because they are different in nature from other amounts recognised on the face of the operating statement, such transactions should be disclosed in the notes or a separate statement.

## **Disclosure of Sector Information**

### **PNFC sector and PFC sector information as note disclosure in whole of government financial reports**

BC16 The Board concluded that financial statements for the PNFC sector and PFC sector (together with financial statements for the GGS) 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 proposed information, is sufficient to satisfy user needs in a general purpose financial reporting context and therefore it is not necessary to produce stand-alone PNFC sector and PFC sector financial reports, which would include the financial statements and a full set of notes. 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 information could be presented in the form of a table comprising all sectors, whole of government and an adjustments column or presented on the face of the government's financial statements.

BC17 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' principles in AASB 8 *Operating Segments*. 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 in AASB 1049; and
- (c) there would be a potential for user confusion if, for example, GGS financial reports prepared in accordance with AASB 1049 adopt an accounting basis different from that used for the GGS financial information to be presented in the whole of government financial report.

BC18 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 as 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.

#### **GGs investment in PNFC sector and PFC sector entities**

BC19 The Board addressed the question of whether the GGS information disclosed in the whole of government financial report should be consistent with the AASB 1049 information 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 or net assets). 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 note, there would be a disconnect between that amount and the amount of net assets disclosed for the PNFC sector and PFC sector and consolidated into the whole of government financial report (see paragraph BC13 above).

BC20 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 an amount consistent with the amount of net assets disclosed for the PNFC sector and PFC sector. It is therefore conceivable that GGS information disclosed as sector information in the whole of government financial report would differ from the GGS information prepared in accordance with AASB 1049. The Board noted that this is unlikely to arise in practice (see paragraph BC14).

## **Budgetary Information**

- BC21 The Board noted that Australian Accounting Standards do not prescribe, and this Exposure Draft does not propose prescribing, the preparation of a budget. The Board also noted that typically governments budget on a GGS basis rather than on a whole of government basis.
- BC22 Consistent with the principle in AASB 1049 that budgetary information is to be disclosed where a budget is presented to parliament, the Board concluded that governments should not be required to disclose budgetary information in a whole of government financial report unless a whole of government budget is presented to parliament.
- BC23 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.
- BC24 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 stand-alone 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. Accordingly, the Board concluded that sector based budgetary information should not be required to be disclosed in whole of government financial reports.

## **Transitional Requirements**

- BC25 The Board noted that jurisdictions adopted Australian equivalents to International Financial Reporting Standards for their whole of government financial reports for annual reporting periods ending on 30 June 2006 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 intend deferring adopting AASB 1049 until a whole of government harmonised Standard is in place. Accordingly, the Board concluded that it is not necessary to provide transitional requirements/guidance in a whole of government GAAP/GFS harmonised Standard and that

*AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors* should apply.

## ILLUSTRATIVE EXAMPLE A

*This example accompanies, but is not part of, the Standard.*

### **Illustration of an Acceptable Format and Content of Financial Statements, Reconciliation Notes, Explanations of Key Technical Terms, Functional Information and Sector Information**

This Illustrative Example provides an illustration of an acceptable format for the financial statements of a government that is consistent with the requirements of the Standard and the assumptions made for the purpose of the illustration. It also illustrates an acceptable style and format for reconciliation notes, explanations of key technical terms, functional information and sector information.

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

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

The illustration does not purport to identify all possible differences between GAAP and GFS, nor to present on the face of the financial statements all the line items as might be required by a different set of assumptions. Additionally, it does not illustrate the disclosure of comparative period information, and notes required by paragraphs 30, 31 (except the relevant reconciliation notes and explanations of key technical terms), 41(a) and the explanation of differences required by 41(b)(ii)B. It also does not illustrate the disclosure requirements of budgetary information (paragraphs 47 to 53), nor all the disclosures required by other Australian Accounting Standards.

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

**NOTE:**

***THE ILLUSTRATION IS YET TO BE DEVELOPED. IT WILL BE RELEASED FOR PUBLIC COMMENT AS SOON AS PRACTICABLE.***

## **CONSEQUENTIAL AMENDMENTS TO AASB 1049 *FINANCIAL REPORTING OF GENERAL GOVERNMENT SECTORS BY GOVERNMENTS***

As noted in the Preface and paragraph BC10, the Board intends issuing an amended AASB 1049 that integrates the requirements for General Government Sector (GGS) financial reporting and whole of government (incorporating sectors) financial reporting. If this approach is adopted, there will be numerous consequential amendments to AASB 1049 arising from the proposals in this Exposure Draft. These consequential amendments are not provided in this Exposure Draft.

The following identifies the consequential amendments to AASB 1049 that would arise if the Board were to adopt an alternative approach and issue a stand-alone Standard for whole of government financial reporting.

Paragraph 40(d) of AASB 1049 is amended as follows:

- 40. In addition to the disclosures required by other Australian Accounting Standards in the note containing the summary of significant accounting policies, the following disclosures shall be made prominently in that note:**

...

- (d) a description of how the GGS financial report differs from the whole of government financial report in terms of the treatment of the government's investments in PNFC sector and PFC sector entities;**

...

The second last paragraph of Illustrative Example B of AASB 1049 is deleted.

**Exposure Draft**

**Supplement to ED 155**  
June 2007

# **Financial Reporting by Whole of Governments – Illustrative Example**

Prepared by the  
**Australian Accounting Standards Board**



**Australian Government**

---

**Australian Accounting  
Standards Board**

## **Commenting on this Supplement to ED 155**

This Supplement should be considered in conjunction with Exposure Draft ED 155 *Financial Reporting by Whole of Governments*. Comments should be forwarded so as to arrive by 17 August 2007. Comments should be addressed to:

The Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West Victoria 8007  
AUSTRALIA

A copy of all non-confidential submissions will be placed on public record on the AASB website: [www.aasb.com.au](http://www.aasb.com.au).

## **Obtaining a Copy of this Supplement to ED 155**

This Supplement to ED 155 is available on the AASB website: [www.aasb.com.au](http://www.aasb.com.au). Alternatively, printed copies of this Supplement to ED 155 are available by contacting:

The Customer Service Officer	Phone: (03) 9617 7637
Australian Accounting Standards Board	Fax: (03) 9617 7608
Level 7	E-mail: <a href="mailto:publications@aaasb.com.au">publications@aaasb.com.au</a>
600 Bourke Street	Postal address:
Melbourne Victoria	PO Box 204
AUSTRALIA	Collins Street West Victoria 8007

## **Other Enquiries**

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

COPYRIGHT

© 2007 Australian Accounting Standards Board (AASB).

ISSN 1030-5882

**Supplement to ED 155**

2

**COPYRIGHT**

## CONTENTS

PREFACE

ILLUSTRATIVE EXAMPLE A

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

*Page 7*

## **PREFACE**

### **Relationship of this Supplement to ED 155 and AASB 1049**

This Supplement to ED 155 should be considered in conjunction with Exposure Draft ED 155 *Financial Reporting by Whole of Governments*.

The AASB issued ED 155 in May 2007 as part of the AASB's implementation of a Financial Reporting Council (FRC) broad strategic direction. As noted in ED 155, to provide constituents with a timely opportunity to comment on the principles proposed to be included in a GAAP/GFS harmonised Standard for whole of governments, ED 155 was issued without an illustrative example.

The illustrative example has now been developed and is broadly based on Illustrative Example A which accompanies AASB 1049 *Financial Reporting of General Government Sectors by Governments*.

Unlike Illustrative Example A of AASB 1049, in preparing this illustration to accompany ED 155, the AASB has assumed that the GGS does not hold investments in controlled entities whose shares are publicly traded, reflecting the present circumstances in all Australian jurisdictions. Otherwise, wherever possible, the AASB has avoided changing the numbers, descriptions and explanations adopted in Illustrative Example A of AASB 1049. The Board will consider making consistent improvements to the descriptions and explanations in both illustrations at the time it develops the Standard from ED 155.

The assumptions used in preparing Illustrative Example A in this Supplement to ED 155 are listed in agenda paper 2.2 considered at the AASB's June 2007 meeting and available on the AASB website.

### **Request for Comments**

In common with ED 155, comments are invited on this Supplement to ED 155 by 17 August 2007. The AASB would prefer that respondents express a clear overall opinion on whether Illustrative Example A, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical on the major issues. The AASB regards both critical and supportive comments as essential to a balanced review of the issues and will consider all submissions.

### **Specific Matters for Comment**

The AASB would particularly value comments on whether the illustrated acceptable format for the financial statements and selected notes provides guidance that is helpful in implementing the proposals in ED 155.



# ACCOUNTING STANDARD AASB 10XX

## ***FINANCIAL REPORTING BY WHOLE OF GOVERNMENTS***

### **ILLUSTRATIVE EXAMPLE A**

*This example accompanies, but is not part of, the Standard.*

#### **Illustration of an Acceptable Format and Content of Financial Statements, Reconciliation Notes, Explanations of Key Technical Terms, Functional Information and Sector Information**

This Illustrative Example provides an illustration of an acceptable format for the financial statements of a government that is consistent with the requirements of the Standard and the assumptions made for the purpose of the illustration. It also illustrates an acceptable style and format for reconciliation notes, explanations of key technical terms, functional information and sector information.

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

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

The illustration does not purport to identify all possible differences between GAAP and GFS, nor to present on the face of the financial statements all the line items as might be required by a different set of assumptions. Additionally, it does not illustrate the disclosure of comparative period information, and notes required by AASB 10XX paragraphs 30, 31 (except the relevant reconciliation notes and explanations of key technical terms), 41(a) and the explanation of differences required by 41(b)(ii)B. It also does not illustrate the disclosure requirements of budgetary information (paragraphs 47 to 53 of AASB 10XX), nor all the disclosures required by other Australian Accounting Standards.

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

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

	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 expenses		
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)
Other expenses		
Superannuation 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>

**Other Economic Flows – Included in Operating Result**

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
Net actuarial gains <sup>a</sup>	866
Amortisation of non-produced assets	(119)
Doubtful debts	(604)
Share of net profit/(loss) from associates, excluding dividends	(26)
	<u>3,422</u>
<b>OPERATING RESULT</b>	<b><u>7,079</u></b>

**Other Economic Flows – Other Non-Owner Movements in Equity**

Revaluations	1,589
Net gain on financial assets at fair value	2,946
	<u>4,535</u>

**COMPREHENSIVE RESULT – TOTAL CHANGE IN NET WORTH BEFORE TRANSACTIONS WITH OWNERS AS OWNERS****11,614****KEY FISCAL AGGREGATES**

<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 AS OWNERS</b>	S3	<b><u>11,614</u></b>

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

<sup>a</sup> Explanatory note: As noted in paragraph 9(c) of the Standard, an alternative treatment of net actuarial gains relating to defined benefit superannuation plans [consistent with paragraph 93B of AASB 119 *Employee Benefits*] would be to present them under the heading 'Other Non-Owner Movements in Equity'. Choosing that option would (consistent with AASB 119.93B) prevent the inclusion on the face of the operating statement of the opening and closing balances of accumulated surplus/(deficit) and the changes during the period (referred to in paragraph 97(b) of AASB 101 *Presentation of Financial Statements*).

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

	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		17,714
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>238,469</b>

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

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

**Cash Flow Statement for the Whole of Government of the ABC Government  
for the Year Ended 30 June 200X**

	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 (part of share of net profit/(loss) from associates)		3
Other receipts		3,161
		<u>223,429</u>
Cash paid		
Compensation 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>		
Increases in investments		(1,641)
Net cash flows from investments in financial assets (policy purposes)		<u>(1,641)</u>

*Financial Assets (Liquidity Management Purposes)*

Sales of investments	1,778
Increases in investments	<u>(9,084)</u>
Net cash flows from investments in financial assets (liquidity management purposes)	(7,306)
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(11,149)</b>

**Cash Flows from Financing Activities**

Cash received	
Advances received	356
Borrowing	9,336
Deposits received	6,947
Swap interest	3,617
Other financing	<u>2,857</u>
	23,113

Cash paid	
Advances paid	(312)
Borrowing	(15,013)
Deposits paid	(1,841)
Swap interest	(3,040)
Other financing	<u>(1,870)</u>
	(22,076)

<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>

**KEY FISCAL AGGREGATE**

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>	<b><u>5,904</u></b>

U

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

**R1 Operating Statement for the Whole of Government by Sector of the ABC Government for the Year Ended 30 June 200X**

	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 equivalents 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 expenses						
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)	(550)	(2,855)	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)
Other expenses						
Income tax equivalent expense		-	(200)	(151)	351	-
Superannuation 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)	(8,088)	(5,647)	3,845	(224,476)
<b>NET RESULT FROM TRANSACTIONS – NET OPERATING BALANCE</b>		<b>4,294</b>	<b>(1,764)</b>	<b>2,175</b>	<b>(1,048)</b>	<b>3,657</b>

**Other Economic Flows – Included in Operating Result**

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
Net actuarial gains	840	21	5	-	866
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)
	<u>1,873</u>	<u>151</u>	<u>1,698</u>	<u>(300)</u>	<u>3,422</u>
<b>OPERATING RESULT</b>	<b>6,167</b>	<b>(1,613)</b>	<b>3,873</b>	<b>(1,348)</b>	<b>7,079</b>

**Other Economic Flows – Other Non-owner Movements in Equity**

Revaluations	1,552	20	17	-	1,589
Net gain on equity investments in other sector entities measured at proportional share of net assets/(liabilities)	1,072	-	-	(1,072)	-
Net gain on financial assets at fair value	1,000	15	1,931	-	2,946
	<u>3,624</u>	<u>35</u>	<u>1,948</u>	<u>(1,072)</u>	<u>4,535</u>

**COMPREHENSIVE RESULT – TOTAL CHANGE IN NET WORTH BEFORE TRANSACTIONS WITH OWNERS AS OWNERS****KEY FISCAL AGGREGATES**

<b>NET LENDING/(BORROWING)</b>	S2	<b>4,967</b>	<b>(1,042)</b>	<b>2,223</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>(1,764)</b>	<b>2,175</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 AS OWNERS</b>	S3	<b>9,791</b>	<b>(1,578)</b>	<b>5,821</b>	<b>(2,420)</b>	<b>11,614</b>

Refer to note Y to the financial statements for explanations of key technical terms.

**R2 Balance Sheet for the Whole of Government by Sector of the ABC Government as at 30 June 200X**

	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		18,060	15	98	(459)	17,714
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>

<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
Loans	6,246	359	3,200	(459)	9,346
Deferred tax liability	-	506	-	(506)	-
Unfunded superannuation liability	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)	(19,252)	10,857	863	(25,509)	(33,041)
Other reserves	19,802	2,250	11,539	506	34,097
<b>NET WORTH</b>	<b>550</b>	<b>20,007</b>	<b>12,752</b>	<b>(32,253)</b>	<b>1,056</b>

T

Refer to note Y to the financial statements for explanations of key technical terms.

### R3 Cash Flow Statement for the Whole of Government by Sector of the ABC Government for Year Ended 30 June 200X

	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 equivalents 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 equivalents paid		-	(200)	(151)	351	-
Compensation 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>						
Distribution received		300	-	-	(300)	-
Increases in 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>

**Financial Assets (Liquidity Management Purposes)**

Sales of investments	500	45	1,977	(744)	1,778
Increases in 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					
Advances received	356	-	-	-	356
Borrowing	13,241	450	-	(4,355)	9,336
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					
Advances paid	(312)	-	-	-	(312)
Borrowing	(14,720)	(677)	(360)	744	(15,013)
Deposits paid	(213)	(7)	(1,621)	-	(1,841)
Swap interest	(1,572)	(41)	(1,427)	-	(3,040)
Dividends paid	-	(259)	(789)	1,048	-
Distribution paid	-	(300)	-	300	-
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)
<b>CASH SURPLUS/(DEFICIT)</b>	<b>6,889</b>	<b>(1,868)</b>	<b>1,931</b>	<b>(1,048)</b>	<b>5,904</b>

Refer to note Y to the financial statements for explanations of key technical terms.

	Notes	GGGS \$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	(1,764)	2,175	(1,048)	3,657	
Convergence differences							
Use of goods and services – defence weapons		(2,040)	-	-	-	(2,040)	a(i)
– development costs		(45)	(41)	-	-	(86)	a(ii)
Depreciation – defence weapons		2,104	-	-	-	2,104	b(i)
– development costs		6	5	-	-	11	b(ii)
Social benefits		94	-	-	-	94	c
Dividends to GGS from other sector entities		-	(259)	(789)	1,048	-	d
Total convergence differences		119	(295)	(789)	1,048	83	
<b>GFS NET OPERATING BALANCE</b>		<b>4,413</b>	<b>(2,059)</b>	<b>1,386</b>	<b>-</b>	<b>3,740</b>	e
<b>Note S2 – Reconciliation to GFS Net Lending/(Borrowing)*</b>							
Net lending/(borrowing)		4,967	(1,042)	2,223	(1,048)	5,100	
Convergence differences							
Relating to net operating balance	S1	119	(295)	(789)	1,048	83	
Relating to net acquisition/(disposal) of non-financial assets from transactions		(100)	(7)	(1)	-	(108)	f
Total convergence differences		19	(302)	(790)	1,048	(25)	
<b>GFS NET LENDING/(BORROWING)</b>		<b>4,986</b>	<b>(1,344)</b>	<b>1,433</b>	<b>-</b>	<b>5,075</b>	

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

Comprehensive result – total change in net worth before transactions with owners as owners		9,791	(1,578)	5,821	(2,420)	11,614	
Convergence differences							
Relating to net operating balance	S1	119	(295)	(789)	1,048	83	
Relating to other economic flows							
Dividends from other sector entities to GGS		(300)	-	-	300	-	g
Doubtful debts		500	63	41	-	604	h
Net gain on equity investments in other sector entities measured at proportional share of net assets/(liabilities)		390	-	-	(390)	-	i
Share of net profit/(loss) from associates (excluding dividends)		51	-	-	-	51	j
Revaluations – defence weapons		920	-	-	-	920	k(i)
Revaluations – market value of investments		(55)	-	-	-	(55)	k(ii)
Revaluations – intangible assets		130	12	-	-	142	k(iii)
Revaluations – property		-	10	-	(10)	-	k(iv)
Remeasurement of shares and other contributed capital		-	1,788	(5,073)	3,285	-	l
Total convergence differences		1,755	1,578	(5,821)	4,233	1,745	
<b>GFS TOTAL CHANGE IN NET WORTH</b>		<b>11,546</b>	<b>-</b>	<b>-</b>	<b>1,813</b>	<b>13,359</b>	

\*Determined in accordance with the ABS GFS Manual.

	Notes	GGS \$m	PNFC sector \$m	PFC sector \$m	Eliminations \$m	Whole of Government \$m	Explanatory Notes
<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
Fixed assets							
Machinery and equipment		(30,745)	-	-	-	(30,745)	p
Intangible fixed assets – research and development		(400)	(69)	-	-	(469)	q(i)
Intangible fixed assets – no active market		150	-	-	-	150	q(ii)
Liabilities							
Provisions		94	-	-	-	94	r(i)
Deferred tax liability		-	506	-	(506)	-	r(ii)
Shares and other contributed capital		-	(20,609)	(13,050)	33,659	-	s
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>	t
<b>Note U – Reconciliation to GFS Cash Surplus/(Deficit)*</b>							
Cash surplus/(deficit)		6,889	(1,868)	1,931	(1,048)	5,904	
Convergence differences							
Adjustments to cash flows from investments in non-financial assets							
Finance leases and similar arrangements		(4)	-	-	-	(4)	u
<b>GFS CASH SURPLUS/(DEFICIT)</b>		<b>6,885</b>	<b>(1,868)</b>	<b>1,931</b>	<b>(1,048)</b>	<b>5,900</b>	v

\*Determined in accordance with the ABS GFS Manual.

## **Explanatory Notes Supporting Illustrative Example A**

### **Convergence Differences relating to the Whole of Government Operating Statement and Sector Operating Statements**

#### *Net Operating Balance*

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

The convergence differences comprise:

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

This difference flows through to the whole of government amounts.

- a(ii)** (\$45m) in the GGS and (\$41m) in the PNFC sector 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 operating statement because they are recognised as intangible fixed assets upon acquisition. GFS treats goods and services used for research and development as use of goods and services expenses from transactions, rather than as acquisitions of intangible fixed assets, even though some development activities are expected to bring benefits for more than one year (refer also to Note b(ii)).

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

**b Expenses from Transactions – Depreciation**

The convergence differences comprise:

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

This difference flows through to the whole of government amounts.

- b(ii)** \$6m in the GGS and \$5m in the PNFC sector because GFS recognises a smaller amortisation of produced intangibles than is recognised as an expense from transactions in the operating statement. GFS treats goods and services used for research and development as use of goods and services expense from transactions, rather than as acquisitions of intangible fixed assets, even though some development activities may bring benefits for more than one year (refer also to Note a(ii)).

The total difference \$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 and the associated expense from transactions, whereas such an amount is recognised in the operating statement 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 in the operating statement 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**

A classification difference arises in 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 operating statement, it is classified as write-off of financial assets at fair value through operating result. [For the purpose of this illustration, the debt security is assumed to have satisfied the criteria in AASB 139 *Financial Instruments: Recognition and Measurement* for classification as a 'fair value through profit or loss' financial asset.] The write-off arose from the government agreeing to forgive the outstanding debt of a Country. The classification difference has no impact on the amount of the GFS Net Operating Balance.

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 whole of government total of revenues and expenses.

*Net Lending/(Borrowing)*

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

The convergence differences are explained as follows:

	Operating Statement \$m	GFS \$m	Convergence Difference \$m
<i>GGS</i>			
Gross fixed capital formation	3,932	1,847	2,085
Depreciation	(3,747)	(1,562)	(2,185)
Change in inventory	300	300	-
Other transactions in non-financial assets	(1,158)	(1,158)	-
Net acquisition/(disposal) of non-financial assets from transactions	(673)	(573)	(100)
<i>PNFC Sector</i>			
Gross fixed capital formation	342	301	41
Depreciation	(168)	(120)	(48)
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)
<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
Depreciation	(3,942)	(1,708)	(2,234)
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)

*Net Other Economic Flows*

**g Other Economic Flows – Included in Operating Result – Other Revenue – Dividends from Other Sector Entities to GGS**

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), whereas the operating statement 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 operating statement recognises doubtful debts and classifies it as other economic flows. In this example, no bad debts were written off from doubtful debts. GFS recognises amounts written off when there is mutual agreement with debtors as capital grants expenses in the period of the write off, and recognises those written off unilaterally by the government as other economic flows also in the period of the write off.

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

**i Other Economic Flows – Other Non-Owner Movements in Equity – Net Gain on Equity Investments in Other Sector Entities Measured at Proportional Share of Net Assets/(Liabilities)**

The convergence differences comprise:

\$90m in the GGS: The net asset value (and therefore the change in net asset value) of other sector entities determined under GFS principles and rules differs from the net asset value (and therefore the change in net asset value) of the subsidiaries recognised in the balance sheet (being the net asset value 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) or other economic flows (other than transactions with owners as owners in the form of dividends paid – itemised in Note S3). 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>90</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), whereas the operating statement 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 operating statement. 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 Non-Owner Movements in Equity – Revaluations**

The convergence differences comprise:

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

This difference flows through to the whole of government amounts.

- k(ii)** (\$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 operating statement. Consistent with the equity method of accounting, the operating statement recognises the share of the associate's loss of \$50m as a loss of \$51m classified as other economic flows and revenue (from dividends) of \$1m (refer also to Note j).

This difference flows through to the whole of government amounts.

- k(iii)** \$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 operating statement. In accordance with paragraph 81 of AASB 138 *Intangible Assets*, the intangible assets in this example are not revalued because there is no active market for them.

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

- k(iv)** \$10m in the PNFC sector because while GFS recognises the gross increase in the revalued asset (in this example, 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.

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 \$1,788m in the PNFC sector and (\$5,073m) in the PFC sector arise because GFS measures net worth as assets less liabilities less share capital/contributed capital (remeasured). Because in this example, 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 Whole of Government  
Balance Sheet and Sector Balance Sheets**

*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 balance sheet.

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 balance sheet.

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 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 fixed assets – research and development [PNFC]	(69)
Deferred tax liability [PNFC]	506
TOTAL	<u>900</u>

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 – Machinery and Equipment**

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

This difference flows through to the whole of government amounts.

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

The convergence differences comprise:

- q(i)** (\$400m) in the GGS and (\$69m) in the PNFC sector because GFS treats research and development costs as use of goods and services expense, whereas some are treated as acquisitions of intangible fixed assets for the balance sheet because some development activities are expected to bring benefits for more than one year.

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

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

This difference flows through to the whole of government amounts.

**r Liabilities – Provisions**

The convergence differences comprise:

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

This difference flows through to the whole of government amounts.

- r(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: the GGS, as the tax collector, does not recognise deferred tax balances to the extent the tax-equivalent 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 and therefore does not give rise to a convergence difference.]

**s**      **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 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.

**t**      **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 Whole of Government Cash Flow Statement and Sector Cash Flow Statements**

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

#### **u 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 cash flow statement does not recognise notional cash flows.

This difference flows through to the whole of government amounts.

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

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

- \$2,040m: purchases of defence weapons that are classified as purchases of non-financial assets – which are investing activities in the cash flow statement; and
- \$45m: capitalised development costs that are classified as purchases of non-financial assets – which are investing activities in the cash flow statement.

For the PNFC sector, an amount of \$550m has been recognised as payments for purchases of goods and services from operating activities in the cash flow statement. Under GFS, the corresponding amount is \$591m. 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 cash flow statement.

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

## **Key Technical Terms Used in the Whole of Government Financial Report**

### **Y Selected Key Technical Terms Used in the Whole of Government Financial Report**

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

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

**Comprehensive result (total change in net worth before transactions with owners as owners)** is the net result of all items of income and expense recognised for the period. It is the aggregate of operating result and other movements in equity, other than transactions with owners as owners.

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

- (a) cash;
- (b) an equity instrument of another entity;
- (c) a contractual right:
  - (i) to receive cash or another financial asset from another entity; or
  - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- (d) a contract that will or may be settled in the entity's own equity instruments and is:
  - (i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or

- (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

**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 ABS GFS Manual *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005*.

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

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

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

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

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

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

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

**Net worth** is 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 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, such as land, subsoil assets, and certain intangible assets.

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

**Operating result** is a measure of financial performance of the operations 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 non-owner movements in equity’.

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

**Other economic flows** – see definition of ‘net other economic flows’ above.

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

**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 specifies a schedule for interest payments and principal repayments. Some examples are: bills, bonds and debentures, commercial paper, securitised mortgage loans, and loans that have become marketable de facto.

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

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

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

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

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

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

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

## Disaggregated Information

### Z Functional Classification for Whole of Government

	Expenses, excluding losses, included in operating result \$m	Assets \$m
General public services	(53,194)	10,009
Defence	(13,669)	78,063
Public order and safety	(2,521)	5,587
Education	(14,156)	8,645
Health	(33,569)	2,002
Social security and welfare	(72,488)	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	(4,509)	17,051
Other economic affairs	(1,502)	1,046
Other purposes <sup>b</sup>	(15,576)	97,408
<b>TOTAL</b>	<b>(224,215)</b>	<b>238,469</b>

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

**Exposure Draft    ED 155 as a mark-up of AASB 1049**  
May 2007

# **Financial Reporting by Whole of Governments**

This mark-up of the body and Appendix A of AASB 1049 is prepared by the staff of the **Australian Accounting Standards Board** for the information of constituents

This document is prepared by the AASB staff for the information of constituents interested in the manner in which the AASB proposes dealing with GAAP/GFS harmonised financial reporting for whole of governments. It is provided as a background document to Exposure Draft ED 155 *Financial Reporting by Whole of Governments*. This document highlights, through marked-up text, the manner in which the contents of ED 155 and AASB 1049 *Financial Reporting of General Government Sectors by Governments* differ. Paragraph numbering from AASB 1049 has been retained, despite deleting and adding some paragraphs. Paragraph numbering has been adjusted in the clean version of the Exposure Draft.



**Australian Government**  

---

**Australian Accounting  
Standards Board**

# ACCOUNTING STANDARD AASB 10XX

## ***FINANCIAL REPORTING BY WHOLE OF GOVERNMENTS***

### **Objective**

- 1 The objective of this Standard is to specify requirements for *whole of government financial reports* of ~~the General Government Sector (GGS)~~ of each government. ~~These requirements are~~ that are in addition to requirements for ~~whole of government financial reports~~ financial reports of the *General Government Sector (GGS)* of each government currently specified in AASB 1049 *Financial Reporting of General Government Sectors by Governments*. ~~In particular,~~ This Standard requires compliance with other Australian Accounting Standards except as specified in this Standard, and disclosure of additional information such as sector (GGS, Public Non-Financial Corporations (PNFC) sector and Public Financial Corporations (PFC) sector) information and reconciliations to key fiscal aggregates determined in accordance with the ABS GFS Manual. ~~Whole of government financial reports prepared in accordance with this Standard provide users with:~~
  - (a) information about the stewardship of each government ~~in relation to its GGS~~ and accountability for the resources entrusted to it;
  - (b) information about the financial position, performance and cash flows of each government's ~~GGS and its sectors~~; and
  - (c) information that facilitates assessments of the macro-economic impact of each government's ~~GGS and its sectors~~.

### **Application**

- 2 **This Standard applies to the general purpose financial reports of each government ~~in relation to its GGS~~.**
- 3 **This Standard applies to annual reporting periods beginning on or after 1 July 2008.**
- 4 **This Standard may be applied to annual reporting periods beginning before 1 July 2008.**

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

## **GGS Financial Report to be Prepared**

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

## **Compliance with Australian Accounting Standards**

- 10 ~~Unless otherwise specified in this Standard, the GGS financial report shall be prepared in a manner consistent accordance with other Australian Accounting Standards.<sup>1</sup>~~
- 11 With limited significant exceptions, this Standard requires the definition, recognition, measurement, classification, presentation and disclosure requirements specified in other Australian Accounting Standards to be adopted in the GGS financial report. This Standard only requires a different treatment from another Australian Accounting Standard when the requirements of this Standard directly conflict with the requirements of that other Standard. For example,±

---

<sup>1</sup> It is intended that the 'other Australian Accounting Standards' referred to in paragraph 10 are those that will be amended as a result of the Board's project on the short-term review of *AAS 27 Financial Reporting by Local Governments*, *AAS 29 Financial Reporting by Government Departments* and *AAS 31 Financial Reporting by Governments*. Once that project has appropriately dealt with the requirements in *AAS 31*, it is anticipated that *AAS 31* will be withdrawn. The Board is aiming to finalise its short-term review of *AAS 31* to coincide with the issue of the Standard to arise from this Exposure Draft.

~~(a) in conflict with AASB 127 *Consolidated and Separate Financial Statements*, paragraph 19 prohibits the consolidation of controlled entities in other sectors; and~~

~~(b) in conflict with AASB 101 *Presentation of Financial Statements*, paragraphs 24 and 29 prescribe an operating statement that includes all recognised income and expenses on its face and do not require a separate statement of changes in equity.~~

~~Where another Australian Accounting Standard:~~

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

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

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

- (b) assets within the scopes of AASB 116 *Property, Plant and Equipment*, AASB 138 *Intangible Assets* and AASB 140 *Investment Property* that may be measured at cost or at fair value. ~~For the purpose of GGS financial reports, those assets that are~~ assets under the ABS GFS Manual that are within the scope of those Standards are required to be measured at fair value because the ABS GFS Manual requires those assets to be measured at market value.

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

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

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

- (i) 'fair value through profit or loss', with changes in fair value included in operating result; or
- (ii) 'available-for-sale', with changes in fair value included in the other movements in equity section of the operating statement ~~(as illustrated in Illustrative Example A)~~; and
- (d) actuarial gains and losses relating to defined benefit superannuation plans that may be recognised in full through operating result, recognised in full directly in accumulated results, or partially deferred using a 'corridor approach' under AASB 119

*Employee Benefits.* For the purpose of this Standard, the option to partially defer using a ‘corridor approach’ is not available because it is not acceptable under the ABS GFS Manual. The other two options are available.

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

- (i) the calculation of operating result; or
  - (ii) the other movements in equity section of the operating statement (as illustrated in Illustrative Example A);
- (e) 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* (as amended by AASB 2007-4 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments*). 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;
- (f) cash flows from operating activities that may be reported using either the direct method or the indirect method in the cash flow statement under AASB 107 *Cash Flow Statements* (as amended by AASB 2007-4). 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; 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* (as amended by AASB 2007-4). In accordance with paragraphs 51A(b)(i) and 51D of this Standard, information about the PNFC sector and PFC sector is prepared in a manner consistent with the accounting policies adopted in the whole of government financial report. 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 specify particular rules for an item or an issue within their scope. An example is AASB 101, which specifies only the minimum line items to be presented on the face of the balance sheet and requires additional line

items, headings and subtotals to be presented on the face when such presentation is relevant to an understanding of the entity's financial position. The ABS GFS Manual specifies principles and rules for the presentation of a ~~GGS~~-balance sheet prepared for GFS purposes. The ABS GFS Manual principles and rules are required to be applied in the presentation of the balance sheet to the extent that they do not conflict with AASB 101.

- 16 Subject to paragraphs 42(a)(i) and 51A(b)(ii)A of this Standard, where key fiscal aggregates are included in the financial report either because they are required by this Standard or a government elects to provide additional information, they shall be measured in a manner that is consistent with amounts recognised on the face of the financial statements.**
- 17 This Standard requires certain information that is relevant to an assessment of the macro-economic impact of:
- (a) ~~a government's GGS~~ to be included on the face of the financial statements (see paragraphs 27, 32 and 38); and
- (b) a government's sectors to be included in the sector financial statements required to be disclosed by paragraph 51A(b)(i).

This Standard requires the information to be determined in a manner consistent with other amounts recognised on the face of the financial statements. Corresponding amounts, determined in accordance with the ABS GFS Manual, are required to be disclosed in the notes where they differ from the amounts presented on the face of the financial statements (see paragraphs 42(a)(i) and 51A(b)(ii)A).

- 18 A government may elect to disclose key fiscal aggregates or other information in accordance with the ABS GFS Manual that are additional to the requirements of this Standard. If a government elects to make additional disclosures, they are made in a way that does not detract from the information prescribed in this Standard. Examples of additional disclosures that may be made voluntarily include the classification of *other economic flows* consistent with Table 7.4 of the ABS GFS Manual and additional key fiscal aggregates such as change in *net worth* due to revaluations and change in net worth due to other changes in the volume of assets. Consistent with the requirements in paragraph 16 of this Standard, additional key fiscal aggregates are measured in a manner consistent with recognised amounts. Consistent with paragraphs 42(a) and 51A(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. Measures of key

fiscal aggregates that are not in accordance with this Standard or the ABS GFS Manual are not disclosed as key fiscal aggregates.

## **Presentation and Scope of GGS Financial Statements**

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

- (a) ~~each PNFC sector and PFC sector entity's accounting policies are adjusted to align with the accounting policies adopted in the whole of government financial report for the same period;~~
- (b) ~~intersector balances between the GGS and entities within the PNFC sector and PFC sector are not eliminated; and~~
- (c) ~~individual amounts for each PNFC sector and PFC sector entity are aggregated and presented on a net basis.~~

23 ~~Investments in jointly controlled entities and associates shall be measured using the equity method of accounting.~~

## **Components of a GGS Whole of Government Financial Report**

24 **The GGS financial report shall comprise:**

- (a) **a balance sheet;**
- (b) **an operating statement;**
- (c) **a cash flow statement; and**
- (d) **notes, comprising a summary of significant accounting policies and other explanatory notes.**

**A separate statement of changes in equity is not required.**

25 As specified in paragraph 29 of this Standard, the ~~GGS~~ operating statement prescribed in this Standard incorporates into a single statement the information that would otherwise be required by AASB 101 to be presented in two separate statements – the income statement and the statement of changes in equity. Amounts of transactions with owners as owners are disclosed in the notes or a separate statement rather than on the face of the operating statement. Information about movements in reserves are disclosed in the notes, on the face of the operating statement or in a separate statement.

### **Balance Sheet**

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

- 27 **Net worth shall be presented on the face of the balance sheet, measured in a manner consistent with other amounts recognised on the face of the balance sheet.**
- 28 An example of an acceptable balance sheet format that is in accordance with this Standard is provided in Illustrative Example A.<sup>2</sup>

### **Operating Statement**

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

---

<sup>2</sup> Illustrative Example A will be issued for public comment once it is finalised. This Exposure Draft makes reference to the yet to be finalised illustration in paragraphs 28, 31, 35, 39, 43, 46, 51 and 51A(c).

- (d) actuarial gains and losses relating to defined benefit superannuation plans are classified as other economic flows, irrespective of whether they are included in the calculation of operating result or the other movements in equity section of the operating statement;
- (e) changes in the fair value of investment property potentially comprises two components under GFS classification – consumption of capital and price changes. Accordingly, the consumption of capital is classified as transactions and the price changes are classified as other economic flows. Although the consumption of capital may be considered to be similar in nature to depreciation, it is not included in the line item that includes depreciation;
- (f) depreciation of defence weapons platforms is classified as a transaction, by analogy with the GFS classification of depreciation of other plant and equipment;
- (g) doubtful debts are classified as other economic flows, by analogy with the GFS classification of revaluation of other assets; and
- (h) bad debts are classified as transactions to the extent they are mutually agreed, otherwise they are classified as other economic flows.

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

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

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

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

- 33 Although AASB 101 requires certain income and expenses to be included in the statement of changes in equity rather than the income statement, this Standard requires all recognised income and expenses to be included in a single statement that presents the comprehensive result (total change in net worth before transactions with owners as owners). At least the same level of information required in the income statement and the statement of changes in equity relating to income and expenses recognised for the period is required to be presented on the face of the operating statement or in the notes, consistent with the requirements in AASB 101. For example, in accordance consistent with paragraph 96(d) of AASB 101, an entity presents on the face of the operating statement, for each component of equity, the effects of changes in accounting policies and corrections of errors recognised in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- 34 As noted in paragraph 14(d), actuarial gains and losses relating to defined benefit superannuation plans may be recognised in full either through operating result or directly in other non-owner movements in equity. If the latter option is adopted, consistent in accordance with paragraph 93B of AASB 119, the opening and closing balances of accumulated results and the changes during the period referred to in paragraph 97(b) of AASB 101 are not included on the face of the operating statement.
- 35 An example of an acceptable operating statement format that is in accordance with this Standard is provided in Illustrative Example A.

## Cash Flow Statement

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

## Notes

### *Summary of Significant Accounting Policies*

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

### *Other Explanatory Notes*

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

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

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

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

43 In relation to the requirements in paragraph 42(a), differences in the key fiscal aggregates determined under the ABS GFS Manual and pursuant to paragraph 16 of this Standard arise from differences in definition, recognition, ~~and~~ measurement 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) doubtful debts – although the ABS GFS Manual recognises bad debts written off, it does not recognise write-downs of accounts receivable in relation to doubtful debts;
- (b) provisions recognised as liabilities – in the absence of a counterparty recognising a related financial asset, the ABS GFS Manual does not recognise a liability arising from a constructive obligation;
- (c) inventories – under the ABS GFS Manual, inventories are measured at current prices, whereas under AASB 102 *Inventories* (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 ~~the lower of cost~~ adjusted when applicable for any loss of service potential and current replacement cost; and
- (d) investments in ~~jointly controlled entities and~~ associates – under the ABS GFS Manual those assets are measured at current prices where current prices exist whereas under AASB 127 *Consolidated and Separate Financial Statements* the equity method of accounting applies ~~(see paragraph 23 of this Standard);~~;
- (e) minority 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 minority interest that is classified as equity is not remeasured; and
- (f) 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 Example A illustrates some of these and other possible circumstances where differences arise and the manner in which they are reflected in reconciliation notes.

43A. For the purpose of paragraph 42(a)(i), 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 as owners’ is ‘total change in net worth’ (after transactions with owners as owners). The reconciliation required to be disclosed by paragraph 42(a)(ii) in relation to total change in net worth is therefore

from ‘total change in net worth before transactions with owners as owners’ as presented in accordance with paragraph 32(b) to ‘total change in net worth’ measured in accordance with the ABS GFS Manual.

- 44 Some differences between GAAP and GFS requirements relate to differences in classification or differences in elimination on consolidation requirements that. ~~They~~ do not cause a difference in measurements of key fiscal aggregates and therefore do not need to be included in the reconciliation notes. However, they do give rise to the need for explanations of the differences to be disclosed in the financial report. Examples of such differences include:
- (a) AASB 132 *Financial Instruments: Presentation* classifies certain prepaid expenses as a non-financial asset that the ABS GFS Manual classifies as a financial asset;
  - (b) AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* may classify an amount within provisions that the ABS GFS Manual classifies as accounts payable;
  - (c) paragraph 31(e) of this Standard notes that consumption of capital of investment property is classified separately from depreciation whereas the ABS GFS Manual classifies it as depreciation; ~~and~~
  - (d) AASB 107 classifies cash used to purchase defence weapons platforms that are capitalised as cash flows from investing activities that the ABS GFS Manual classifies as cash flows from operating activities; and
  - (e) 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 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 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 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 entity).

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

46 Key technical terms include:

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

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

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

***Disaggregated Functional Information***

**48** In respect of each broad function of the ~~GGG~~ of a government identified in Table 2.6 “Government Purpose Classification: Major Groups” of the ABS GFS Manual, the ~~GGG~~ financial report shall disclose by way of note:

- (a) a description of that function;
- (b) the carrying amount of assets recognised in the balance sheet that are reliably attributable to that function; and
- (c) expenses, excluding losses, included in operating result for the reporting period that are reliably attributable to that function.

**49** The information provided by way of note in accordance with paragraph 48 shall be aggregated.

50 Paragraph 48 requires disclosure of information about the recognised assets and expenses (excluding losses) included in operating result of the ~~GGG~~ government that are reliably attributable to the broad functions of the ~~government~~ ~~GGG~~ determined to at least the ABS GFS Manual two-digit level of classification shown in Table 2.6. Disclosure of this information assists users in identifying the resources committed to particular functions of the ~~GGG~~ government 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 ~~GGG~~ government.

51 AASB 114 *Segment Reporting (AASB 8 Operating Segments)*<sup>3</sup> does not apply to ~~GGG~~ whole of government financial reports. The bases used in the ABS GFS Manual for identifying functions of a ~~GGG~~ government do not necessarily accord with the criteria for identifying segments contained in AASB 114 (AASB 8). However, preparers of financial reports may find the guidance contained in AASB 114 (AASB 8) is useful in identifying the expenses (excluding losses) included in operating result and assets that are reliably attributable to each function of the ~~GGG~~ government. An example of the disclosures required by paragraph 48(b) and (c) in respect of each function of the ~~GGG~~ government is provided in Illustrative Example A.

---

<sup>3</sup> AASB 8 (February 2007) is operative on or after 1 January 2009, with early adoption allowed. When applicable, AASB 8 supersedes AASB 114.

Sector Information

51A. In respect of the GGS, PNFC sector and PFC sector as defined in the ABS GFS Manual, the financial report shall disclose by way of note:

(a) a description of each sector;

(b) for each sector:

(i) a balance sheet, operating statement and cash flow statement that are consistent with the government's 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.

Other measures of the key fiscal aggregates shall not be included in the financial report; 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 and the corresponding information in the government's financial statements (see, for example, Illustrative Example A).

51B. Sector information prepared in accordance with paragraph 51A(b) is determined before elimination of intersector balances. Notes to the sector financial statements, other than those required by paragraph 51A, are not required to be disclosed.

51C. In relation to the requirements in paragraph 51A(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 43 of this Standard, as well as:

- (a) ownership interest in PNFC sector and PFC sector entities – 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. For example, where it is reliably measurable, the market value of ownership interest in PNFC sector and PFC sector entities is deducted in the determination of net worth of those sectors. Accordingly, negative GFS net worth arises if the market value exceeds recognised net assets. Under AASB 127, the market value of ownership interest is not recognised. Where ownership interest in PNFC sector and PFC sector entities is measured at net assets, GFS net worth is nil; and
- (b) deferred tax assets and deferred tax liabilities of PNFC sector and PFC sector entities – in the absence of a counter-party recognising a related liability or asset, 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*.

51D. For the purpose of paragraph 51A(b)(ii)A, the ABS GFS Manual key fiscal aggregate that corresponds to the requirement implicit in paragraph 51A(b)(i) to present ‘total change in net worth before transactions with owners as owners’ is ‘total change in net worth’ (after transactions with owners as owners). The reconciliation required to be disclosed by paragraph 51A(b)(ii)B in relation to total change in net worth is therefore from ‘total change in net worth before transactions with owners as owners’ as presented in accordance with paragraph 51A(b)(i) to ‘total change in net worth’ measured in accordance with the ABS GFS Manual.

51E. 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.

51F. The sector financial statements could be presented in a single schedule that includes an adjustments column to facilitate reconciliation to the

government financial statements in accordance with paragraph 51A(c). Alternatively, the sector financial statements may be presented in columns, with or without an adjustments column, on the face of the government financial statements.

## **Budgetary Information**

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

not consistent with the information in the financial statements, the budget presented to parliament is restated for budget disclosure purposes to align with the accounting basis specified in this Standard. As the budget basis to be disclosed is consistent with the ~~GGS~~ accounting basis, budget information at the government level may be presented on the face of the financial statements.

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

## Transitional Requirements

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

62A. The requirements relating to changes in accounting policies in AASB 108 apply to the first financial report prepared in accordance with this Standard.

## APPENDIX A

### DEFINED TERMS

*This appendix is an integral part of AASB 10XX.*

<b>ABS GFS Manual</b>	The Australian Bureau of Statistics (ABS) publication <i>Australian System of Government Finance Statistics: Concepts, Sources and Methods</i> as updated from time to time.
<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, p. 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, p. 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, p. 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's <u>GGS and its sectors</u> on the economy. They are: opening net worth, net operating balance <del>(which equals change in net worth due to transactions)</del> , 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, p. 259).
<b>net operating balance</b>	This is calculated as income from transactions minus expenses from transactions. <del>It is equivalent to the change in net worth arising from transactions.</del> Based on the definition in the ABS GFS Manual (Glossary, p. 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, p. 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, p. 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, p. 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, p. 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, p. 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, p. 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, p. 263).
<b>whole of government financial report</b>	A financial report prepared by a government that is prepared in accordance with <del>other</del> Australian Accounting Standards, including AASB 127 <i>Consolidated and Separate Financial Statements</i> , and thereby separately recognises assets, liabilities, income, expenses and cash flows of all entities under the control of the government on a line-by-line basis.