

AASB Exposure Draft

ED 212
June 2011

Not-for-Profit Entities within the General Government Sector

(proposed AASB 10XX, including proposals relating
to Tier 2 disclosure requirements)

Comments to AASB by 31 October 2011



Australian Government

Australian Accounting Standards Board

Commenting on this AASB Exposure Draft

Comments on this Exposure Draft in relation to both Tier 1 and Tier 2 requirements are requested by 31 October 2011. Comments should be addressed to:

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All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chairman of the AASB agrees to those submissions being treated as confidential. The latter will only occur if the public interest warrants such treatment.

Obtaining a Copy of this AASB Exposure Draft

This Exposure Draft is available on the AASB website: www.aasb.gov.au. Alternatively, printed copies of this Exposure Draft are available by contacting:

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AASB 10XX NOT-FOR-PROFIT ENTITIES WITHIN THE GENERAL
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[Draft] Australian Accounting Standard AASB 10XX *Not-for-Profit Entities within the General Government Sector* is set out in paragraphs 1-35 and Appendices A – B. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. 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 Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

PREFACE

Background

Australian Accounting Standards

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

- (a) entities required by the *Corporations Act 2001* to prepare financial reports;
- (b) governments in preparing financial statements for the whole of government and the General Government Sector (GGS); and
- (c) entities in the for-profit or not-for-profit private or public sectors that are reporting entities or that prepare general purpose financial statements.

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

- (a) Tier 1: Australian Accounting Standards; and
- (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 1 requirements incorporate International Financial Reporting Standards (IFRSs), including Interpretations, issued by the International Accounting Standards Board (IASB), with the addition of paragraphs on the applicability of each Standard in the Australian environment.

Publicly accountable for-profit private sector entities are required to adopt Tier 1 requirements, and therefore are required to comply with IFRSs. Furthermore, other for-profit private sector entities complying with Tier 1 requirements will simultaneously comply with IFRSs. Some other entities complying with Tier 1 requirements will also simultaneously comply with IFRSs.

Tier 2 requirements comprise the recognition, measurement and presentation requirements of Tier 1 but substantially reduced disclosures requirements in comparison with Tier 1.

Australian Accounting Standards also include requirements that are specific to Australian entities. These requirements may be located in Australian

Accounting Standards that incorporate IFRSs or in other Australian Accounting Standards. In most instances, these requirements are either restricted to the not-for-profit or public sectors or include additional disclosures that address domestic, regulatory or other issues. These requirements do not prevent publicly accountable private sector for-profit entities from complying with IFRSs. In developing requirements for public sector entities, the AASB considers the requirements of International Public Sector Accounting Standards (IPSASs), as issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants.

Exposure Drafts

The publication of an Exposure Draft is part of the due process that the AASB follows before making a new or amending an existing Australian Accounting Standard. Exposure Drafts are designed to seek public comment on the AASB's proposals for new Australian Accounting Standards or amendments to existing Australian Accounting Standards.

Reasons for Issuing this Exposure Draft

The issue of this Exposure Draft is part of the AASB's implementation of the following Financial Reporting Council's (FRC's) 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).

After consultation with the FRC, the AASB decided that it is not necessary to consider GAAP/GFS harmonisation issues for certain public sector entities, in particular: entities within the Public Non-Financial Corporations (PNFC) sector and Public Financial Corporations (PFC) sector, local governments and entities that GFS classifies as multi-jurisdictional such as universities. Accordingly, this Exposure Draft does not apply to these entities.

In relation to the other public sector entities, the AASB is implementing the direction in two phases, comprising:

- (a) Phase 1, which relates to financial reporting by the Australian Government and the state and territory governments and the sectors therein (GGS, PNFC sector and PFC sector). The issuance of AASB 1049 *Whole of Government and General Government Sector Financial Reporting* in October 2007 (amended to September 2008) was the outcome of this Phase. Given the substantial changes brought

about by AASB 1049, the AASB is currently undertaking a post-implementation review of AASB 1049. To this end, it issued Exposure Draft ED 211 *Proposed Amendments to AASB 1049* in March 2011 with two sets of proposals. The first set of the proposals were open for comment until 6 April 2011. Those proposals related to the definition of the ABS GFS Manual, relief from adopting the latest version of the ABS GFS Manual and the related disclosures. As a consequence, the Board issued Amending Standard AASB 2011-3 *Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments* in May 2011. The remaining proposals in ED 211 were open for comment until 6 June 2011. The AASB is currently in the process of considering comments received, and an amending standard will be issued in due course as a result of this process; and

- (b) Phase 2, the focus of this Exposure Draft, which relates to financial reporting by entities within the GGS of the Australian Government and the state and territory governments, including government departments and statutory bodies. As part of this phase, the AASB issued Exposure Draft ED 174 *Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS [AASBs 101, 107 and 1052]* in January 2009. A number of submissions received on ED 174 expressed concerns as to the cost of implementing the proposals. The Board acknowledged those concerns and there were mixed views amongst Board members as to whether the proposals were justified on cost/benefit grounds. In the light of these cost/benefit concerns, the Board decided not to proceed with the proposals in ED 174, on the basis that they did not place sufficient emphasis on improving the usefulness of general purpose financial statements. Instead, the Board decided to develop a further Exposure Draft (this Exposure Draft) to seek comments on a range of proposals that, as a package, differ from the proposals in ED 174. Having regard to GAAP/GFS harmonisation principles, cost/benefit considerations and the Board's other projects, this Exposure Draft contains proposals that aim to substantively improve general purpose financial reporting of not-for-profit entities within the GGS. The Board is willing to explore, through this Exposure Draft, whether the benefits of a Standard, which would include the benefits of improved comparability across jurisdictions and of more closely coupling the presentation of controlled and administered items, would outweigh the cost of implementation of the proposals.

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

GFS and its Relationship to GAAP

The principles and rules upon which GFS is based are contained in Australian Bureau of Statistics (ABS) publications *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (ABS Catalogue No. 5514.0) and *Amendments to Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (ABS Catalogue No. 5514.0) published on the ABS website (www.abs.gov.au) (referred to in this Exposure Draft as the ABS GFS Manual).

For GFS 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, the GGS is distinguished from the other, more market-oriented, government sectors.

Entities within the GGS

As defined in the ABS GFS Manual, the GGS is an institutional sector comprising 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.

Paragraph 2.13 of the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (ABS Catalogue No. 5514.0) notes that government departments and authorities that are primarily funded from budget allocations and subject to centralised control of their finances through the public accounts do not qualify as single legal entities in the Australian GFS units model. However, as noted in paragraph 2.14 of the same publication, individual departments and other budget-funded authorities of the Commonwealth, state and territory governments are separately treated as enterprise units in the computer systems supporting the ABS GFS system.

Consistent with this treatment, GAAP does not restrict its notion of a reporting entity to legal entities. Accordingly, the notion of reporting entity in GAAP includes entities that arise from administrative arrangements and other organisational structures, such as government departments, that fall within the boundaries of the GGS as defined by GFS. To deal with the differences between the definitions of institutional units under GFS and

reporting entity under GAAP, this Exposure Draft proposes to deem entities within the GGS to be ‘institutional units’ as defined by GFS. Lists of entities within the GGS are generally available in each government’s budget papers, annual financial statements and on its website.

Not-for-profit entities within the GGS (the scope of this Exposure Draft)

Given the nature of entities within the GGS, some of those entities could be for-profit entities for GAAP purposes because they do not meet the GAAP definition of not-for-profit entity (see paragraph Aus6.1 of AASB 102 *Inventories*). The proposals in this Exposure Draft are only applicable to entities within the GGS that meet the GAAP definition of not-for-profit entity.

Financial information provided under GFS and under GAAP

GFS focuses on providing information for the assessment of the macro-economic impact of a government and each of the government’s sectors. Despite this, this Exposure Draft proposes that some of the principles and rules in the ABS GFS Manual be applied at the level of an individual not-for-profit entity within the GGS for GAAP general purpose financial reporting purposes.

The ABS GFS Manual applies accrual accounting principles, many of which align with GAAP. However, some of the GFS definition, recognition, measurement, classification, consolidation and presentation principles and rules differ from GAAP.

AASB 1049 specifies the manner in which the differences between GFS and pre-AASB 1049 GAAP are to be treated in whole of government and GGS financial statements, thus facilitating GAAP/GFS harmonisation at the whole of government and GGS levels.

The manner in which the differences between GAAP and GFS should be treated in the general purpose financial statements of not-for-profit entities within the GGS is the subject of this Exposure Draft. In particular, the proposals in this Exposure Draft are designed to improve the usefulness of general purpose financial statements of not-for-profit entities within the GGS by adopting certain GAAP/GFS harmonisation principles. The proposals in this Exposure Draft differ from the requirements in AASB 1049, reflecting the different perspectives relevant in a whole of government and GGS context compared with an entity within the GGS context.

Main Features of this Exposure Draft

The proposals in this Exposure Draft are that the requirements in all applicable Australian Accounting Standards apply to not-for-profit entities within the GGS, modified only in relation to limiting certain recognition and measurement options to align with GFS, and supplemented by additional disclosures.

In relation to GFS-based information that is proposed to be required to be presented, it is proposed that entities adopt a version of the ABS GFS Manual effective at the beginning of the previous annual reporting period or any version effective at a later date.

The following outlines the proposals in greater detail.

Scope of Proposals

The proposals in this Exposure Draft are applicable to all not-for-profit entities within the GGS (irrespective of their legal structure or size) of the Australian Government and the state and territory governments, including not-for-profit government departments and statutory authorities. The proposals are not applicable to other public sector entities, including local governments and universities.

Recognition and Measurement

It is proposed to adopt the broad principle that, where Australian Accounting Standards allow for optional recognition and measurement requirements, only those options aligned with the ABS GFS Manual be applied. However, under the principle, early adoption of a new or revised Standard to align with the ABS GFS Manual would not be required. An extensive but non-exhaustive list of examples of GAAP options that would be limited by this proposal is provided in paragraph 12 of this Exposure Draft.

Classification and Presentation

In relation to the primary financial statements, it is proposed that classification and presentation requirements in current Australian Accounting Standards continue to apply. In particular, it is not proposed to amend the current requirements in AASB 101 *Presentation of Financial Statements* and AASB 107 *Statement of Cash Flows*. Accordingly, an entity could elect to classify and present information on the face of its financial statements in a manner consistent with GAAP/GFS harmonisation principles. However, where an entity elects not to adopt GAAP/GFS harmonised classification and presentation principles in the financial statements, a note reflecting such

principles would be required (see below, under the heading ‘Disclosures: GAAP/GFS harmonisation information’).

Consolidation

It is proposed that the consolidation requirements in current Australian Accounting Standards continue to apply. In particular, consistent with AASB 127 *Consolidated and Separate Financial Statements*, where a not-for-profit entity within the GGS is required to prepare consolidated financial statements, all controlled entities would be consolidated on a line-by-line basis.

Disclosures

GAAP/GFS harmonisation information

It is proposed that information based on GAAP/GFS harmonisation classification and presentation principles, for both controlled items and administered items, be disclosed either in the financial statements or in the notes. Accordingly, information about controlled items and administered items would be presented in the form of:

- (a) a statement of financial position that is prepared in a manner consistent with the ABS GFS Manual’s principles and rules for the presentation of a balance sheet prepared for GFS purposes, to the extent they do not conflict with the principles in AASB 101;
- (b) a single statement of comprehensive income that is prepared in a manner consistent with the principles in AASB 101 and presents:
 - (i) income and expenses, classified as transactions or other economic flows determined in a manner consistent with the ABS GFS Manual’s principles and rules; and
 - (ii) the net operating balance (which is the net result of transactions); and
- (c) a statement of cash flows that is prepared in a manner consistent with the principles in AASB 107 and presents cash flows relating to investing in financial assets within policy purposes/liquidity management purposes classifications, determined in a manner consistent with the ABS GFS Manual.

Examples A and B illustrate formats for presenting the information.

The requirements in AASB 1050 *Administered Items* continue to apply to government departments, to the extent the above disclosures would not satisfy the requirements of that Standard. In particular, in addition to providing the GAAP/GFS harmonisation information about administered items described above, government departments would be required to disclose:

- (a) where Tier 1 or Tier 2 requirements are adopted, each major class of administered assets, liabilities, income and expenses, to the extent those classes differ from the classes disclosed to comply with (a) and (b) above;
- (b) where Tier 1 requirements are adopted, in respect of each major class of administered income and expense, the amounts reliably attributable to each of the government department's activities (determined in accordance with the principles in AASB 1052 *Disaggregated Disclosures*) and the amounts not attributable to activities; and
- (c) where Tier 1 or Tier 2 requirements are adopted, details of the broad categories of recipients of administered items and the amounts transferred to those recipients.

Budgetary reporting

It is proposed that, where information in the form of budgeted financial statements reflecting controlled or administered items is presented to parliament, the original budgeted financial statements are disclosed, restated in relation to presentation and classification if necessary to align with either:

- (a) the basis of the information about controlled items presented in the primary financial statements and the accompanying information about administered items; or
- (b) the basis of the information about controlled and administered items presented in a GAAP/GFS harmonisation note prepared in accordance with the proposals in this Exposure Draft, where the entity elects to present the information in a note rather than in the financial statements,

whichever is judged to be the more useful for users.

Furthermore, it is proposed to require disclosure of explanations of major variances between amounts in the original budgeted financial statements presented to parliament and actual amounts.

Other disclosures

It is proposed to require:

- (a) where the entity elects to make additional disclosures in the financial statements, they be made in a way that does not detract from the information prescribed in Australian Accounting Standards;
- (b) the entity to include in its accounting policy note a statement of the basis upon which the financial statements are prepared, including the version of the ABS GFS Manual adopted; and
- (c) the entity to disclose information about the most recent version of the ABS GFS Manual and its impact when an entity has adopted an earlier version.

It is not proposed to amend other disclosure requirements, including those in AASB 1052, which continues to apply to government departments reporting under Tier 1.

Reduced disclosure requirements

It is proposed that not-for-profit entities within the GGS applying Tier 2 requirements are subject to all the proposed disclosure requirements except the proposed requirements to disclose certain information about:

- (a) administered items required by AASB 1050, which only applies to government departments; and
- (b) the most recent version of the ABS GFS Manual and its impact on the financial statements where an entity has adopted an earlier version.

The relief from disclosures for entities applying Tier 2 requirements is shown, when relevant, as shaded text.

The AASB's conclusions in relation to proposed Tier 2 disclosure relief in this Exposure Draft have been reached after applying its usual approach to the analysis of the proposed disclosures – application of the 'Tier 2 Disclosure Principles'. Those principles and the analysis of the proposed disclosure requirements are available on the AASB website under [Work in Progress/Reduced Disclosure Requirements](#).

Transitional requirements

It is proposed that, when adopting the proposals in this Exposure Draft for the first time, an entity change the elections it previously made under AASB 1 *First-time Adoption of Australian Accounting Standards* only where necessary to comply with the limitations on GAAP options noted under the heading 'Recognition and Measurement'.

It is also proposed that comparative period information, prepared as if the proposals had applied, be presented in the first financial statements.

Application Date

It is planned that the proposals in this Exposure Draft be applicable to annual reporting periods beginning on or after 1 July 20XX [3 years from the issue of a Standard] with early adoption permitted for annual reporting periods beginning on or after 1 January 2005.

Request for Comments

Comments are invited on any of the proposals in this Exposure Draft by 31 October 2011. Submissions play an important role in the decisions that the AASB will make in regard to a Standard. 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 supportive and critical 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) whether the proposals would lead to an overall improvement in general purpose financial reporting by not-for-profit entities within the GGS. Irrespective of your response to this general question, the AASB would value specific comments on:
 - (i) the proposal to limit the entities affected by the proposals in this Exposure Draft to not-for-profit entities within the GGS. In particular, the Board seeks comment on whether the proposals should also apply to for-profit entities within the GGS (see paragraphs 2 and BC10-BC13);
 - (ii) the proposal that the version of the ABS GFS Manual to be applied is a version that was effective at the beginning of the previous annual reporting period or any version effective at a later date, rather than necessarily the latest version (see paragraphs 9 and BC14-BC15);
 - (iii) the proposal to limit GAAP recognition and measurement options to those that align with GFS and thereby require the same accounting policies as those adopted under AASB 1049 for whole

of governments and the GGSs (see paragraphs 10-12 and BC16-BC25);

- (iv) the proposal to require disclosure, under both Tier 1 and Tier 2 requirements, either in the financial statements or in the notes, of information based on GAAP/GFS harmonised classification and presentation principles for controlled items and, separately, administered items (including classification of income and expenses as transactions and other economic flows, and classification and presentation of cash flows from investing activities for policy purposes and liquidity management purposes) (see paragraphs 13-18, 22 and BC26-BC35). In relation to this proposal, the Board is particularly interested in comments on:
 - A. whether the on-the-face or in-the-notes presentation option should be allowed and, if not, whether on-the-face presentation of GAAP/GFS harmonised information should be prohibited given the potential for complexity; and
 - B. the proposal to require disclosure of GAAP/GFS harmonised classification information at line item level, where it is presented in the notes; and whether information at the line item level would be more beneficial than at the GFS category level;
- (v) the proposal to require AASB 1050 to continue to apply to government departments, to the extent its requirements are not satisfied by the proposals in this Exposure Draft (see paragraphs 19 and BC29-BC31);
- (vi) the proposal to require disclosure, under both Tier 1 and Tier 2 requirements, of any original budgeted financial statements reflecting controlled or administered items presented to parliament, recast to align with the presentation and classification adopted in the primary financial statements and accompanying information about administered items or the GAAP/GFS harmonisation note (whichever is judged to be the more useful) and an explanation of variances (see paragraphs 23-29 and BC40-BC42);
- (vii) the proposals relating to other disclosures, from both a Tier 1 and Tier 2 perspective (see paragraphs 30-32), in particular relating to:
 - A. requiring information to be disclosed in the accounting policy note (paragraph BC36), including disclosures about the

version of the ABS GFS Manual adopted and, where relevant, a later version (paragraph BC15); and

- B. not requiring disclosure of disaggregated information, except to the extent it continues to be required by AASB 1052 for government departments (paragraphs BC37-BC39);
- (viii) the proposal to provide no specific transitional requirements, except to require an entity to change the elections it previously made under AASB 1 to the extent necessary to comply with the ABS GFS Manual (see paragraphs 33-35 and BC44-BC47);
- (ix) unless already provided in response to other specific matters for comment relating to disclosures, the proposal to exempt entities adopting Tier 2 requirements from certain disclosures (shown as shaded text in this Exposure Draft);
- (x) the illustrative examples, and whether they provide guidance that is appropriate/helpful in implementing the proposals (see Illustrative Examples A and B and paragraphs BC49-BC50); and
- (xi) the proposed operative date (see paragraphs 3-4 and BC48);
- (b) unless already provided in response to specific matter for comment (a) above, whether overall, from both a Tier 1 and Tier 2 perspective, the proposals would result in financial statements that would be useful to users;
- (c) whether the proposals, from both a Tier 1 and Tier 2 perspective, are in the best interests of the Australian economy; and
- (d) unless already provided in response to the specific matters for comment above, the costs and benefits of the proposals relating to both Tier 1 and Tier 2 requirements relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

ACCOUNTING STANDARD AASB 10XX
NOT-FOR-PROFIT ENTITIES WITHIN THE
GENERAL GOVERNMENT SECTOR

Objective

- 1 The objective of this Standard is to specify requirements for general purpose financial statements of not-for-profit *entities within the General Government Sector (GGS)* of the Australian Government and state and territory governments. This Standard requires compliance with other applicable Australian Accounting Standards except as specified in this Standard. It also requires disclosure of additional information such as GAAP/GFS harmonised information about controlled items and administered items, and budgetary information under certain circumstances. The financial reports prepared in accordance with this Standard provide users with:
- (a) information about the stewardship by the entity and accountability for the resources entrusted to it;
 - (b) a bridge between the financial statements of the entity and the financial statements of the GGS/whole of government, and information about the contribution of the entity to the GGS/whole of government; and
 - (c) information about the financial position, performance and cash flows of the entity.

Application and Scope

- 2 **This Standard applies to:**
- (a) **general purpose financial statements of each not-for-profit reporting entity within the GGS of the Australian Government and state and territory governments; and**
 - (b) **financial statements of each not-for-profit entity within the GGS of the Australian Government and state and territory governments that are, or are held out to be, general purpose financial statements.**
- 3 **This Standard applies to annual reporting periods beginning on or after 1 July 20XX [3 years after the issue of a Standard].**

- 4 This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 July 20XX. When an entity applies this Standard to an annual reporting period beginning before 1 July 20XX it shall disclose that fact.
- 5 The requirements specified in this Standard apply to the financial statements where information resulting from their application is material in accordance with AASB 1031 *Materiality*.

Reduced Disclosure Requirements

- 6 Paragraphs 19(a), 19(b), 21, 30(c) and 31 of this Standard do not apply to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements. Entities applying Australian Accounting Standards – Reduced Disclosure Requirements may elect to comply with some or all of these excluded requirements.
- 7 The requirements that do not apply to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements are identified in this Standard by shading of the relevant text.

Compliance with Australian Accounting Standards

- 8 Unless otherwise specified in this Standard, the financial statements shall be prepared in accordance with other applicable Australian Accounting Standards.

Version of the ABS GFS Manual to be Applied

- 9 For the purpose of this Standard, an entity shall apply the version of the *ABS GFS Manual* effective at the beginning of the previous annual reporting period or any version effective at a later date, as the basis for GFS information included in the financial statements under this Standard. The date on which amendments to the ABS GFS Manual become effective is, for the purpose of this Standard, the publication date if no effective date is specified by the ABS.

Recognition and Measurement

- 10 Subject to paragraph 11, where Australian Accounting Standards allow for optional recognition and measurement (except measurement for disclosure purposes) requirements, only those options aligned with the ABS GFS Manual shall be applied.

- 11 Early adoption of a new or revised Standard to align with the ABS GFS Manual is not required.**
- 12 Examples of particular optional recognition and measurement treatments in Australian Accounting Standards that paragraph 10 of this Standard has the effect of limiting include:
- (a) any non-controlling interest in an acquiree that may be measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets under AASB 3 *Business Combinations*. Consistent with the broad measurement principle in the ABS GFS Manual, the non-controlling interest is required to be measured at fair value;
 - (b) assets within the scope of AASB 6 *Exploration for and Evaluation of Mineral Resources*, AASB 116 *Property, Plant and Equipment*, AASB 138 *Intangible Assets* or AASB 140 *Investment Property* that may be measured at cost or at fair value. Those assets that are assets under the ABS GFS Manual and are within the scope of those Standards, are required to be measured at fair value where the ABS GFS Manual would measure them at market value.

However, the fair value options allowed under AASB 6, AASB 116, AASB 138 and AASB 140 are not amended by paragraph 10 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*¹. 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 would measure them at market value. In particular, financial instruments, except loans and receivables, are required to be measured at fair value, where AASB 139 allows measurement at fair value. Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market shall not be designated by the entity upon initial recognition as at fair value through profit or loss or available for sale. Accordingly, they are required to be classified as loans and receivables and measured at amortised cost using the effective interest method.

Although fair value measurement in the statement of financial position may be mandated through paragraph 10 of this Standard, the classification of changes in fair value in the statement of comprehensive income is not mandated by paragraph 10. Rather, changes in fair value are classified in the statement of comprehensive income in accordance with AASB 139. AASB 139 anticipates certain financial assets being classified as either:

- (i) 'fair value through profit or loss', with changes in fair value included in operating result; or
- (ii) 'available-for-sale', with changes in fair value included in the other comprehensive income section of the statement of comprehensive income;

¹ This Exposure Draft is written in the context of mandatory Standards. This is particularly relevant to the references to AASB 139. The IASB is in the process of replacing IAS 39 *Financial Instruments: Recognition and Measurement*, which is currently incorporated into AASB 139, in phases. The IASB has issued IFRS 9 *Financial Instruments*, dealing at this stage with classification and measurement of financial assets and financial liabilities, and plans to add requirements on impairment of financial assets at amortised cost and hedge accounting in 2011. The approach in this Exposure Draft in relation to AASB 139 is justified on the basis that the IASB has signalled that IFRS 9 will not be mandatory until periods beginning on or after 1 January 2013, which for Australian not-for-profit entities within the GGS would be for periods ending on or after 30 June 2014. Of particular relevance is that the new requirements change the classification criteria of financial assets measured at fair value and amortised cost, and the presentation of gains/losses on financial liabilities designated at fair value through profit and loss.

- (d) actuarial gains and losses relating to defined benefit superannuation plans that may be recognised in full through operating result (which is part of comprehensive result), recognised in full through other comprehensive income (which is also part of comprehensive result), or partially deferred using a ‘corridor approach’ under AASB 119 *Employee Benefits*. The option to partially defer using a ‘corridor approach’ is not available under this Standard. The other two options are available²;
- (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*. Because proportionate consolidation is inconsistent with the ABS GFS Manual’s principles and rules, proportionate consolidation is not available³;
- (f) borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that may be capitalised as part of the cost of that asset or recognised as an expense in the period in which they are incurred under AASB 123 *Borrowing Costs*. The option to expense borrowing costs is required to be adopted;
- (g) investments in subsidiaries, jointly controlled entities and associates that are not classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* that may be measured in separate financial statements at cost or in accordance with AASB 139 under AASB 127 *Consolidated and Separate Financial Statements*. The option to measure such investments in accordance with AASB 139 is required to be adopted in the separate financial statements; and
- (h) land under roads that is not required to be recognised under AASB 1051 *Land under Roads*. Land under roads is required to be recognised and measured at fair value where the asset recognition criteria are satisfied.

² The AASB issued Exposure Draft ED 195 *Defined Benefit Plans (Proposed amendments to AASB 119)* in May 2010. The Board will have regard to the outcome of ED 195 in progressing this Exposure Draft.

³ This is also consistent with IFRS 11 *Joint Arrangements* issued by the IASB in May 2011, which removes the option for proportionate consolidation. IFRS 11 is applicable from 1 January 2013 and is expected to be incorporated into AASB 11 shortly.

Disclosures

GAAP/GFS Harmonisation Information

- 13 An entity shall disclose, either in the financial statements or in the notes, the GAAP/GFS harmonised information about controlled items and administered items described in paragraph 14 of this Standard. The amounts included shall be determined in a manner consistent with the recognition and measurement principles described in paragraph 10 of this Standard, and classified in a manner consistent with the principles and rules in the ABS GFS Manual to the extent it does not conflict with other applicable Australian Accounting Standards.
- 14 The disclosures referred to in paragraph 13 shall be presented in the form of:
- (a) a statement of financial position that is prepared in a manner consistent with the principles in AASB 101 and that presents controlled items and, separately, administered items;
 - (b) a single statement of comprehensive income that is prepared in a manner consistent with the principles in AASB 101 and that presents:
 - (i) controlled income and expenses and, separately, administered income and expenses, classified as *transactions* or *other economic flows* determined in a manner consistent with the principles and rules in the ABS GFS Manual; and
 - (ii) the *net operating balance* (which is the net result of transactions) attributable to controlled items and, separately, administered items; and
 - (c) a statement of cash flows that is prepared in a manner consistent with the principles in AASB 107 *Statement of Cash Flows* and that presents controlled cash flows and, separately, administered cash flows relating to investing in financial assets within policy purposes/liquidity management purposes classifications determined in a manner consistent with the principles and rules in the ABS GFS Manual.
- 15 Paragraph 13 of this Standard requires amounts to be presented in a manner consistent with the ABS GFS Manual to the extent it does not

conflict with other applicable Australian Accounting Standards. Certain Australian Accounting Standards do not prescribe specific treatments for all items and issues within their scope. An example is AASB 101, which specifies only the minimum line items to be presented in the statement of financial position and requires additional line items, headings and subtotals to be presented when such presentation is relevant to an understanding of the entity's financial position. The ABS GFS Manual specifies principles and rules for the presentation of a balance sheet prepared for GFS purposes, including financial/non-financial asset classifications. Those ABS GFS Manual principles and rules are required to be applied in the presentation of the information required by paragraph 14(a) to the extent that they do not conflict with AASB 101. In relation to the statement of cash flows and the information required by paragraph 14(c), cash flows from operating activities may be reported using either the direct method or the indirect method under AASB 107. However, 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.

- 16 Paragraph 14(b)(i) of this Standard requires all amounts relating to controlled income and expenses and administered income and expenses to be classified as transactions or other economic flows determined in a manner consistent with the ABS GFS Manual. For the purpose of applying the definition of transactions, which includes the term '*institutional unit*', an entity within the GGS is deemed to be an institutional unit. The following examples illustrate how paragraph 14(b)(i) applies to particular items – whether controlled or administered:
- (a) net profit/(loss) from associates. This comprises two components where there is a difference between the entity's share of net profit/(loss) from associates and dividends from associates during a reporting period:
 - (i) one component, 'dividends from associates (part of share of net profit/(loss) from associates)', is classified as transactions, but is not included in the line item that includes dividends from entities other than associates; and
 - (ii) the remaining component, 'share of net profit/(loss) from associates, excluding dividends', is classified as other economic flows;
 - (b) changes in the fair value of financial instruments measured at fair value, that do not arise from undistributed interest or dividends. These 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. These are classified as other economic flows, irrespective of whether they are included in the calculation of operating result/profit or loss, or other comprehensive income section of the statement of comprehensive income;
- (d) a change in the fair value of investment property. This potentially comprises two components:
 - (i) one component, relating to consumption of capital, is classified as transactions, calculated by applying the principles of depreciation contained in AASB 116 *Property, Plant and Equipment*. Although the consumption of capital might be considered to be similar in nature to depreciation, it is not included in the line item that includes depreciation; and
 - (ii) the remaining component, relating to price changes, is classified as other economic flows;
- (e) depreciation of defence weapons platforms. This is classified as transactions, by analogy with the GFS classification of depreciation of other plant and equipment;
- (f) doubtful debts. These are classified as other economic flows, by analogy with the GFS classification of revaluations of other assets;
- (g) bad debts. These are classified as transactions to the extent they are mutually agreed, otherwise they are classified as other economic flows;
- (h) the income and expense recognised as a result of liabilities such as defined benefit superannuation or long service leave being assumed by another entity (for example, the government) in accordance with paragraph 41 of AASB 1004 *Contributions*. These are classified as transactions, on the basis that they are an interaction between the entity within the GGS and another entity;
- (i) a capital asset charge, which might be imposed by a government on the written-down value of non-current physical assets controlled by the entity. This is classified as transactions on the

basis that it is an interaction between the entity and the government. It also differs in nature from finance costs referred to in paragraph 82(b) of AASB 101;

- (j) amounts previously recognised in other comprehensive income that are reclassified to operating result/profit or loss (referred to as reclassification adjustments) under certain Australian Accounting Standards. These are classified as other economic flows to the extent they arise from the realisation of previously recognised other economic flows; and
- (k) dividend income. This is classified as transactions, to the extent that the ABS GFS Manual accounts for it as dividends, otherwise it is classified as other economic flows.

- 17 The GFS key fiscal aggregate 'net operating balance' (i.e. net result from transactions) required to be presented for controlled items and administered items by paragraph 14(b)(ii) is measured in a manner consistent with other amounts recognised in the statement of comprehensive income. Except those required by other applicable Australian Accounting Standards, no other GFS key fiscal aggregates are required to be presented in any of the financial statements.
- 18 Paragraph 14(c) requires the presentation of controlled cash flows and administered cash flows relating to investing in financial assets within policy purposes/liquidity management purposes classifications determined in a manner consistent with the ABS GFS Manual. Paragraph 2.123 of the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (ABS Catalogue No. 5514.0) notes that the distinction between investments in financial assets for policy and liquidity management purposes is based on the government's motivation for acquiring the assets. Where the assets are acquired for the purpose of implementing or promoting government policy (for example, loans to assist industry development), the acquisition of the assets is treated as being for policy purposes. Where the assets are acquired for the purposes of managing the government's cash reserves (for example, investment in shares with the aim of maximising returns), the acquisition is treated as being for liquidity management purposes.
- 19 The requirements in AASB 1050 *Administered Items* continue to apply to government departments, except to the extent to which the information disclosed in accordance with paragraph 14 of this Standard satisfies the requirements of that Standard. In particular, in addition to providing the GAAP/GFS harmonisation information about

administered items required by this Standard, government departments are required to disclose⁴:

- (a) each major class of administered assets, liabilities, income and expenses, to the extent those classes differ from the classes disclosed to comply with the requirements of this Standard;
- (b) in respect of each major class of administered income and expense, the amounts reliably attributable to each of the government department's activities and the amounts not attributable to activities; and
- (c) details of the broad categories of recipients of transfer payments and the amounts transferred to those recipients.

20 In satisfying the requirements for disclosure of information about administered items required by paragraphs 13 and 14 of this Standard, the principles for identifying administered items and reporting them on the same basis adopted for the recognition of the elements of the financial statements in AASB 1050 are applied.

21 The requirements in AASB 1052 *Disaggregated Disclosures* continue to apply to government departments.

22 Examples A and B illustrate possible formats for presenting the information required by paragraphs 13 and 14.

Budgetary Information

23 **Where a budgeted:**

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

reflecting controlled or administered items is presented to parliament, the financial statements shall disclose for the reporting period:

4 As noted in paragraph 7 of this Standard, the requirements that do not apply to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements are identified in this Standard by shading of the relevant text.

- (e) **that original budgeted financial statement presented to parliament, presented and classified on a basis that is consistent with the presentation and classification of:**
 - (i) **the information about controlled items presented in the primary financial statements and the accompanying information about administered items; or**
 - (ii) **the information about controlled and administered items presented in the GAAP/GFS harmonisation note (as allowed by paragraphs 13 and 14 of this Standard), where an entity elects to present the information in a note rather than in the financial statements,**

whichever is judged to be the more useful for users; and
- (f) **explanation of major variances between the actual amounts presented in relation to (e)(i) or (ii) and corresponding original budget amounts.**

- 24 Comparative budgetary information in respect of the previous period need not be disclosed.**
- 25 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 23.
- 26 Any revised budget that is presented to parliament during the reporting period may be disclosed in addition to the original budget.
- 27 For the purpose of this Standard, entities are required to report the financial information required by paragraph 23 about their original budgets for the reporting period that are presented to parliament. This facilitates users of financial statements (including taxpayers) making and evaluating decisions about the allocation of scarce resources and for assessing the discharge of accountability. The budget information is disclosed on the same presentation and classification basis as the basis adopted in either the primary financial statements and accompanying information about administered items or the GAAP/GFS harmonisation information that might be disclosed in the notes rather than in the financial statements, whichever is the more useful for users, to facilitate a comparison of actual outcomes against the budget.
- 28 To the extent the first budget presented to parliament is not consistent with the information in the corresponding primary financial statements

and accompanying information about administered items or the GAAP/GFS harmonisation information required by paragraphs 13 and 14, the budget presented to parliament is restated for budget disclosure purposes to align with the accounting presentation and classification basis specified in this Standard. Where the budget basis to be disclosed is consistent with the accounting basis adopted in the financial statements and accompanying information about administered items, budget information may be presented in the statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows.

- 29 The explanations of major variances required to be disclosed by paragraph 23(f) are those relevant to an assessment of the discharge of accountability and to an analysis of performance of the entity. They include high-level explanations of the causes of major variances rather than merely the nature of the variances.

Other Disclosures

- 30 **The note containing the summary of significant accounting policies shall make reference to the extent to which GAAP/GFS harmonisation principles have been adopted and the extent to which the ABS GFS Manual has formed a basis for determining accounting policies consistent with Australian Accounting Standards. Therefore, 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:**
- (a) **a statement that the financial statements are prepared in accordance with this Standard;**
 - (b) **a reference to the version of the ABS GFS Manual used as the basis for GFS information included in the financial statements; and**
 - (c) **when an entity has not applied the most recent version of the ABS GFS Manual:**
 - (i) **that fact; and**
 - (ii) **known or reasonably estimable information relevant to assessing the possible impact that application of the latest version of the ABS GFS Manual will have on the entity's GAAP/GFS harmonised information included**

in the financial statements in the period of initial application of that version.

- 31 In complying with paragraph 30(c), an entity considers disclosing:
- (a) the version of the latest ABS GFS Manual;
 - (b) the nature of the impending change or changes in the ABS GFS Manual;
 - (c) the date by which application of the latest version of the ABS GFS Manual is required;
 - (d) the date as at which it plans to apply the latest version of the ABS GFS Manual initially; and
 - (e) either:
 - (i) a discussion of the impact that initial application of the latest version of the ABS GFS Manual is expected to have on the GAAP/GFS harmonised information included in the entity's financial statements; or
 - (ii) if that impact is not known or reasonably estimable, a statement to that effect.
- 32 **An entity might also elect to make additional disclosures in the financial statements. Where that is the case, the additional disclosures shall be made in a way that does not detract from the information prescribed in Australian Accounting Standards.**

Transition

- 33 **When adopting this Standard for the first time, an entity shall change the elections it previously made under AASB 1 *First-time Adoption of Australian Accounting Standards* only to the extent it is necessary to comply with the ABS GFS Manual. The changes to those elections shall be made as if they had been made at the original AASB 1 transition date.**
- 34 When changes to transition date elections are required in accordance with paragraph 33 of this Standard, available options under AASB 1 are limited by paragraph 10 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. This option in AASB 1 is not available, in accordance with paragraph 12(b) of this Standard.

- 35 The transitional approach in this Standard results in comparative period information being presented in the first financial statements prepared in accordance with this Standard.

APPENDIX A

DEFINED TERMS

This appendix is an integral part of AASB 10XX.

ABS GFS Manual	Australian Bureau of Statistics (ABS) publications <i>Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005</i> (ABS Catalogue No. 5514.0) and <i>Amendments to Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005</i> (ABS Catalogue No.5514.0) published on the ABS website.
Entity within the GGS	Any legal, administrative, or fiduciary arrangement, organisational structure or other party (including a person) within the GGS having the capacity to deploy scarce resources in order to achieve objectives.
Institutional unit	<p>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 publication <i>Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005</i> (ABS Catalogue No. 5514.0 Glossary, page 257).</p> <p>(For the purpose of this Standard, as noted in paragraph 16 of this Standard, an entity within the GGS is deemed to be an institutional unit.)</p>
Net operating balance	This is calculated as income from transactions minus expenses from transactions. Based on the definition in the ABS publication <i>Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005</i> (ABS Catalogue No. 5514.0 Glossary, page 259).
Other economic flows	Changes in the volume or value of an asset or liability that do not result from transactions (i.e. revaluations and other changes in the volume of assets). Defined in the ABS publication <i>Australian System of Government Finance</i>

Statistics: Concepts, Sources and Methods, 2005
(ABS Catalogue No. 5514.0 Glossary, page 260).

Transactions

Interactions between two institutional units by mutual agreement or actions within a unit that it is analytically useful to treat as transactions. Defined in the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (ABS Catalogue No. 5514.0 Glossary, page 263).

(Paragraphs 2.61 – 2.64 of the ABS publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* [ABS Catalogue No. 5514.0] provide further explanation of the notion of transactions. In relation to ‘mutual agreement’, depreciation is classified as a transaction because the entity is regarded as operating simultaneously in two different economic capacities – as owner of the depreciating asset and as consumer of the service provided by the asset. Furthermore, transactions are not necessarily entered into voluntarily. Thus, tax payments are regarded as mutually agreed interactions because there is collective acknowledgement and acceptance by the community of the obligation to pay taxes. The types of interactions intended to be excluded from the definition of transactions include events such as illegal seizure.)

APPENDIX B

AMENDMENTS TO AASB 1050

The following amendment to AASB 1050 Administered Items is proposed to complement the proposals relating to the disclosures about administered items in paragraphs 13, 14, 19 and 20 of this Exposure Draft.

Insert a new paragraph immediately before paragraph 8 of AASB 1050 *Administered Items* as follows:

- 7A Where disclosures made as part of the requirements of AASB 10XX *Not-for-Profit Entities within the General Government Sector* meet the requirements of this Standard, it is not necessary to provide separate additional disclosure of that same information under this Standard.

BASIS FOR CONCLUSIONS

The Basis for Conclusions accompanies, but is not part of, AASB 10XX.

Background

- BC1 The Preface to this Exposure Draft outlines the Australian Accounting Standards Board's two phased approach to the direction on GAAP/GFS harmonisation issued by the Financial Reporting Council (FRC). In relation to Phase 2, addressing entities within the General Government Sector (GGS), the Board initially issued Exposure Draft ED 174 *Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS [AASBs 101, 107 and 1052]* in January 2009 for comment.
- BC2 In developing ED 174, as noted in the Basis for Conclusions accompanying that Exposure Draft, the Board considered whether to adopt an approach similar to AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, which addressed recognition, measurement, classification, presentation and disclosure matters pertinent to GAAP/GFS harmonisation. The approach in AASB 1049 effectively defines GAAP/GFS harmonisation for whole of governments and General Government Sectors (GGSs) of the Australian Government and state and territory governments as: adoption of an option in GAAP that aligns with GFS in relation to recognition, measurement, classification and presentation in the primary financial statements, supplemented by specific disclosures. Although based on AASB 1049, the proposals in ED 174 were not as extensive as the requirements in AASB 1049 because they were designed to facilitate GAAP/GFS harmonisation for entities within the GGS to the extent appropriate, having regard to the relevance of the information for users and cost/benefit considerations.
- BC3 A number of submissions received on ED 174 expressed concerns as to the costs relative to the benefits of implementing the proposals for entities within the GGS. After considering the comments on ED 174, the Board decided not to proceed with those proposals, on the basis that, on balance, there was insufficient evidence that the proposals were substantive enough to satisfy the needs of a broad range of users of general purpose financial statements of entities within the GGS. In particular, it noted that:
- (a) mandating GAAP/GFS harmonisation for entities within the GGS, in the manner proposed in ED 174, would not meet the needs of, for example, rating agencies, service providers and the general public;

- (b) the proposals would be inconsistent with its policy of transaction neutrality, resulting in general purpose financial statements for entities within the GGS looking different from those of private sector entities;
- (c) although the proposals in ED 174 might simplify the consolidation process, information for consolidation purposes could be derived by central agencies through special purpose financial statements or other means and therefore it is not necessary for it to be provided through general purpose financial statements; and
- (d) GAAP/GFS harmonisation for entities within the GGS was not being pursued internationally, and that the adoption of the ED 174 proposals would be inconsistent with the objective of Australia/New Zealand convergence.

BC4 At that time the Board expressed a preference not to proceed with Phase 2 of the project on the grounds that, as noted in paragraph BC3, imposing GAAP/GFS harmonisation requirements in the manner proposed in ED 174 would not meet the needs of a broad range of users. The Board then considered a number of alternative approaches. These included:

- (a) issuing non-mandatory guidance (based on the proposals in ED 174); or
- (b) not imposing GAAP/GFS harmonisation requirements on entities within the GGS, but instead issuing requirements (based on the proposals in ED 174) applicable when a jurisdiction/entity elects to present GAAP/GFS harmonised general purpose financial statements.

The Board's concerns and alternative approaches were raised with the FRC, which expressed the view that issuing non-mandatory materials on GAAP/GFS harmonisation for entities within the GGS would not satisfy the FRC's direction on the topic. The FRC therefore suggested that the Board consider alternative proposals to ED 174 that would meet the direction. Consequently, the Board rejected approaches (a) and (b), noting that they are not conducive to the production of comparable information within or across jurisdictions, and would not maximise the opportunity for the Board to improve the quality of financial reporting by entities within the GGS. The Board then decided to issue proposals for a mandatory Standard that takes a different approach to that proposed in ED 174.

- BC5 This different approach was adopted on the basis that, having regard to the responses to ED 174, the overall explicit focus for the Board's work should be improved financial reporting for entities within the GGS, rather than exclusively GAAP/GFS harmonisation, having regard to improvements that might arise from adopting aspects of harmonisation. In acknowledging the significance of this re-expressed objective, the Board considered a Standard specifying requirements that take account of GAAP/GFS harmonisation principles, would be justified if its aims of substantively improving the financial reporting of, and comparability between, entities within the GGS could be met. The Board made this decision having regard to the other, longer term, projects on its public sector agenda, including defining the reporting entity in the public sector (including consideration of the concept of control and implications for administered items), disaggregated information, and budget reporting beyond GGS and whole of government.
- BC6 In adopting this approach, the Board noted that, as a package, the resulting requirements would be substantially different from the proposals in ED 174. Accordingly, the Board decided that further due process in the form of this Exposure Draft was warranted. There continues to be mixed views amongst Board members as to whether the proposals within this Exposure Draft relating to GAAP/GFS harmonisation for entities within the GGS can be justified on cost/benefit grounds. Accordingly, in deciding to issue this Exposure Draft, the Board is willing to explore whether the benefits, including the benefits of improved comparability across jurisdictions and of more closely coupling the presentation of controlled and administered items, would outweigh the cost of implementing the proposals.
- BC7 It is also relevant to note that, given the substantial changes brought about by AASB 1049, the AASB is undertaking a post-implementation review of that Standard, which could lead to improvements to AASB 1049. A number of proposals were incorporated into Exposure Draft ED 211 *Proposed Amendments to AASB 1049*, issued in March 2011. ED 211 contains two sets of proposals. The first set of the proposals was open for comment until 6 April 2011. Those proposals related to the definition of the ABS GFS Manual, relief from adopting the latest version of the ABS GFS Manual and the related disclosures. As a consequence, the Board issued Amending Standard AASB 2011-3 *Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments* in May 2011. The proposals in this Exposure Draft are consistent with AASB 2011-3. The remaining proposals in ED 211 were open for comment until 6 June 2011. The suitability for the proposals in this Exposure Draft,

of any further improvements that occur to AASB 1049 as a result of the proposals in ED 211, will be considered at a later date.

- BC8 This Basis for Conclusions focuses on the issues that the Board considers to be of greatest significance. Individual Board members gave greater weight to some factors than to others.
- BC9 In structuring its deliberations the Board considered each of the following broad issues:
- (a) entities subject to the requirements;
 - (b) definition and version of the ABS GFS Manual;
 - (c) recognition and measurement (in the financial statements);
 - (d) classification and presentation (in the financial statements or in the notes);
 - (e) other disclosures;
 - (f) accounting policy note;
 - (g) disaggregated information (by function or sector);
 - (h) budgetary reporting;
 - (i) reduced disclosure requirements for entities applying Tier 2 requirements;
 - (j) transitional requirements;
 - (k) operative date;
 - (l) illustrative examples; and
 - (m) the nature of the Standard.

Each of these issues is considered below.

Entities Subject to the Requirements

- BC10 In developing ED 174, the Board considered whether the proposals in that Exposure Draft, including proposed amendments to AASB 101 *Presentation of Financial Statements* and AASB 107 *Statement of Cash Flows* should be imposed on each entity within the GGS,

irrespective of the legal structure or objective of the entity. The Board noted at that stage that, because the proposed amendments would be consistent with the current requirements in AASB 101 and AASB 107, they would not prevent a for-profit entity within the GGS from continuing to make an unreserved statement of compliance with International Financial Reporting Standards (IFRSs). Furthermore, the amendments proposed in ED 174 would not have prevented an incorporated entity within the GGS from continuing to comply with *Corporations Law* requirements. Accordingly, in the interest of increasing the comparability of financial statements among entities within the GGS, the Board then decided for the purposes of ED 174 to propose that the amendments should apply to entities within the GGS, irrespective of their legal structure or objectives. The Board noted that this approach would have contributed to simplifying the consolidation process in preparing whole of government and GGS financial statements.

BC11 As noted in paragraph BC5, the focus of this Standard has changed from GAAP/GFS harmonisation per se to the quality of financial reporting for entities within the GGS. In relation to for-profit entities within the GGS, of which there are very few, the Board concluded that the importance of comparability within the for-profit sector should outweigh comparability between for-profit and not-for-profit public sector entities. The Board therefore concluded that this Standard should only apply to not-for-profit entities (as defined in AASB 102 *Inventories*, AASB 116 *Property, Plant and Equipment*, and AASB 136 *Impairment of Assets*) within the GGS.

BC12 The Board also considered the question of whether all not-for-profit entities within the GGS are reporting entities, and therefore whether they should be subject to the requirements of this Standard. It noted the view of some that, given their relationship to their controlling government, certain entities within the GGS, such as government departments:

- (a) might not be separate reporting entities; and
- (b) information about them might be best presented with information that is in the form of segment information related to the whole of government and GGS.

BC13 The Board noted that this remains a fundamental issue that can be more efficiently and effectively addressed as part of the Board's work on the Conceptual Framework project. Accordingly, the current approach of treating most, if not all, government departments as reporting entities (see the definition of 'reporting entity' in AASB 101, as amended by AASB 2008-3 *Amendments to*

Australian Accounting Standards arising from AASB 3 and AASB 127) has been retained.

Definition and Version of the ABS GFS Manual

- BC14 The Board decided that the ABS GFS Manual continues to be the appropriate authoritative source for GFS matters that are pertinent to general purpose financial reporting. After consulting with the ABS, consistent with Amending Standard AASB 2011-3 the Board decided the ABS GFS Manual should be defined as Australian Bureau of Statistics publications Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005 (ABS Catalogue No. 5514.0) and Amendments to Australian System of Government Finance Statistics, 2005 (ABS Catalogue No. 5514.0) published on the ABS website.
- BC15 Also consistent with AASB 2011-3, the Board decided to facilitate the orderly adoption of future ABS GFS Manual amendments for the purposes of GAAP/GFS harmonised financial reporting by specifying that not-for-profit entities within the GFS shall apply the version of the Manual effective at the beginning of the previous annual reporting period or any version effective at a later date, as the basis for GFS information included in the financial statements under this Standard. In other words, the version to be applied need not necessarily be the latest version. As a consequence, as mentioned at paragraph BC36, the Board also decided to require disclosures that inform users about the version of the ABS GFS Manual adopted and about any amendments made in a later version. The date on which amendments of the ABS GFS Manual become effective is the publication date if no effective date is specified by the ABS. Furthermore, the Board decided that no relief should be provided from any ABS GFS Manual requirements relating to retrospective application of amendments, noting that to do otherwise would go beyond the Board's role in developing GAAP/GFS harmonisation requirements, particularly because it would create the potential for there to be a permanent difference between the amounts presented as GFS in the financial statements and GFS amounts published by the ABS.

Recognition and Measurement

- BC16 In ED 174, the Board proposed to not specify recognition and measurement requirements that differed from GAAP, on the basis that any decision to limit a GAAP recognition and measurement option to align with GFS could be made by each jurisdiction.

BC17 When reviewing issues of recognition and measurement for this Standard, the Board decided that, consistent with AASB 1049, as a principle, a recognition and measurement choice in GAAP should be limited to that which aligns with GFS. Among the arguments in favour of adopting this principle were that:

- (a) it would result in improved comparability among not-for-profit entities within the GGS, as all entities would be required to adopt the same GAAP choice; and
- (b) it would generally provide more relevant information for users, particularly where the principle would result in the adoption of fair value rather than cost.

BC18 Having established this principle, the Board decided that it is not its role to provide an exhaustive list of the limitations on GAAP options that would arise from the principle. This is consistent with its decision to minimise (rather than avoid) the need for preparers to refer to the ABS GFS Manual as it did not want to be seen as interpreting the Manual. Furthermore, it is consistent with the Board deciding that it would be inappropriate to explicitly include the ABS GFS Manual within the GAAP hierarchy due to the precedent that this might set for including other non-GAAP material within the hierarchy. However, the Board concluded that the Standard should include a more extensive list of specific examples of the application of the principle than the list provided in AASB 1049:

- (a) to compensate for preparers' lower familiarity with GFS compared with preparers of GGS and whole of government financial statements; and
- (b) to address entity-within-the-GGS specific issues not pertinent to the GGS and whole of government context; for example, the treatment of capital asset charges.

At the same time, while noting professional judgement is required in applying the principle, the Board remains willing to work with interested parties who might decide to develop further guidance on the principle.

BC19 In adopting this approach, the Board noted that there is a range of different kinds of options in GAAP, only some of which are limited by the principle and therefore included in the list.

BC20 In developing the list of examples, the Board decided to limit them to explicit recognition and measurement (except measurement for disclosure purposes) options that are expected to be most relevant in a

public sector context. Accordingly, GAAP options excluded from the list can be categorised as:

- (a) outside the scope of the principle, such as:
 - (i) measurement for disclosure purposes options (e.g. paragraph 9 of AASB 7 *Financial Instruments: Disclosures*); and
 - (ii) where neither GAAP option aligns with GFS (e.g. paragraph 25 of AASB 102 *Inventories*, where a choice is allowed between the first-in, first-out and weighted average cost formula; while under GFS inventories are measured at current market prices, current cost of production, current sales price or current replacement value);
- (b) an explicit exception to the principle, such as in the case of early adoption of Standards options (see paragraph BC22); and
- (c) although within the scope of the principle, of limited application to not-for-profit entities within the GGS, such as Appendices C and D of AASB 1 *First-time Adoption of Australian Accounting Standards*.

BC21 The Board noted concerns about whether adoption of the principle would provide better information for users in all cases. For example, under AASB 131 *Interests in Joint Ventures*, investments in jointly controlled entities may be accounted for using the equity method of accounting or proportionate consolidation. Proportionate consolidation would be inconsistent with the ABS GFS Manual's principles and rules, and therefore would not be adopted under the principle, even though some argue that proportionate consolidation is the better accounting treatment. However, the Board noted that the International Accounting Standards Board (IASB) has recently issued IFRS 11 *Joint Arrangements*, which removes the proportionate consolidation option. IFRS 11 is effective from 1 January 2013 and is expected to be incorporated into AASB 11 shortly. Accordingly, given the AASB's policy to incorporate IASB Standards into Australian Accounting Standards in a transaction neutral way and that such an approach facilitates GAAP/GFS harmonisation, the Board decided to adopt the principle even if it would not necessarily result in adoption of the preferred option in GAAP. The Board also noted that this is consistent with the approach adopted in AASB 1049.

- BC22 The Board also noted concerns about the implications of the principle in circumstances where Australian Accounting Standards are on issue but have not become mandatory, although early adoption is permitted. The Board decided that adoption of the principle should not lead to, but nor should it preclude, early adoption of Standards that align with GFS principles. The Board decided that the principle should not usurp the Board's intention in providing a lag between the issue of a Standard and its mandatory operative date, to help ensure entities have adequate time to understand and apply new GAAP requirements.
- BC23 Consistent with its conclusion in paragraph BC20(a)(ii), the Board noted that the adoption of the principle would mean that the choice provided in AASB 127 *Consolidated and Separate Financial Statements*, that, under certain circumstances, a parent can elect not to present consolidated financial statements⁵, would be available as the ABS GFS Manual does not explicitly address financial reporting by individual entities within the GGS. However, consistent with the Board's conclusion in paragraph BC17, paragraph 12(g) of this Standard notes that the measurement option in AASB 127 relating to separate financial statements would be limited by the principle.
- BC24 Furthermore, consistent with the proposals in ED 174, the Board decided that it is not necessary for this Standard to separately address consolidation principles, because AASB 127 deals with the pertinent issues. Accordingly, not-for-profit entities within the GGS preparing consolidated financial statements should consolidate, on a line-by-line basis, all controlled entities, including those in the Public Non-Financial Corporations (PNFC) sector and Public Financial Corporations (PFC) sector, which would provide the most relevant information for users. The Board noted the view of some that this is inconsistent with the principles in the ABS GFS Manual, but also noted that the Manual focuses on the whole of government and GGS levels rather than at the level of entities within the GGS.
- BC25 One further issue concerned which versions of Standards with options to refer to. A case in point is AASB 139 *Financial Instruments: Recognition and Measurement*. The IASB is in the process of replacing IAS 39 *Financial Instruments: Recognition and Measurement*, which is currently incorporated into AASB 139, in

⁵ At its February 2011 meeting, the AASB decided to extend the relief from consolidation (and the equity method and proportionate consolidation) in the circumstances proposed in Exposure Draft ED 205 *Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation*. Despite the relief, not-for-profit entities within the GGS might be required to continue to prepare consolidated financial statements by an authority other than AASB Accounting Standards. This Standard specifies requirements for consolidated and/or separate financial statements when they are prepared by not-for-profit entities within the GGS.

phases. The IASB has issued IFRS 9 *Financial Instruments*, dealing at this stage with classification and measurement of financial assets and financial liabilities, and plans to add requirements on impairment of financial assets at amortised cost and hedge accounting in 2011. The approach in this Standard of focusing on the options in AASB 139 rather than AASB 9 is justified on the basis that the IASB has signalled that IFRS 9 will not be mandatory until periods beginning on or after 1 January 2013, which for Australian not-for-profit entities within the GGS would be for periods ending on or after 30 June 2014. Of particular relevance is that the new requirements change the classification criteria of financial assets measured at fair value and amortised cost, and the presentation of gains/losses on financial liabilities designated at fair value through profit and loss.

Classification and Presentation

- BC26 In ED 174, the Board proposed that GAAP/GFS harmonised classification and presentation principles should be required to be incorporated into the financial statements.
- BC27 The Board noted that some Board members would prefer GAAP/GFS harmonised-based classification to be disclosed in the notes and prohibited from being presented on the face of the financial statements. Those Board members expressed concerns that, if an entity decided to put all the disclosures on the face of the statements, this would result in a complicated set of line items and, because of the need for comparative information, too many columns – which would detract from user understanding of the statements. The observation was made that if the information were restricted to the notes of the financial statements, those users interested in that information could find it there.
- BC28 However, in the light of responses to ED 174, the Board decided not to limit GAAP in this way. Accordingly, the Board decided not to amend the current GAAP requirements for the presentation of the primary financial statements, particularly mindful of the fact that the IASB currently has a project underway on financial statement presentation and that requiring GAAP/GFS harmonised-based classifications to be presented in the financial statements might preempt any outcomes likely to impact on GAAP. Accordingly, this Standard requires the primary financial statements to continue to be prepared in accordance with AASB 101 and AASB 107, and does not require GAAP/GFS harmonised-based classifications to be presented in the financial statements. In making this decision, the Board also decided that it would not be appropriate to prohibit entities from incorporating GAAP/GFS harmonised-based classification and

presentation in the financial statements, if entities decide that such a presentation is in the best interests of their users.

- BC29 Consistent with this approach, this Standard requires disclosure of information that includes controlled and administered items (in addition to any other requirements of AASB 1050 *Administered Items* for government departments), presented using GAAP/GFS harmonised classification principles (including the distinction between transactions and other economic flows and the disclosure of the net operating balance, and classification and presentation of cash flows from investing activities for policy purposes and liquidity management purposes) either in the financial statements or in a note. Consistent with (a) treating an entity within the GGS as an entity rather than merely an arm of government and (b) acknowledging the difference in nature between controlled items and administered items, the Board concluded that the information should neither make nor disclose eliminations of intra-government transactions and should not add together controlled items and administered items. The Board considered that disclosure of information about controlled and administered items in the manner required by this Standard would provide a bridge between the general purpose financial statements of a not-for-profit entity within the GGS and the GGS/whole of government, and assist users in assessing the overall contribution of an individual entity within the GGS to the whole of government.
- BC30 The Board decided that the requirements of AASB 1050 should remain in place until such time as the project on control within the public and not-for-profit private sectors has been completed and the implications for AASB 1050 have been reviewed. The Board noted that although AASB 1050 only applies to government departments, it contains requirements that are additional to the requirements in this Standard, including requiring a government department to disclose, in relation to transfers that are not controlled by government departments, the details of the broad categories of recipients and the amounts transferred to those recipients.
- BC31 The Board noted that the requirements in this Standard are consistent with paragraph 25 of AASB 1050, which allows government departments to elect to display information about administered items on the face of the financial statements, provided that in doing so, they are displayed with, but clearly distinguishable from, the entity's operating statement and/or statement of financial position.
- BC32 The Board decided that a statement in the form of a GAAP/GFS harmonised statement of changes in equity should not be required to be disclosed, because GFS classifications are not applicable to GAAP

changes in equity. The Board also noted that a statement of changes in equity is not required under AASB 1050.

- BC33 Consistent with AASB 1049, the Board decided the GAAP/GFS harmonisation information should incorporate both GAAP and GFS line items, sub-classifications and subtotals to the extent that GFS is not inconsistent with GAAP, in order to provide the bridge to the whole of government financial statements noted in paragraph BC29.
- BC34 In order to give effect to the substance of the GFS distinction between transactions and other economic flows in a GAAP reporting entity context, the Board decided to retain the GFS definitions of ‘institutional unit’ and ‘transactions’ unamended, and explicitly deem all entities within the GGS to be institutional units for the purpose of the Standard. The Board noted that there are no identified adverse implications from such an approach and that it is an effective way to achieve the substance of the GFS distinction.
- BC35 The Board considered a further possible requirement for the whole of government/GGS (rather than for not-for-profit entities within the GGS) to disclose the contribution of each material controlled entity before and after eliminations of intra-government transactions (as a disaggregation). This was in response to the view expressed that such disclosure would be useful to users. The Board considered whether to effect such a requirement through this Standard as a consequential amendment to AASB 1049. However, on balance, the Board decided not to require such disclosures, noting that its decisions reflected in this Standard relating to providing GAAP/GFS harmonisation information about the controlled activities and administered activities of an entity within the GGS would satisfy the type of user need anticipated to be met through such disclosure.

Other Disclosures

Accounting Policy Note

- BC36 The Board concluded that, having regard to the needs of users, the Standard should require the accounting policy note to include a statement of the basis upon which the financial statements are prepared (referencing the version of the ABS GFS Manual – see paragraphs BC14 and BC15) and that where the entity elects to make additional disclosures in the financial statements, they are made in a way that does not detract from the information prescribed in Australian Accounting Standards.

Disaggregated Information

- BC37 In ED 174, the Board indicated its intention to amend AASB 1052 *Disaggregated Disclosures*, and broaden its scope to apply to entities within the GGS unless they are subject to AASB 114 *Segment Reporting* or AASB 8 *Operating Segments*. This was aimed at facilitating consistency of reporting among entities within the GGS, within the context of the Board's transaction-neutral approach to developing Australian Accounting Standards. As a consequence, the Board decided that it was not necessary to impose on entities within the GGS the requirements in AASB 1049 to disclose information about recognised expenses, excluding losses, included in operating result and assets that are reliably attributable to broad GFS functions. The Board also noted that the requirements in AASB 1052 are the subject of review as part of a separate future project, which will have regard to GAAP/GFS harmonisation issues as it progresses.
- BC38 When reviewing this issue, in the light of comments received on ED 174 in relation to this matter, the Board concluded that it would be premature to broaden the scope of AASB 1052 because there are a number of issues that need to be addressed – including the best basis for disaggregation and costs/benefits – that would unduly delay the current project. Nonetheless, the Board noted that a separate but related project should be initiated and given a high priority.
- BC39 As noted in paragraph BC24, the Board decided that not-for-profit entities within the GGS preparing consolidated financial statements should consolidate, on a line-by-line basis, all controlled entities, including those in the PNFC sector and PFC sector, which would provide the most relevant information to users. Accordingly, disaggregation on a GFS sector basis is not required.

Budgetary Reporting

- BC40 When developing ED 174, the Board considered whether the same kind of budgetary reporting requirements in AASB 1049 should be imposed on entities within the GGS. At the time, the Board decided not to propose imposing budgetary reporting requirements, on the basis that it would enable a Standard to be issued within a reasonable timeframe. Furthermore, the Board noted that budgetary reporting requirements, at least for not-for-profit public sector entities, would be the subject of a separate future project.
- BC41 After further consideration, and in the context of the Board's decision that the overall explicit focus for this Standard should be improved financial reporting, the Board decided that budgetary reporting requirements should be included. Among the arguments in favour of

imposing budgetary reporting requirements on not-for-profit entities within the GGS are that there is no conceptual reason to not subject such entities to similar budgetary reporting requirements under similar circumstances that are imposed on the whole of government and GGS by AASB 1049; and it would help facilitate fulfilment of the accountability obligation by not-for-profit entities within the GGS and therefore provide decision-useful information for users.

- BC42 Rather than imposing the same requirements as those in AASB 1049, the Standard requires not-for-profit entities within the GGS to disclose the original budget related to controlled or administered items (where presented to parliament) restated in relation to presentation and classification if necessary to align with either the primary financial statements and accompanying information about administered items, or the information about controlled and administered items presented in a GAAP/GFS harmonisation note (where that information is presented in a note rather than in the financial statements), whichever is judged to be the more useful to users. Consistent with AASB 1049, explanations of major variances are also required to be disclosed.

Reduced Disclosure Requirements for Entities Applying Tier 2 Reporting Requirements

- BC43 The Board noted that, under AASB 1053 *Application of Tiers of Australian Accounting Standards*, all entities within the scope of this Standard are Tier 2 entities (albeit that they might elect or be directed by a regulator to adopt Tier 1 requirements). Accordingly, the Board considered whether all the disclosure requirements should be applied to all not-for-profit entities within the GGS, or only those applying Tier 1 requirements. In making this assessment, the Board applied the principles it adopted in determining which disclosures in other Standards Tier 2 entities should be relieved of. Accordingly, having regard to user needs and cost/benefit considerations, the Board decided that entities applying Tier 2 requirements should be subject to all the disclosure requirements except those that are analogous to the disclosures required by AASB 1050 and AASB 108 from which Tier 2 entities are relieved. A more detailed analysis of the disclosure requirements against the 'Tier 2 Disclosure Principles' is available on the AASB website under [Work in Progress/Reduced Disclosure Requirements](#).

Transitional Requirements

- BC44 In ED 174 the Board noted that, when entities within the GGS applied AASB 1 *First-time Adoption of Australian Equivalents to*

International Financial Reporting Standards, they might have made certain choices that are not consistent with GFS, even though alternative allowed treatments might have aligned with GFS. The Board considered whether those entities should be allowed or required to revisit those choices to facilitate harmonisation with GFS, in the same way that AASB 1049 provided transitional requirements. At that time, the Board decided that it would not be appropriate to provide such transitional relief as the same kind of relief would not be provided to other entities, including other entities controlled by governments, being PNFC sector and PFC sector entities.

- BC45 However, for the purpose of this Standard, the Board decided to adopt, for not-for-profit entities within the GGS, the same kind of transitional requirements as contained in AASB 1049 for whole of governments. This is on the basis that (consistent with the rationale in paragraph BC11), the Board has elected to align not-for-profit entities within the GGS with similar not-for-profit entities (such as the GGS and whole of government) rather than aligning not-for-profit with for-profit entities.
- BC46 Given the Board's decision in relation to mandating GFS-aligned recognition and measurement options within a Standard, like in AASB 1049, consideration was given to whether transitional requirements not contemplated in ED 174 were warranted. On balance however, consistent with its view in AASB 1049, the Board concluded that a requirement to limit a GAAP recognition and measurement choice to that which aligns with GFS did not warrant specific transitional relief.
- BC47 The Board noted that the main presentation and classification impact relevant to transitional issues is expected to be on the preparation of comparative information for the GAAP/GFS harmonisation information about the controlled activities and administered activities of the entity, for example, classifying items of income and expenses between transactions and other economic flows. In the interest of providing information useful to users, the Board decided that relief from the requirement to provide such comparative information was not warranted.

Operative Date

- BC48 The Board considered the date from which the Standard should become mandatory. Given the likelihood that an education exercise will be necessary and that time may be needed to implement changes required to any accounting systems, the Board decided to allow a period of three years from the issue of this Standard before it becomes

mandatory. This also allows sufficient time for the principles reflected in this Standard to be adopted for any budget that might be prepared for the corresponding period. However, the Board also decided to allow early adoption of this Standard.

Illustrative Examples

- BC49 The Board considered whether there is a need for it to develop illustrative examples of the GAAP/GFS harmonisation information about controlled activities and administered activities of the entity consistent with the requirements of the Standard. The Board decided this Standard should be issued with illustrative examples, to assist preparers in understanding the requirements of the Standard.
- BC50 The illustrative examples provided are in the traditional statement of comprehensive income format as well as the net cost of services format as the Board noted that a net cost of services format for the statement of comprehensive income is relevant to and adopted by some jurisdictions.

The Nature of the Standard

- BC51 At the time of ED 174, the Board noted that there were substantive differences between the proposals in that Exposure Draft and the requirements in AASB 1049 and, as a result, decided that AASB 1049 would not be an appropriate vehicle to contain GAAP/GFS harmonisation requirements for entities within the GGS. Instead, ED 174 proposed that the current Australian Accounting Standards dealing with:
- (a) the format of financial statements, being AASB 101 and AASB 107; and
 - (b) the disclosure of disaggregated information, being AASB 1052,
- provided a more logical location for the requirements.
- BC52 Given the subsequent change in focus and broader nature of the requirements, the Board revisited this issue and considered options including:
- (a) a stand-alone Standard specific to not-for-profit entities within the GGS;

- (b) a Standard that amends other Australian Accounting Standards that have implications for GAAP/GFS harmonisation for not-for-profit entities within the GGS; or
- (c) a revised AASB 1049, whether integrating requirements for not-for-profit entities within the GGS throughout it, or adding a supplement.

BC53 As the re-focused objective for the Standard is to improve financial reporting by not-for-profit entities within the GGS, the Board decided that a stand-alone Standard would be more user-friendly for preparers. Although not consistent with the Board's policy of issuing topic-based Standards rather than industry-based Standards, it does provide one place for not-for-profit entities within the GGS to reference, without needing to identify the applicable requirements out of a more broadly scoped Standard or set of Standards.

ALTERNATIVE VIEW OF AN AASB MEMBER

AV1 Mr Williams does not support the proposals in ED 212 *Not-for-Profit Entities within the General Government Sector* for the following reasons:

Meeting needs of users of general purpose financial statements

AV2 While Mr Robert Williams agrees with the rationale for not proceeding with ED 174, in that there was insufficient evidence that the proposals in ED 174 were substantive enough to satisfy the needs of a broad range of users of general purpose financial statements of entities within the GGS, he believes the Board's rationale in paragraph BC3 for not proceeding with ED 174 is equally applicable to the proposals in ED 212. Furthermore, he considers the proposals in ED 212 are even less substantive than the proposals in ED 174. Accordingly, he argues the stated aim in ED 212 of improving financial reporting for not-for-profit entities within the GGS will not be achieved, nor will the proposals in ED 212 meet the needs of a broad range of users of general purpose financial statements of not-for-profit entities within the GGS.

Costs/benefits justifications

AV3 Mr Williams does not think that ED 212 adequately articulates why the benefits exceed the costs. He is concerned that the costs of implementing the proposals in ED 212 would be equally costly to that of ED 174, whether the presentation and classification of items are disclosed on the face of the financial statements or in the notes, as the same costs, such as training costs and the potential costs of changing accounting systems, would still be required. In addition, he believes the costs of implementing the proposals in ED 212 would be substantial, as most people at the entity level have little or no knowledge of GFS. Mr Williams also thinks that, based on paragraph BC3, there are little perceived benefits in implementing the proposals in ED 212, and therefore the costs of the proposals would exceed any perceived benefits at the entity level.

No need for a new Standard

AV4 Mr Williams thinks that no new Standard is necessary, because any entity can apply the proposals in ED 212 under existing Standards if, or to the extent, that is considered relevant, for the following reasons:

- (a) AASB 101 *Presentation of Financial Statements* permits an entity to use relevant additional sub-headings and line items;
- (b) if GFS/GAAP information were relevant, then entities within the GGS would be currently required to make such a presentation under paragraphs 55 and 85 of AASB 101, which state that “an entity shall present additional line items, headings and sub-headings ... when such presentation is relevant to an understanding of an entity’s financial position and ... financial performance.”;
- (c) a parent entity (i.e. central government agency) can require that its subsidiaries adopt uniform accounting policies, including GAAP options that align with GFS, and most jurisdictions already mandate this. So the proposals will not improve financial reporting; and
- (d) disclosure of administered items has already been required for government departments under AASB 1050 *Administered Items*.

Possibility of GAAP/GFS harmonisation at microeconomic level

- AV4 Mr Williams thinks that it is not possible to achieve GAAP/GFS harmonisation at the entity level, since GFS focuses on providing information for the assessment of the macroeconomic impact of a government and each of the government’s sectors, whereas ED 212 focuses on entities at the microeconomic level (i.e. entity level within the GGS). He believes the fact that it is necessary to ‘deem’ individual entities within the GGS as ‘institutional units’ for the proposals to work, further demonstrates the impossibility of GAAP/GFS harmonisation at the microeconomic (entity) level, because they do not satisfy the GFS definition of ‘institutional units’.

Improvement of the quality of financial reporting

- AV5 Mr Williams does not agree that the proposals in ED 212 will result in an overall improvement to the quality of financial reporting for not-for-profit entities within the GGS, as he thinks the information proposed is not likely to be relevant to a broad range of users. Mr Williams thinks, given that AASB 127 *Consolidated and Separate Financial Statement* requires consolidated financial statements to be prepared using uniform accounting standards, but does not require the subsidiaries to use those policies in their separate financial statements, comparability between subsidiaries is not necessary to improve financial reporting. Therefore, Mr Williams thinks that improving the quality of financial reporting (largely by improving

comparability between the not-for-profit entities within the GGS) would not be a sufficient reason to justify the issuance of a new Standard. Otherwise this reason will be equally relevant to issuance of a new Standard for both for-profit and not-for-profit entities in both the public and private sectors.

ILLUSTRATIVE EXAMPLES

The following examples accompany, but are not part of, AASB 10XX.

	<i>Page</i>	
A	GAAP/GFS Harmonisation Information about Controlled and Administered Items	56
B	An Alternative Format for GAAP/GFS Harmonisation Information about Controlled and Administered Income and Expenses (Net Cost of Services)	64

Examples A and B illustrate acceptable formats for the presentation of GAAP/GFS harmonisation information in either a note or the primary financial statements, consistent with the requirements of this Standard and the assumptions made for the purpose of the illustrations.

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

Examples A and B do not purport to illustrate all possible types of controlled and administered items, nor to present all the line items as might be required by a different set of assumptions. **Additionally, they do not illustrate the disclosure of comparative period information and budgetary information in the financial statements, nor other disclosure requirements of this Standard, and all the disclosures required by other Australian Accounting Standards (e.g. disaggregated disclosures about controlled and administered items of government departments reporting under Tier 1).**

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

ILLUSTRATIVE EXAMPLE A
GAAP/GFS Harmonisation Information about Controlled and Administered Income and Expenses
for Department ABC for the year ended 30 June 20XX

	Notes	<i>Controlled</i> \$'000	<i>Administered</i> \$'000
Continuing Operations – Transactions			
Revenue from Transactions			
Output appropriations		107,621	11,079
Standing/Special appropriations		8,976	940
Interest, other than swap interest		1,556	-
Dividends		623	-
Sales of goods and services		2,113	11,615
Grants		-	3,585
Taxation Income		-	5,176
Fines		-	6,213
Other current revenues		153	-
		121,042	38,608
Expenses from Transactions			
Employee benefits expense			
Wages, salaries and supplements		(4,409)	-
Superannuation		(521)	-
Use of goods and services		(12,529)	(5,365)
Depreciation		(18,347)	-
Capital asset charge		(1,202)	-
Interest, other than swap interest		(59)	(139)
Grants		(77,515)	(5,053)
Other operating expenses		(4,362)	(1,462)
Transfers made into the consolidated fund		-	(26,589)
		(118,944)	(38,608)
Net Result from Continuing Operations – Transactions		2,098	-
Net Result from Discontinued Operations – Transactions	X	1,741	-
NET RESULT FROM TRANSACTIONS – NET OPERATING BALANCE		3,839	-

Continuing Operations – Other Economic Flows – Included in Operating Result

Other revenue		
Net swap interest revenue	390	-
Net gain on financial assets or liabilities at fair value through operating result	10	548
Net gain on non-financial assets or liabilities	-	1,120
Amortisation of non-produced assets	(2)	-
Impairment of non-financial assets	(202)	-
Doubtful debts	(4)	(895)
Other net gains from other economic flows	-	253

Discontinued Operations – Other Economic Flows – Included in Operating Result

X 150 -

Operating Result from Continuing Operations

2,290 1,026

Operating Result from Discontinued Operations

X 1,891 -

OPERATING RESULT**4,181 1,026****Other Economic Flows – Other Non-owner Changes in Equity**

Revaluations	1,050	-
Net gain on financial assets measured at fair value	1,502	-
	2,552	-

COMPREHENSIVE RESULT**6,733 1,026**

**GAAP/GFS Harmonisation Information about Controlled and Administered Assets and Liabilities for
Department ABC as at 30 June 20XX**

	Notes	<i>Controlled</i> \$'000	<i>Administered</i> \$'000
Assets			
<i>Financial assets</i>			
Cash and deposits		19,927	-
Accounts receivable		25,074	9,092
Financial assets classified as held for sale, including disposal group assets*	Y	4,132	-
Shares and other equity		18,640	12,232
		<hr/>	<hr/>
		67,773	21,324
<i>Non-financial assets</i>			
Produced assets			
Inventories		31,544	1,352
Non-financial assets classified as held for sale, including disposal group assets*	Y	17,064	-
Machinery and equipment		86,108	-
Buildings and structures		26,448	-
Investment properties		136	-
Intangibles		6,096	-
Prepayments		-	1,687
Non-produced assets			
Land		1,267	-
Intangibles		3,643	-
		<hr/>	<hr/>
		172,306	3,039
TOTAL ASSETS		<hr/> 240,079	<hr/> 24,363

Liabilities			
Accounts payable		11,451	6,873
Liabilities directly associated with assets classified as held for sale	Y	3,684	-
Advances		21,063	-
Provisions		5,714	-
Interest bearing liabilities		-	2,779
TOTAL LIABILITIES		41,912	9,652
NET ASSETS/(LIABILITIES)			
		198,167	14,711
Equity			
Contributed capital		51,727	-
Accumulated surplus/(deficit)		143,260	9,872
Other reserves		3,180	4,839
TOTAL EQUITY		198,167	14,711
*Assets classified as held for sale, including disposal group assets		21,196	-

GAAP/GFS Harmonisation Information about Controlled and Administered Cash Flows for Department ABC for the year ended 30 June 20XX

	Notes	<i>Controlled</i> \$'000	<i>Administered</i> \$'000
Cash Flows from Operating Activities			
Cash received			
Appropriations		110,292	12,019
Sales of goods and services		2,434	9,681
Interest, excluding swap interest		1,596	-
Dividends		623	-
Grants		-	3,585
Fines		-	4,253
Goods and Services Tax recovered from the Australian Taxation Office		2,281	-
Taxation Income		-	5,487
Other receipts		18	1,120
		117,244	36,145
Cash paid			
Payments to and on behalf of employees		(7,870)	-
Purchases of goods and services		(18,365)	(3,612)
Interest, excluding swap interest		(55)	(139)
Capital asset charge		(1,192)	-
Grants		(77,515)	(4,430)
Goods and Services Tax paid to the Australian Taxation Office		(1,981)	-
Payments made into the consolidated fund		-	(26,589)
Other payments		(10)	(1,462)
		(106,988)	(36,232)
NET CASH FLOWS FROM OPERATING ACTIVITIES		10,256	(87)

Cash Flows from Investing Activities***Non-Financial Assets***

Sales of non-financial assets	22,107	548
Purchases of new non-financial assets	(23,163)	-
Net cash flows from investments in non-financial assets	(1,056)	548

Financial Assets (Policy Purposes)

Sales of businesses	6,866	-
Purchases of investments	(9,133)	-
Net cash flows from investments in financial assets (policy purposes)	(2,267)	-

Financial Assets (Liquidity Management Purposes)

Sales of investments	6,701	23
Net cash flows from investments in financial assets (liquidity management purposes)	6,701	23
NET CASH FLOWS FROM INVESTING ACTIVITIES	3,378	571

Cash Flows from Financing Activities

Cash received

Owner contributions by State Government	3,145	-
Advances received	1,350	-
Swap interest	366	-
	4,861	-

Cash paid

Advances paid	(14,077)	-
Swap interest	(20)	-
Other financing	(30)	(484)
	(14,127)	(484)

NET CASH FLOWS FROM FINANCING ACTIVITIES**NET INCREASE IN CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at beginning of year	15,559	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	19,927	-

Note X: Discontinued Operations

	<i>Controlled</i>	<i>Administered</i>
	<i>\$'000</i>	<i>\$'000</i>
Discontinued Operations – Transactions		
Revenue from Transactions		
Output appropriations	3,386	-
Other current revenues	286	-
	<u>3,672</u>	<u>-</u>
Expenses from Transactions		
Employee benefits expense		
Wages, salaries and supplements	(1,451)	-
Superannuation	(172)	-
Other operating expenses	(308)	-
	<u>(1,931)</u>	<u>-</u>
Net Result from Discontinued Operations – Transactions	1,741	-
Discontinued Operations – Other Economic Flows – Included in Operating Result		
Net gain on sale of non-financial assets	150	-
Operating Result from Discontinued Operations	<u><u>1,891</u></u>	<u><u>-</u></u>

Note Y: Assets classified as held for sale, including disposal group assets and directly associated liabilities

(a) Assets classified as held for sale, including disposal group assets

	<i>Controlled</i>	<i>Administered</i>
	<i>\$'000</i>	<i>\$'000</i>
Disposal group assets		
Assets of discontinued operations		
<i>Financial assets</i>		
Cash and deposits	175	-
Accounts receivable	3,957	-
	<u>4,132</u>	<u>-</u>
<i>Non-financial assets</i>		
Produced assets		
Machinery and equipment	16,944	-
Assets classified as held for sale		
<i>Non-financial assets</i>		
Non-produced assets		
Land	120	-
Total assets classified as held for sale, including disposal group assets	<u>21,196</u>	<u>-</u>

(b) Liabilities directly associated with assets classified as held for sale

Liabilities of discontinued operations		
Accounts payable	(3,684)	-
Total liabilities directly associated with assets classified as held for sale	<u>(3,684)</u>	<u>-</u>

ILLUSTRATIVE EXAMPLE B

An Alternative Format for GAAP/GFS Harmonisation Information about Controlled and Administered Income and Expenses for Department ABC for the year ended 30 June 20XX (Net Cost of Services)

	Notes	<i>Controlled</i> \$'000	<i>Administered</i> \$'000
Continuing Operations – Transactions (Excluding Appropriations)			
Expenses from Transactions			
Employee benefits expense			
Wages, salaries and supplements		(4,409)	-
Superannuation		(521)	-
Use of goods and services		(12,529)	(5,365)
Depreciation		(18,347)	-
Capital asset charge		(1,202)	-
Interest, other than swap interest		(59)	(139)
Grants		(77,515)	(5,053)
Other operating expenses		(4,362)	(1,462)
		<hr/>	<hr/>
		(118,944)	(12,019)
Revenue from Transactions			
Interest, other than swap interest		1,556	-
Dividends		623	-
Sales of goods and services		2,113	11,615
Grants		-	3,585
Taxation Income		-	5,176
Fines		-	6,213
Other current revenues		153	-
		<hr/>	<hr/>
		4,445	26,589
Continuing Operations – Transactions (Excluding Appropriations) *		(114,499)	14,570
Discontinued Operations – Transactions (Excluding Appropriations) #	Z	(1,645)	-

Continuing Operations – Other Economic Flows – Included in Operating Result

Other revenue		
Net swap interest revenue	390	-
Net gain on financial assets or liabilities at fair value through operating result	10	548
Net gain on non-financial assets or liabilities	-	1,120
Amortisation of non-produced assets	(2)	-
Impairment of non-financial assets	(202)	-
Doubtful debts	(4)	(895)
Other gains from other economic flows	-	253
	<u>192</u>	<u>1,026</u>

Discontinued Operations – Other Economic Flows – Included in Operating Result

	Z	150	-
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NET COST OF SERVICES

	<u>(115,802)</u>	<u>15,596</u>
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Continuing Operations – Transactions (Appropriations) *

Output appropriations	107,621	11,079
Standing/Special appropriations	8,976	940
Transfers made into the consolidated fund	-	(26,589)
	<u>116,597</u>	<u>(14,570)</u>

Discontinued Operations – Transactions (Appropriations) #

	Z	3,386	-
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Operating Result from Continuing Operations

	2,290	1,026
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Operating Result from Discontinued Operations

	1,891	-
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OPERATING RESULT

	<u>4,181</u>	<u>1,026</u>
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Other Economic Flows – Other Non-owner Changes in Equity

Revaluations	1,050	-
Net gain on financial assets measured at fair value	1,502	-
	<u>2,552</u>	<u>-</u>

COMPREHENSIVE RESULT

	<u><u>6,733</u></u>	<u><u>1,026</u></u>
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* Net Result from Continuing Operations – Transactions

	2,098	-
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Net Result from Discontinued Operations – Transactions

	Z	1,741	-
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Net Result from Transactions – Net Operating Balance

	<u>3,839</u>	-
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Note Z: Discontinued Operations

	<i>Controlled</i>	<i>Administered</i>
	<i>\$'000</i>	<i>\$'000</i>
Discontinued Operations – Transactions (Excluding Appropriations)		
Expenses from Transactions		
Employee benefits expense		
Wages, salaries and supplements	(1,451)	-
Superannuation	(172)	-
Other operating expenses	(308)	-
	(1,931)	-
Revenue from Transactions (Excluding Appropriations)		
Other current revenues	286	-
	(1,645)	-
Discontinued Operations – Transactions (Excluding Appropriations)		
Discontinued Operations – Other Economic Flows – Included in Operating Result		
Net gain on sale of non-financial assets	150	-
NET COST OF SERVICES FROM DISCONTINUED OPERATIONS	(1,495)	-
Discontinued Operations – Transactions (Appropriations)		
Output appropriations	3,386	-
OPERATING RESULT FROM DISCONTINUED OPERATIONS	1,891	-
Net Result from Discontinued Operations – Transactions	1,741	-

