

**DRAFT Exposure Draft**

**ED XX**  
XXXXXXXX 200X

# **Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS**

**[AASBs 101, 107 and 1052]**

Prepared by the  
**Australian Accounting Standards Board**

*Draft ED XX Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS will be considered by the Board at its meeting on 17-18 December 2008. Please note that the Draft ED does not reflect settled positions by the AASB and may change or be modified by the AASB. This draft is not an authoritative pronouncement of the AASB. Decisions become final only after completion of the formal processes required to issue an Exposure Draft. No responsibility is taken for the results of actions or omission to act taken on the basis of any information in this draft or for any errors or omissions.*



**Australian Government**  

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**Australian Accounting  
Standards Board**

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All non-confidential submissions to the AASB will be made available to the public on the AASB website: [www.aasb.gov.au](http://www.aasb.gov.au).

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AASB 10XX AMENDMENTS TO AUSTRALIAN ACCOUNTING  
STANDARDS TO FACILITATE GAAP/GFS HARMONISATION FOR  
ENTITIES WITHIN THE GGS**

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[Draft] Australian Accounting Standard AASB 10XX *Amendments to Australian Accounting Standards to facilitate GAAP/GFS Harmonisation for Entities within the GGS* is set out in paragraphs 1-15 and Appendix A. 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 private or public for-profit or not-for-profit sectors that are reporting entities or that prepare general purpose financial statements.

Australian Accounting Standards 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 the Standard in the Australian environment.

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. 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.

Private sector for-profit entities complying with Australian Accounting Standards will simultaneously comply with IFRSs. Many other entities complying with Australian Accounting Standards will also simultaneously comply with IFRSs.

#### **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 Financial Reporting Council's (FRC's) broad strategic direction:

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

The AASB is implementing the direction in two phases:

- (a) Phase 1 relates to financial reporting by the Australian Government and the State and Territory governments and the sectors therein [GGS, Public Non-Financial Corporations (PNFC) sector and Public Financial Corporations (PFC) sector]. The issue of AASB 1049 *Whole of Government and General Government Sector Financial Reporting* in October 2007 (amended to September 2008) completed this Phase. The AASB intends to undertake a post-implementation review of AASB 1049 in due course; and
- (b) Phase 2, the focus of this Exposure Draft, 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.

The AASB decided that it is not necessary to consider GAAP/GFS harmonisation issues for other public sector entities, including entities within the PNFC sector and PFC sector, local governments and entities that GFS classifies as multi-jurisdictional such as universities.

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

## **GFS and its Relationship to GAAP Financial Reporting for Entities within the GGS**

*Note to Board: staff have included this section because we suspect that many people who may be affected by the proposals in this Exposure Draft will have limited awareness of GFS. We think that the following brief explanation of GFS vis-à-vis GAAP will be helpful.*

GFS provides statistics that focus on providing information for the assessment of the macro-economic impact of a government and each of the government's sectors. The principles and rules upon which GFS is based are contained in the Australian Bureau of Statistics (ABS) publication *Australian System of Government Finance Statistics: Concepts, Sources and Methods* (referred to in this Exposure Draft as the ABS GFS Manual), as updated from time to time, available on the ABS website ([www.abs.gov.au](http://www.abs.gov.au)).

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 GAAP and GFS 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 proposals in this Exposure Draft are 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. Accordingly, the proposals in this Exposure Draft are not as extensive as the requirements in AASB 1049.

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

The proposals in this Exposure Draft are applicable to all entities (irrespective of their legal structure or objectives) within the GGS of the Australian Government and the State and Territory governments. To facilitate GAAP/GFS harmonisation for these entities, this Exposure Draft focuses on the presentation of financial statements. In particular, it proposes amending:

- (a) AASB 101 *Presentation of Financial Statements* to require entities within the GGS to present, consistent with the principles in AASB 101 and the ABS GFS Manual:
  - (i) a statement of financial position that presents items in a liquidity order within the GFS financial/non-financial classification; and

- (ii) a statement of comprehensive income that:
  - A classifies income and expenses in a manner consistent with the GFS transactions/other economic flows classification; and
  - B presents the net operating balance;
- (b) AASB 107 *Statement of Cash Flows* to require entities within the GGS to present, consistent with the principles in AASB 107 and the ABS GFS Manual, a statement of cash flows that classifies cash flows relating to investing in financial assets in a manner consistent with the GFS policy purposes/liquidity management purposes classification; and
- (c) AASB 1052 *Disaggregated Disclosures* to require entities within the GGS, not just government departments, to apply the relevant requirements in that Standard.

## **Implications of the Proposals**

*Note to Board: Again, although to some extent repetitive of the section immediately above, staff think this section will be useful to those affected by this Exposure Draft who are unfamiliar with GFS.*

If the proposals in this Exposure Draft are adopted, those involved with preparing and using financial statements of entities within the GGS will need to familiarise themselves with a limited number of GFS concepts, explained in the ABS GFS Manual, including:

- (a) in relation to the statement of financial position, the financial/non-financial classification of assets (in a liquidity order);
- (b) in relation to the statement of comprehensive income:
  - (i) the distinction between transactions and other economic flows. Transactions are defined in the ABS GFS Manual (Glossary, page 263) as “Interactions between two institutional units by mutual agreement or actions within a unit that it is analytically useful to treat as transactions”. Other economic flows are defined as “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)”; and
  - (ii) the notion of net operating balance. This is calculated as income from transactions minus expenses from transactions; and

- (c) in relation to the statement of cash flows, the policy purposes/liquidity management purposes classification of cash flows relating to investing in financial assets.

### **Application Date**

It is planned that the proposals in this Exposure Draft be applicable to annual reporting periods beginning on or after 1 July 2010 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 X Xxxxxxx 200X. 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 whether:

- (a) the proposals are sufficient to satisfy the objective of GAAP/GFS harmonisation for entities within the GGS. If not, what approach would you suggest? Please provide your assessment of the costs and benefits of your preferred approach, and how you believe it would better meet the needs of users;
- (b) overall, the proposals would result in financial statements that would be useful to users; and
- (c) the proposals are in the best interest of the Australian economy.

**ACCOUNTING STANDARD AASB 10XX**  
**AMENDMENTS TO AUSTRALIAN ACCOUNTING**  
**STANDARDS TO FACILITATE GAAP/GFS**  
**HARMONISATION FOR ENTITIES**  
**WITHIN THE GGS**

**Objective**

- 1 The objective of this Standard is to amend other Australian Accounting Standards to facilitate GAAP/GFS harmonisation in the financial statements of *entities within the GGS* of governments. This Standard does not change the existing requirement that entities within the GGS comply with all applicable Australian Accounting Standards. Furthermore, the amendments effected through this Standard do not conflict with the other requirements in the amended Standards (AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows* and AASB 1052 *Disaggregated Disclosures*). Compliance with this Standard and other applicable Australian Accounting Standards will result in the format of the financial statements of entities within the GGS broadly aligning with the format of the pertinent sections of whole of government and GGS financial statements prepared in accordance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

**Application**

- 2 **This Standard applies to:**
  - (a) **each entity within the GGS of a government that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* and that is a reporting entity;**
  - (b) **general purpose financial statements of each other entity within the GGS of a government that is a reporting entity;**  
**and**
  - (c) **financial statements of entities within the GGS of a government 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 2010.**

- 4 **This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 July 2010. If an entity applies this Standard to an annual reporting period beginning before 1 July 2010, 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*.**

### **Amendments to AASB 101**

- 6 Paragraph Aus1.1A is added immediately after paragraph Aus1.1 of AASB 101 as follows:

Aus1.1A In addition to the other requirements in this Standard, paragraphs Aus47.1, Aus47.2, Aus60.1, Aus81.1 and Aus83.1-Aus83.3 specifically apply to *entities within the GGS*, to facilitate GAAP/GFS harmonisation in those entities' financial statements.

- 7 A definition of 'entity within the GGS' and the related cross-reference to Appendix A of AASB 1049 is added to paragraph Aus7.1 of AASB 101 immediately before the definition of 'related practice' as follows:

***An entity within the GGS is an entity that is consolidated into the financial statements of the GGS using the consolidation procedures specified in AASB 127 Consolidated and Separate Financial Statements.***

Appendix A of AASB 1049 contains definitions of 'GGS' and entities therein, comprising 'government units' and 'non-profit institutions' controlled and mainly financed by 'government'.

*[Note to Board: the Board's convention is to define a term only once in the most appropriate Standard. Compared with the alternatives, which include AASB 107 and AASB 1052, we think AASB 101 is the most logical place to locate the definition of 'entity within the GGS', given that AASB 101 contains the most material directly applicable to such entities. Despite this, we think that the definition should also be included in Appendix A of this Standard, because, despite being an amending Standard, it seems to be a logical place to also locate the definition.*

*We have not defined the term 'entity within the GGS' directly. Rather we have defined it from a 'consolidated into the GGS' perspective,*

*using language from paragraph 19 of AASB 1049. We think that this is appropriate because it avoids the string of definitions of terms that arise from a direct definition – including GGS, government units, institutional units and non-profit institution, which are all ABS GFS Manual defined terms. However, as reflected in the non-italicised grey letter paragraph immediately above, we think that it is worth noting in AASB 101 that the definitions of these terms are contained in Appendix A of AASB 1049, because AASB 1049 is otherwise unlikely to be the place that entities within the GGS would look to find the definitions.*

*We acknowledge that our suggested approach could mean that an entity within the GGS that is material to its users but immaterial in the context of GGS consolidation could avoid the requirements. However, we do not consider that to be a significant concern given that such entities could elect to, or be directed to, follow the GAAP/GFS harmonisation requirements.]*

- 8 Paragraphs Aus47.1 and Aus47.2 are added immediately after paragraph 47 of AASB 101 as follows:

**Aus47.1 In respect of entities within the GGS, the ABS GFS Manual (which specifies principles and rules for the presentation of financial statements prepared for GFS purposes) shall be applied in the presentation of the statement of financial position, statement of comprehensive income, statement of cash flows (see AASB 107) and statement of changes in equity, to the extent that it does not conflict with other requirements in this Standard.** *[Note to Board: this paragraph is based on paragraph 15 of AASB 1049]*

Aus47.2 Illustrative Example B that accompanies AASB 1049 shows a format of financial statements that might be suitable for entities within the GGS – although the key fiscal aggregate section at the foot of the illustrative statement of comprehensive income and of the statement of cash flows is not required. *[Note to Board: this paragraph is a new paragraph]*

- 9 Paragraph Aus60.1 is added immediately after paragraph 60 of AASB 101 as follows:

**Aus60.1 An entity within the GGS shall present items in the statement of financial position in a liquidity order in a manner consistent with a GFS financial/non-financial classification.** *[Note to Board: this paragraph is based on*

*approved minute item 5(d)(ii) of the 2-3 February 2008  
AASB meeting]*

- 10 Paragraph Aus81.1 is added immediately after paragraph 81 of AASB 101 as follows:

**Aus81.1 An entity within the GGS shall adopt paragraph 81(a).**  
*[Note to Board: this paragraph is based on paragraph 33 of AASB 1049. Paragraph 81 of AASB 101 is the paragraph that gives a choice between a single statement of comprehensive income or two statements. The reference to paragraph 81(a) is to the single statement of comprehensive income]*

- 11 Paragraphs Aus83.1-Aus83.3 are added immediately after paragraph 83 of AASB 101 as follows:

**Aus83.1 In respect of entities within the GGS, all amounts relating to an item included in the determination of comprehensive result shall be classified as transactions or other economic flows in a manner that is consistent with the principles in the ABS GFS Manual.** *[Note to Board: this paragraph is based on paragraph 30 of AASB 1049]*

- Aus 83.2 The following examples illustrate how the approach in paragraph Aus83.1 applies to particular items:

- (a) net profit/(loss) from associates potentially comprises two components under GFS classification – dividends from associates and the remainder. Accordingly, dividends are classified as transactions and the remainder is classified as other economic flows. Such dividends are not included in the line item that includes dividends from entities other than associates;
- (b) changes in the fair value of financial instruments measured at fair value, that do not arise from undistributed interest or dividends, are classified as other economic flows, irrespective of whether the instruments are classified as ‘fair value through profit or loss’ or ‘available-for-sale’;
- (c) actuarial gains and losses relating to defined benefit superannuation plans are classified as other economic flows, irrespective of whether they are

- included in the calculation of operating result/profit or loss, or the other non-owner changes in equity section of the statement of comprehensive income;
- (d) changes in the fair value of investment property potentially comprise two components under GFS classification – consumption of capital and price changes. Accordingly, the consumption of capital is classified as transactions and the price changes are classified as other economic flows. Although the consumption of capital may be considered to be similar in nature to depreciation, it is not included in the line item that includes depreciation;
  - (e) depreciation of defence weapons platforms is classified as a transaction, by analogy with the GFS classification of depreciation of other plant and equipment;
  - (f) doubtful debts are classified as other economic flows, by analogy with the GFS classification of revaluation of other assets;
  - (g) bad debts are classified as transactions to the extent they are mutually agreed, otherwise they are classified as other economic flows; and
  - (h) dividends from Public Non-Financial Corporations (PNFC) sector and Public Financial Corporations (PFC) sector entities are classified as transactions to the extent that the ABS GFS Manual accounts for them as dividends and otherwise as other economic flows.

*[Note to Board: this paragraph is based on paragraph 31 of AASB 1049]*

**Aus83.3 In respect of entities within the GGS, net operating balance (ie net result from transactions) shall be presented in the statement of comprehensive income, measured in a manner consistent with other amounts recognised in the statement of comprehensive income.**

*[Note to Board: this paragraph is based on paragraph 32(a) of AASB 1049]*

## **Amendments to AASB 107**

- 12 Paragraph Aus1.1A is added immediately after paragraph Aus1.1 of AASB 107 as follows:
- Aus1.1A In addition to the other requirements in this Standard, paragraphs Aus10.1, Aus10.2 and Aus21.1 specifically apply to entities within the GGS, to facilitate GAAP/GFS harmonisation in those entities' statements of cash flows.
- 13 Paragraphs Aus10.1 and Aus10.2 are added immediately after paragraph 10 of AASB 107 as follows:
- Aus10.1 In respect of entities within the GGS, the ABS GFS Manual (which specifies principles and rules for the presentation of cash flow statements prepared for GFS purposes) shall be applied in the presentation of a statement of cash flows to the extent that it does not conflict with other requirements in this Standard.** *[Note to Board: this paragraph is based on paragraph 15 of AASB 1049]*
- Aus10.2 Illustrative Example B that accompanies AASB 1049 shows a format of a statement of cash flows that might be suitable for entities within the GGS – although the key fiscal aggregate section at the foot of the illustrative statement of cash flows is not required. *[Note to Board: this paragraph is a new paragraph]*
- 14 Paragraph Aus21.1 is added immediately after paragraph 21 of AASB 107 as follows:
- Aus21.1 In respect of entities within the GGS, the statement of cash flows shall present cash flows relating to investing in financial assets for policy purposes separately from cash flows relating to investing in financial assets for liquidity management purposes, determined in a manner consistent with the ABS GFS Manual.** *[Note to Board: this paragraph is based on paragraph 36 of AASB 1049]*

## **Amendments to AASB 1052**

- 15 References to 'government departments' in paragraphs 3 and 4 of AASB 1052 are changed to 'entities within the GGS that are not required to apply AASB 114 *Segment Reporting* or AASB 8 *Operating*

*Segments*'. All other references to 'government departments', 'government department' or 'a government department' in AASB 1052, with the exception of paragraphs 10(b) and 21, are changed to 'entities within the GGS', 'entity within the GGS' or 'an entity within the GGS' respectively. *[Note to Board: this paragraph is based on approved minute item 6(f) of the 24 September 2008 AASB meeting]*

## **APPENDIX A**

### **DEFINED TERMS**

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

**An *entity within the GGS* is an entity that is consolidated into the financial statements of the GGS using the consolidation procedures specified in AASB 127 *Consolidated and Separate Financial Statements*.**

Appendix A of AASB 1049 contains definitions of GGS and entities therein, comprising government units and non-profit institutions controlled and mainly financed by government.

## **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 approach to the broad strategic direction on GAAP/GFS harmonisation issued by the Financial Reporting Council (FRC). This Basis for Conclusions summarises the Board's considerations in developing the requirements, contained in this [draft] Standard, relating to GAAP/GFS harmonisation for entities within the GGS. It 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.

### **Significant Issues**

#### **Broad approach to GAAP/GFS harmonisation**

BC2 In developing the requirements for entities within the GGS, the Board first considered whether to adopt the approach to GAAP/GFS harmonisation reflected in AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. The Board noted that the approach in AASB 1049 includes requirements for the disclosure of:

- (a) GFS sector information;
- (b) GFS functional information;
- (c) GAAP measures of key fiscal aggregates;
- (d) GFS measures of key fiscal aggregates; and
- (e) reconciliations of GAAP measures of key fiscal aggregates to GFS measures of the same key fiscal aggregates, and explanations of the differences between those measures.

The Board considered whether these requirements would provide relevant information to users of financial statements prepared for entities within the GGS. The Board also considered the practical implications, from a cost/benefit perspective, of imposing these requirements on entities within the GGS. The Board decided that the AASB 1049 requirements, except for the requirement to present the

GAAP measure of net operating balance (ie net result from transactions) in the statement of comprehensive income, should not be imposed on entities within the GGS, particularly on the grounds of the relevance of information for users. Accordingly, the Board decided that the approach to GAAP/GFS harmonisation in AASB 1049 is not appropriate for entities within the GGS. *[Note to Board: this paragraph is based on approved minute item 6, 2<sup>nd</sup> (a) and (b) and 3<sup>rd</sup> (a) of the 24 September 2008 AASB meeting.]*

- BC3 Instead, the Board decided that GAAP/GFS harmonisation could be achieved in a more relevant and cost-effective way for entities within the GGS by simply specifying that their financial statements adopt the format specified in AASB 1049 for whole of governments and GGSs, excluding the key fiscal aggregates section at the foot of the financial statements. The Board noted that a benefit to users of this approach is that the broad format of the financial statements prepared for entities within the GGS coincides with the format of those prepared for the whole of government and GGS into which entities within the GGS are consolidated. For example, the Board noted that, as a consequence of its decision, where a whole of government and GGS adopts the net cost of services format for the statement of comprehensive income, an entity within the GGS would also adopt that format, but not otherwise. Another benefit of the approach is that GAAP/GFS harmonisation can be achieved in a manner that is consistent with GAAP, and therefore consistent with the Board's transaction-neutral approach to developing Australian Accounting Standards. *[Note to Board: this paragraph is based on approved minute item 6, 2<sup>nd</sup> (b) of the 24 September 2008 AASB meeting. Staff have interpreted the Board's decisions at that meeting as prohibiting the net cost of services format for the statement of comprehensive income unless that format is adopted for the GGS statement of comprehensive income.]*
- BC4 The Board noted that, because its approach is consistent with GAAP, it is not absolutely necessary for any amendments to be made to Australian Accounting Standards. That is, the approach could be adopted for (or imposed by jurisdictions on) entities within the GGS in the absence of the amendments. However, the Board decided that, in the interest of advancing comparability of financial statements among entities within the GGS and between such entities and the financial statements of their related whole of government and GGS, amendments to the Standards are desirable. *[Note to Board: this paragraph reflects some of the discussions of the Board at its 24 September 2008 meeting.]*

### **Location of requirements**

- BC5 There are substantive differences between the requirements in this Standard and the requirements in AASB 1049, as noted in paragraph BC2 above and paragraphs BC11 and BC13-BC15 below. As a result, the Board decided that AASB 1049 would not be an appropriate vehicle to contain GAAP/GFS harmonisation requirements for entities within the GGS. Instead, the current Australian Accounting Standards dealing with the format of financial statements, being AASB 101 *Presentation of Financial Statements* and AASB 107 *Statement of Cash Flows*, and disclosure of disaggregated information, being AASB 1052 *Disaggregated Disclosures*, provide a more logical location for the requirements. *[Note to Board: this paragraph is based on approved minute item 6, 2<sup>nd</sup> (b) of the 24 September 2008 AASB meeting.]*

### **Affected entities**

- BC6 The Board considered whether the amendments to AASB 101 and AASB 107 should be imposed on each entity within the GGS, irrespective of the legal structure or objective of the entity. The Board noted that, because the amendments are consistent with the current requirements in AASB 101 and AASB 107, of themselves 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 of themselves would not prevent 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 decided that the amendments should apply to entities within the GGS, irrespective of their legal structure or objectives. The Board noted that this approach would also contribute to simplifying the consolidation process in preparing whole of government and GGS financial statements. *[Note to Board: this paragraph is based on approved minute item 6, last 2 sentences of the 2<sup>nd</sup> last paragraph of the 24 September 2008 AASB meeting.]*
- BC7 The Board also considered the question of whether all entities within the GGS are reporting entities, and therefore whether they should be subject to the requirements of this Standard. It noted the view that, given their relationship to their controlling government, certain entities within the GGS such as government departments are not separate reporting entities and that information about them could be best presented with information that is in the form of segment information related to the whole of government and GGS. The Board noted that this is a fundamental issue that can be more efficiently and

effectively addressed as part of the Board's Conceptual Framework project rather than as part of the project giving rise to this Standard. 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. *[Note to Board: this paragraph is based on item 3(k) 'administered items' of the AASB's Public Sector Policy Paper (as at October 2008).]*

### **Differential reporting**

- BC8 Given the differences among entities within the GGS (eg differences in their size or the nature of their operations), the Board considered whether differential reporting issues should be addressed as part of the project giving rise to this Standard. It decided that, given the progress it is making on its separate Differential Reporting project and the relationship of that project to the International Accounting Standards Board's (IASB's) IFRS for Private Entities project, these issues would be more efficiently and effectively addressed as part of the Board's Differential Reporting project. In the meantime, consistent with the current status of differential reporting, the Board decided that the same reporting requirements should be imposed on all reporting entities within the GGS. *[Note to Board: this paragraph is based on approved minute item 6(d) of the 24 September 2008 AASB meeting.]*

### **Group and parent entity reporting**

- BC9 The Board decided that, consistent with AASB 127 *Consolidated and Separate Financial Statements*, entities within the GGS should consolidate, on a line-by-line basis, all controlled entities, including those in the Public Non-Financial Corporations (PNFC) sector and the Public Financial Corporations (PFC) sector. As noted in paragraph BC2, the Board also decided that sector information should not be required to be disclosed. The Board acknowledged the view of some that this is inconsistent with the principles in the ABS GFS Manual, but noted that the Manual focuses on the whole of government and GGS levels rather than at the level of entities within the GGS. *[Note to Board: this paragraph is based on approved minute item 4, Attachment A Board view 4 of the 21-22 May 2008 AASB meeting, as modified by approved minute 6, 3<sup>rd</sup> (a) of the 24 September 2008 AASB meeting.]*

- BC10 The Board also decided that it is not necessary for this project to separately address parent entity reporting in the context of entities

within the GGS, because AASB 127 deals with the pertinent issues. For example, the Board noted that GFS does not address the preparation of parent entity financial statements and therefore AASB 127 requirements should apply to the measurement of investments in subsidiaries in those financial statements. *[Note to Board: this paragraph is based on approved minute item 6(e) of the 24 September 2008 AASB meeting.]*

### **Choices within Australian Accounting Standards**

BC11 The Board considered whether, like the approach in AASB 1049, it is necessary to limit all the choices currently available to entities within the GGS through Australian Accounting Standards to facilitate harmonisation with GFS. The Board decided that it is not necessary for this Standard to impose such limits, except in relation to the format of the financial statements, because the relevant authority in each jurisdiction can impose the limits. *[Note to Board: this paragraph is based on approved minute item 6, 3<sup>rd</sup> (b) of the 24 September 2008 AASB meeting.]*

### **Administered items**

BC12 The Board considered whether AASB 1050 *Administered Items*, which only applies to government departments, would need to be amended in light of this Standard. The Board noted that AASB 1050 will be fundamentally reviewed as part of a separate, longer-term, project. Accordingly, the Board decided that it is not necessary to accelerate the Administered Items project in light of this Standard, as AASB 1050 can be applied within the context of this Standard. The Board will have regard to GAAP/GFS harmonisation issues as it progresses its Administered Items project. *[Note to Board: this paragraph is based on approved minute item 4, Attachment A Board view 12 of the 21-22 May 2008 AASB meeting.]*

### **Disaggregated information**

BC13 The Board decided to amend AASB 1052 as part of this GAAP/GFS Harmonisation for Entities within the GGS project, and have it apply to entities within the GGS unless they are subject to AASB 114 *Segment Reporting* or AASB 8 *Operating Segments*. This facilitates 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, consistent with paragraph BC2, the Board decided that it is 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. *[Note to Board: this paragraph is based on approved minute item 6(f) of the 24 September 2008 AASB meeting.]*

### **Budgetary reporting**

BC14 The Board considered whether the same kind of budgetary reporting requirements in AASB 1049 should be imposed on entities within the GGS. To limit the scope of the project and thereby make it more manageable within a reasonable timeframe, the Board decided that budgetary reporting should not be addressed as part of this GAAP/GFS Harmonisation for Entities within the GGS project. Furthermore, the Board noted that AASB 1004 *Contributions* contains requirements relating to the disclosure of information about compliance with parliamentary appropriations and other externally-imposed requirements, applicable to government departments. The Board decided that these requirements should remain, unamended, until such time as they are reviewed as part of a separate project. The Board also noted that, more broadly, budgetary reporting requirements, including for entities within the GGS, will be the subject of a separate future project. *[Note to Board: this paragraph is based on approved minute item 6, 3<sup>rd</sup> (c) of the 24 September 2008 AASB meeting.]*

### **Transitional requirements**

BC15 The Board noted that, at the time entities within the GGS applied AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, they might have made certain choices under AASB 1 that are not consistent with GFS, even though alternative treatments under AASB 1 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. 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. *[Note to Board: at its 21-22 May 2008 meeting, the Board tentatively decided that “Consistent with the view taken in AASB 1049, not-for-profit entities within the GGS should be required (as per paragraph 66 of AASB 1049) to revisit the elections previously made under AASB 1 in order to facilitate GAAP/GFS harmonisation” (see Attachment A*

*Board view 15). However, staff have interpreted the Board's 24 September 2008 decisions as overriding the May decisions. If the Board now decides that the May decision should prevail, a question arises as to where to locate the transitional requirements. They could of course be located in this amending Standard, but there is no natural home for them to reside more permanently/prominently. Arguably they don't need a permanent home, given the one-off/legacy nature of the issue.]*

### **Operative date**

- BC16 The Board considered the date from which the amendments should become mandatory. To allow time for implementing this Standard, the Board decided that a mandatory operative date of 1 July 2010 would be appropriate. This allows sufficient time for the principles reflected in this Standard to be adopted for any budget that might be prepared for the corresponding period.
- BC17 The Board noted that some jurisdictions might wish to minimise the effect of changes in Australian Accounting Standards on entities within the GGS by adopting changes to Accounting Standards that are mandatorily applicable from 1 January 2009 at the same time as this Standard is adopted. For example, entities or jurisdictions may wish to adopt the September 2007 amended AASB 101 at the same time that they adopt this Standard, given that both Standards particularly affect the format of the statement of comprehensive income. Also, those or other entities or jurisdictions may wish to minimise the length of time over which format differences between the whole of government/GGS financial statements and entities within the GGS financial statements exist. Accordingly, the Board decided to allow early adoption of this Standard. *[Note to Board: this paragraph is based on approved minute item 4, Attachment A Board view 19 of the 21-22 May 2008 AASB meeting.]*

### **Illustrative example**

- BC18 The Board considered whether there is a need for it to develop an illustrative example of the format of financial statements consistent with the requirements of this Standard. The Board decided that a cross-reference to particular parts of Illustrative Example B that accompanies AASB 1049 is sufficient. *[Note to Board: at its 21-22 May 2008 meeting, the Board tentatively decided that "An illustrative example (using a net cost of services format for the statement of comprehensive income [see Board view 7]) should be provided with the ED or shortly after the ED is issued. The Board noted that the HOTARAC GFS/GAAP Harmonisation Working Group had*

*informally offered assistance in developing this example, and agreed that staff should discuss this possibility further with the HOTARAC Working Group. The Board noted the significant demand on resources needed to develop an illustrative example and, therefore, decided that only a net cost of services format be illustrated, given that it is the preferred format and most likely to be used in practice.” (see Attachment A Board view 17). Although the September minutes do not explicitly amend that decision, consistent with some of the comments that were made by some Board members at the September AASB meeting, staff think that given the September decisions and the simplified way of achieving harmonisation, the approach of cross-referencing to AASB 1049 illustrative examples is adequate.*

*If the Board decides instead that a tailored example should be produced, staff do not believe that it should delay the release of the Exposure Draft. We also suggest that the HOTARAC Working Group is asked to lead the development of the example. Furthermore, consistent with paragraph BC3, presumably the illustration should not be a net cost of services format.]*