

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, AASB 1051.*

### Introduction

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BC1 This Basis for Conclusions summarises the Board’s considerations in developing this Standard in the context of the Board’s short-term review of the requirements in AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments*.

### Background

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- BC2 The Board considered it timely to review the requirements in AASs 27, 29 and 31, in particular to:
- (a) review the extent to which local governments, government departments and governments should continue to be subject to requirements that differ from requirements applicable to other not-for-profit entities and for-profit entities contained in Australian Accounting Standards. The Board concluded that differences should be removed, where appropriate and timely, to improve the overall quality of financial reporting;
  - (b) bring requirements applicable to local governments, government departments and governments up-to-date with contemporary accounting thought;
  - (c) consider the implications of the outcomes of its project on the harmonisation of Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS), in particular on the requirements in AAS 31;
  - (d) decide whether the encouragements in AASs 27, 29 and 31 should be made mandatory or removed; and
  - (e) remove uncertainty in the application of cross-references to other Australian Accounting Standards and the override provisions in AASs 27, 29 and 31 that made the requirements in AASs 27, 29 and 31 take precedence over other requirements.
- BC3 The Board considered the following alternative mechanisms for implementing the approach of updating and improving the requirements for local governments, government departments and governments:
- (a) review the requirements in AASs 27, 29 and 31 and where appropriate:
    - (i) amend other Australian Accounting Standards to pick up any issues that are addressed in AASs 27, 29 and 31 that are not adequately addressed in the latest Australian Accounting Standards and have them apply to local governments, government departments and governments; or
    - (ii) create public sector specific topic-based Standards; and consequently withdraw AASs 27, 29 and 31; or
  - (b) review AASs 27, 29 and 31 and re-issue them in light of the latest Australian Accounting Standards, retaining/amending where necessary any issues that are addressed in AASs 27, 29 and 31 that are not adequately addressed in the latest Australian Accounting Standards.
- BC4 The Board chose alternative (a) given the improvements in the quality of financial reporting by local governments, government departments and governments since AASs 27, 29 and 31 were first issued.
- BC5 Where the Board identified that the material in AASs 27, 29 and 31 could be improved within time and resource constraints, improvements have been made. Much of the material in AASs 27, 29 and 31 has been retained substantively unamended. Improvements will be progressed in due course in line with the AASB’s Public Sector Policy Paper *Australian Accounting Standards and Public Sector Entities*.
- BC6 The first stage of the short-term review of the requirements in AASs 27, 29 and 31 was the preparation of a paragraph-by-paragraph analysis of each of AASs 27, 29 and 31, listing each paragraph of each Standard alongside corresponding Standards or other pronouncements that would apply to local governments, government departments or governments in the absence of AASs 27, 29 and 31. The Board’s conclusions and rationale for the treatment of each paragraph in the context of the review were also provided in the

analysis. The Board's primary focus was on dealing with the requirements from the three Standards in such a way as to not leave a vacuum.

- BC7 Each paragraph from AASs 27, 29 and 31 was classified as being:
- (a) no longer needed or adequately dealt with in other Standards;
  - (b) more appropriately dealt with in other Standards; or
  - (c) not adequately and/or appropriately dealt with in other Standards and therefore should be retained or improved and incorporated into other Standards.
- The paragraph-by-paragraph analyses considered by the AASB in developing the Exposure Draft ED 156 *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31* that gave rise to this Standard are available on the AASB website. They support, but do not form part of, this Basis for Conclusions.
- BC8 In reviewing the paragraphs, the Board noted that some material in AASs 27, 29 and 31 would, under the current style of writing Standards, be located in a separate Basis for Conclusions. Given the short-term nature of the review of AASs 27, 29 and 31, the Board concluded that explanations of technical issues that both originated in and are being relocated from AASs 27, 29 and 31 should, when appropriate, be located in the body of the Standard to which the relevant requirements are being relocated.
- BC9 The Board decided not to retain the illustrative general purpose financial reports provided in AASs 27, 29 and 31, because their purpose, which was to provide an educational tool in the initial stages of accrual reporting by local governments, government departments and governments, is no longer needed.
- BC10 The remainder of this Basis for Conclusions focuses on issues specific to land under roads.

## **Land Under Roads**

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- BC11 The Board decided to issue this Standard as part of the short-term review of the requirements in AASs 27, 29 and 31 and to amend the previous transitional relief for land under roads, to allow entities to elect whether to recognise land under roads acquired before the end of the first reporting period ending on or after 31 December 2007. This decision is in acknowledgement of the potentially onerous demands on entities if they were to be required to retrospectively identify, assess the recognition criteria, recognise and measure land under roads previously acquired.
- BC12 The Board decided that a final election relating to the recognition of land under roads acquired before the end of the first reporting period ending on or after 31 December 2007 should be made effective as at the first day of the next reporting period. The final election can be made at any time prior to the completion of the financial statements for that next reporting period, but will be effective as at the first day of that period. The Board also decided that, to facilitate the transition to the new requirements, any adjustments arising from an election be made against accumulated surplus (deficiency); and that there would be no requirement to adjust comparative data for earlier periods when the election is made effective as at that first day. The Board noted that the extent to which an entity could change its recognition policy after that date would be constrained by the requirements of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* relating to voluntary change in accounting policy. Accordingly, subsequent changes to the accounting policy relating to the recognition of land under roads acquired before the end of the first reporting period ending on or after 31 December 2007 could only be made to recognise land under roads that it previously elected to not recognise (or, conceivably, vice versa) if that change could be justified based on paragraph 14 of AASB 108.
- BC13 Consistent with the entities that were subject to AASs 27, 29 and 31, this Standard applies to local governments, government departments (including for-profit government departments), and whole of governments. In addition, the application of this Standard extends to General Government Sectors (GGSs), which facilitates consistency in financial reporting by GGSs and whole of governments.
- BC14 In relation to GGSs and whole of governments, the Board considered the relationship between this Standard and the principle in AASB 1049 *Whole of Government and General Government Sector Financial Reporting* that GGSs and whole of governments should adopt optional treatments in Australian Accounting Standards that align with the principles or rules in the Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS) Manual. The Board noted that the recognition relief provided in this Standard for land under roads is potentially inconsistent with GFS principles. However, the Board also noted that land under roads is not recognised under GFS in practice in certain circumstances, depending on the availability of information pertinent to measurement. Accordingly, the Board concluded that the impact of AASB 1049 relative to this Standard on the recognition of land under roads would be expected to be limited.

- BC15 Accordingly, the Board decided that the broad principle adopted in AASB 1049 that a GAAP option should be adopted where it aligns with GFS should be retained without an exception for land under roads. In making this decision, the Board also noted that any difference between GFS principles and practice is beyond the control of the AASB, and that land under roads does not create unique issues in a GAAP/GFS harmonisation context.
- BC16 The Board concluded that, in principle, land under roads is property and therefore falls within the scope of AASB 116. Accordingly, it is appropriate that land under roads acquired after the end of the first reporting period ending on or after 31 December 2007 is accounted for in accordance with AASB 116. In making this decision, the Board noted that AASB 116, including paragraph Aus15.1, requires:
- (a) assets acquired at no cost, or for a nominal cost, to be initially measured at fair value as at the date of acquisition where fair value can be measured reliably; and
  - (b) requires assets acquired at a cost to be initially measured at cost, but does not require adoption of the revaluation model. The Board also noted that issues relating to reliable measurement of fair value are not unique to land under roads and therefore could be dealt with in the same manner in which issues for other classes of assets are dealt with under AASB 116.
- BC17 The Board also concluded that further requirements should replicate, in certain circumstances, the fair value or a previous revaluation (in accordance with, for example, AASB 1041 *Revaluation of Non-Current Assets* or AASB 116 *Property, Plant and Equipment*) under the “fair value or revaluation as deemed cost” exemptions in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* on the basis that this would facilitate the initial recognition of land under roads under AASB 116. The requirements would be used when a local government, government department, GGS or whole of government elects to recognise and measure land under roads acquired before the end of the first reporting period ending on or after 31 December 2007 under paragraphs 8 and 9 of this Standard, after its first-time adoption of Australian equivalents to International Financial Reporting Standards.