

Basis for Conclusions on AASB 2011-13

This Basis for Conclusions accompanies, but is not part of, AASB 1049. The Basis for Conclusions was originally published with AASB 2011-13 Amendments to Australian Accounting Standard – Improvements to AASB 1049 (December 2011).

Background

- BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board (AASB) considerations in reaching the conclusions in this Standard. Individual Board members gave greater weight to some factors than to others.
- BC2 Given the substantial change to financial reporting brought about by AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (October 2007, as amended), the Board decided to undertake a post-implementation review of that Standard. The objective was to identify any material issues at an operational level with a view to improving financial reporting. The post-implementation review included consideration of the consistency of application of AASB 1049 across jurisdictions.
- BC3 Various methods were used to identify the AASB 1049 implementation issues that gave rise to the amendments in this Standard. These methods included consulting with personnel with AASB 1049 implementation experience from each jurisdiction's Department of Treasury and Finance and Auditor-General's Office.
- BC4 The Board noted that the post-implementation review work to date has not identified any major flaws in the Standard. However, the Board identified a number of aspects of AASB 1049 where improvements could be made. After reviewing the implementation issues identified, the Board issued Exposure Draft ED 211 *Proposed Amendments to AASB 1049* containing proposals to amend AASB 1049 to clarify some of its requirements.
- BC5 The Board issued AASB 2011-3 *Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments* [AASB 1049] in May 2011. The amendments in AASB 2011-3 arise from the proposals in ED 211 relating to the definition of the ABS GFS Manual, and related disclosures. AASB 2011-3 was issued early so that the relief would be available for the reporting period ending on 30 June 2011.
- BC6 The amendments in this Standard arise from the remaining proposals in ED 211, with the bases for amendments outlined in paragraphs BC7-BC22. In addition, the Board decided that some issues raised in the post-implementation review did not warrant amendments to AASB 1049, on the bases outlined in paragraphs BC23-BC40.

Issues giving rise to amendments to AASB 1049

Alignment to terminology used in AASB 101

- BC7 Consistent with the terminology used in AASB 101 *Presentation of Financial Statements*, wherever the term 'other non-owner changes in equity' or 'other changes in equity' is used in AASB 1049 to refer to the other comprehensive income section in the statement of comprehensive income, the Board decided to amend the term to 'other comprehensive income'.

Preparation of GGS and whole of government financial statements [paragraph 7]¹

- BC8 Consistent with the original intention of paragraph 7 of AASB 1049 (see for example paragraphs BC5 and BC25 of AASB 1049) the Board decided to clarify within the body of the Standard that both whole of government and GGS financial statements are required to be prepared. The amendment addresses the concern that some could conceivably interpret AASB 1049 as merely specifying requirements for financial statements if they are prepared.

¹ References to paragraphs in the headings of this Basis for Conclusions are to paragraphs in AASB 1049.

Relative timing and cross-referencing of GGS and whole of government financial statements [paragraphs 8, 39(a) and 39(b)]

- BC9 AASB 1049 previously allowed GGS financial statements to be made available later than whole of government financial statements being made available. Where the GGS financial statements were presented separately from the whole of government financial statements, a cross-reference from the GGS financial statements to the whole of government financial statements was required to be made. The Board decided that AASB 1049 should be amended to require, at all times, GGS and whole of government financial statements to be made available at the same time and cross-referenced to each other. This is on the basis that:
- (a) GGS financial statements provide useful information (e.g. budgetary information) for users, and users should receive such information on a timely basis;
 - (b) GGS financial statements provide a bridge between a government's budget and its whole of government financial statements; and
 - (c) given that GGS is a sector of whole of government, whole of government financial statements provide a context to the GGS financial statements.

Adoption of options in GAAP that align with GFS [paragraphs 13-15]

Early adoption of new or revised Standards

- BC10 The Board noted that paragraph 13 of AASB 1049 could be interpreted as requiring early adoption of a new or revised Standard if its adoption is more in line with GFS than the requirements of the Standard being superseded. The Board decided that such an interpretation is not the intention of paragraph 13 as it would potentially undermine the Board's intention of facilitating the orderly adoption of new or revised requirements. Accordingly, the Board decided to amend AASB 1049 to clarify that AASB 1049, in mandating a particular accounting policy or limiting an otherwise broader choice of policies for the objective of GAAP/GFS harmonisation, does not require that a new or revised Standard must be adopted early, even if early adoption would more quickly allow alignment with GFS.

Disclosure of key fiscal aggregates

Presentation of additional fiscal aggregates [paragraphs 16 & 18]

- BC11 The Board noted that AASB 1049 allows jurisdictions to disclose fiscal aggregates that are additional to the key fiscal aggregates required by AASB 1049. However, the Board noted the concern that, in practice, these other fiscal aggregates are not necessarily clearly distinguished from those key fiscal aggregates in the financial statements. To address this concern, the Board decided that AASB 1049 should be amended to require a clear differentiation between key fiscal aggregates and other fiscal aggregates, to help avoid potential confusion for users.

Disclosure of other measures of key fiscal aggregates [paragraphs 16, 18, 41(a)(i) & 52(b)(ii)]

- BC12 AASB 1049 previously only allowed key fiscal aggregates measured in a manner consistent with recognised amounts or the ABS GFS Manual to be disclosed. Other measures of key fiscal aggregates were not allowed to be disclosed. The Board decided that AASB 1049 should be amended to allow disclosure of other measures of key fiscal aggregates (i.e. not measured in a manner consistent with recognised amounts or the ABS GFS Manual) on the basis that preparers should not be prevented from disclosing information they believe is useful to users, as long as it does not detract from the information required by the Standard. Accordingly, paragraphs 41(a)(i) and 52(b)(ii) have been amended by removing the requirement that prohibits the disclosure of other measures of key fiscal aggregates. Furthermore, the amendments to paragraph 18 in AASB 1049 clarify that other measures of key fiscal aggregates should not be presented as key fiscal aggregates, to help avoid potential confusion for users.

Determination of the amount to be recognised for GGS investments in PNFC and PFC sector entities [paragraphs 20(c), 21 & 23(c)]

- BC13 Paragraph 20 of AASB 1049 requires GGS controlling investments in PNFC sector and PFC sector entities to be measured at, depending on circumstances, fair value, or the government's proportional share of the carrying amount of net assets, or zero. Therefore, an investment is not recognised at an amount below zero. As noted in paragraph BC13 of AASB 1049 measurement at fair value, or at the government's proportional share of the carrying amount of net assets where fair value is not reliably measurable, is consistent with GFS. That paragraph also notes that not allowing investments to be measured below zero is consistent with the principles elsewhere in GAAP (for example, AASB 128 *Investments in Associates* does not allow negative investment values when using the equity method).
- BC14 With that background, in relation to paragraph 20 of AASB 1049, the Board noted the view of some practitioners that paragraph 23(c) of AASB 1049 is inconsistent with paragraph 20(c) because paragraph 23(c), which refers to 'net basis', implies individual amounts may be less than zero whereas paragraph 20(c) requires individual amounts to be not less than zero for the purposes of measuring a GGS equity investment in a PNFC sector or PFC sector entity. Consistent with the rationale in paragraph BC13 of AASB 1049, the Board decided the last sentence of paragraph 23(c) should be amended to be consistent with paragraph 20(c).

Classification of items between transactions and other economic flows [paragraphs 30, 31 & 55(b)]

- BC15 The Board acknowledged the view that paragraph 30 should be amended to provide further guidance for the classification of items between transactions and other economic flows to help facilitate greater consistency in its application by jurisdictions, particularly for circumstances where items arising under GAAP are not recognised under GFS in the reporting period. The Board noted that for circumstances where items arising under GAAP are also recognised under GFS in the reporting period, the principle for classification between transactions and other economic flows are already in AASB 1049. The Board decided to amend AASB 1049 to clarify the principle for classification between transactions and other economic flows in circumstances where items arising under GAAP are not recognised under GFS in the reporting period. In addition, to assist in applying the clarified principle, the Board decided to provide additional examples of how the clarified principles would apply in particular circumstances.
- BC16 Related to this issue, the Board considered whether classification of GAAP items that are also recognised under GFS in the reporting period should be grouped together, and presented separately in the statement of comprehensive income from classification of GAAP items that are not recognised under GFS in the reporting period. However, the Board decided against imposing such a requirement, on the basis that it was not identified as an issue in the post-implementation review of AASB 1049.

Defence weapons platforms [paragraphs 31(a)(v) and 44(a)(iv) of AASB 1049, and the Illustrative Examples A and B accompanying AASB 1049]

- BC17 Consistent with the ABS GFS Manual, which now recognises and measures defence weapons platforms in the same way as other non-financial assets, the relevant paragraphs in AASB 1049 and the relevant sections of the Illustrative Examples accompanying AASB 1049 are amended. There would now be no convergence difference between GAAP and GFS in relation to defence weapons platforms.

Transactions with owners as owners in a GGS context [paragraph 34B]

- BC18 The Board noted that, although not common, transactions with owners in their capacity as owners that are not eliminated on consolidation could arise because of non-controlling interest attributable to entities outside the GGS. Therefore, the Board decided that paragraph 34B should be amended to acknowledge that this could occur.

Interpretation of ‘presented on a basis that is consistent with’ in the context of budgetary information [paragraphs 59(e), 63 & 64]

- BC19 Paragraph 59(e) of AASB 1049 required disclosure of the original budgeted financial statements, presented on a basis that is consistent with the basis prescribed for the financial statements by AASB 1049. The Board noted that some practitioners questioned the meaning of ‘presented on a basis that is consistent with’. In particular, it was questioned whether the budget would be required to be recast solely for presentation and classification or whether the requirement extends to recognition and measurement. The Board noted the practical difficulties of recasting for recognition and measurement differences – e.g. retrospectively determining ‘budgeted’ fair values when hindsight is likely to influence such a determination. Therefore, the Board decided that paragraph 59(e) of AASB 1049 should be amended to clarify that the budget should be recast solely for presentation and classification matters, not for recognition and measurement matters. This amendment gave rise to consequential amendments to paragraphs 63 and 64 to focus them on presentation and classification.
- BC20 In relation to the requirement in paragraph 59(f) to disclose explanations of major variances between actual and budget amounts, the Board noted that variances might arise from recognition and measurement principles adopted in the budget being different from the recognition and measurement principles adopted in the financial statements.

Transitional requirements [paragraphs 65A, 66, 67, 68, 69 & 70]

- BC21 The Board noted it is no longer necessary to specify transitional requirements because all jurisdictions have previously first-time adopted AASB 1049 for their whole of government and GGS financial statements.

Tax-effect accounting by GGS [explanatory note r(ii) to the illustrative examples accompanying AASB 1049]

- BC22 The Board noted that of those jurisdictions that recognise deferred tax liabilities at the PNFC/PFC level, only some reflect corresponding amounts in the GGS statement of financial position as deferred tax assets. The Board also noted:
- (a) the view that, from a GAAP perspective, such ‘mirror’ accounting can be justified given the amount is known in a ‘closed system’ (i.e. the taxpayer and taxing authority are within the government); and
 - (b) the question of whether the amounts are in the nature of a tax or distribution to owners as owners.

After considering these issues, the Board considered whether to remove the text in square brackets in Explanatory Note r(ii) on the basis that the subject matter of that text is beyond the scope of the GAAP/GFS Harmonisation project. However, the Board noted that the tax regime assumed is in the context of an illustrative example and thus is non-prescriptive. The Board decided to retain the text, on the basis that it provides a useful explanation of why there is no convergence difference for GGS in relation to deferred tax balances as illustrated in Example A, with some editorial amendments to the text to clarify that the tax regime assumed is for the purpose of an illustrative example.

Significant issues that did not give rise to amendments to AASB 1049

Purpose of the GGS financial report [paragraphs 12 & BC6]

- BC23 The Board noted that paragraph 12 does not require disclosure of whether GGS financial statements are general purpose financial statements or special purpose financial statements and considered whether the absence of such a requirement gives rise to implementation issues. The Board decided AASB 1049 should not be amended in relation to this issue at this time because the AASB 1049 approach to the issue has not created insurmountable practical problems for jurisdictions, particularly because, in practice, GGS financial statements are not presented separately from the general purpose financial statements of the whole of government. The Board notes that, in due course, it may be appropriate to revisit the way AASB 1049 deals with the issue, depending on the outcome of future work to be undertaken on the Board’s Differential Reporting project.

Adoption of options in GAAP that align with GFS [paragraphs 13 & 14]

Examples of particular optional treatments in GAAP

- BC24 The Board noted the view that the Board should fully analyse optional treatments in GAAP and specify directly in AASB 1049 those treatments to be adopted, to avoid the need for preparers to refer directly to the ABS GFS Manual. The Board decided that the relatively principles-based approach in AASB 1049 should be retained, rather than including an exhaustive list of GAAP options that align with GFS, on the basis that it is not the Board's role to interpret GFS. Also, the Board decided to monitor the development of any further guidance by other interested parties on this issue and expressed a willingness to collaborate with Treasuries and the ABS in developing such guidance if Treasuries decide to develop separate guidance.
- BC25 The Board noted that some practitioners questioned the application of paragraph 12 of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* in the context of aligning optional treatments in GAAP with GFS and whether the wording in that paragraph of 'most recent pronouncements of other standard setting bodies' included the ABS GFS Manual.

Paragraph 12 of AASB 108 states:

"In making the judgement described in paragraph 10, management may also consider the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources in paragraph 11."

The Board decided that the ABS GFS Manual should not be included in the AASB 108 hierarchy, on the basis that GFS, per se, is not a part of GAAP.

Presentation of the whole of government/GGS statements of financial position [paragraph 15]

- BC26 The Board noted that the Illustrative Examples accompanying AASB 1049 subclassify non-financial assets between 'produced' and 'non-produced' categories even though the ABS GFS Manual does not explicitly require such a subclassification. The Board decided it is not necessary to amend AASB 1049 to remove the subclassification because the Illustrative Examples are not prescriptive.
- BC27 The Board also noted the view that AASB 1049 should be amended to clarify requirements relating to the presentation of statements of financial position based on liquidity. However, the Board decided it is not necessary to amend AASB 1049 in relation to this issue because the principles in AASB 1049 are sufficiently clear and the Illustrative Examples are not prescriptive.

Presentation of operating result on the face [paragraph 29]

- BC28 The Board noted the view that AASB 1049 should be amended to allow the operating result (a GAAP subtotal) not to be presented on the face of the single statement of comprehensive income on the basis that its presentation on the face clutters the statement. This is consistent with a view that users are most interested in the 'net result from transactions – net operating balance', and that including the 'operating result' on the face has the potential to confuse users. However, the Board decided that paragraph 29 should continue to require jurisdictions to present the operating result on the face of the single statement of comprehensive income because, consistent with the fundamental basis upon which AASB 1049 was developed, such a presentation is required by AASB 101.

Treatment of non-cash items in relation to cash flow statements [paragraphs 18 & 37]

- BC29 The Board noted that some jurisdictions present the value of assets acquired under finance leases and similar arrangements on the face of the cash flow statements. The Board also noted the concern expressed by some about such non-cash flows being included in cash flow statements. However, the Board decided it is not necessary to amend AASB 1049 for this issue because it is already obvious in GAAP (including AASB 1049) that an entity should clearly distinguish between information that is and is not cash flow information.

GAAP/GFS reconciliation requirements [paragraphs 41(a)(i)(B) & 52(b)(ii)(B)]

- BC30 The Board noted that AASB 1049 requires disclosure of reconciliations of GAAP and GFS measures of certain key fiscal aggregates, and an explanation of the differences. The Board also noted the view that such disclosures are unnecessary and therefore that the reconciliation requirement should be removed. However, the Board decided paragraphs 41(a)(i)(B) and 52(b)(ii)(B) should continue to require the reconciliations and explanations because they provide useful information for users in the context of GAAP/GFS harmonisation and the reconciliation schedule is a critical part of AASB 1049.
- BC31 On a related issue, the Board considered whether it is necessary to amend AASB 1049 to explicitly address the circumstances where GFS amounts determined by the ABS differ from and are published after amounts disclosed as GFS amounts in the financial statements. The question arises as to which GFS amounts should be reconciled to in the comparative information disclosed in the following year's financial statements. The Board decided that it is not necessary to explicitly address this issue in AASB 1049, noting that the GFS amounts previously reported in the financial statements would be the relevant amounts.

Disclosure of the aggregates of dividends and other distributions to owners as owners [paragraph 41(b)(iii)]

- BC32 The Board noted that paragraph 41(b)(iii) requires the GGS financial statements to disclose the aggregate amount of dividends and other distributions to owners as owners from PNFC sector and PFC sector entities to the GGS. The Board also noted the suggestion that the wording in paragraph 41(b)(iii) should be amended because it is unclear as to what is meant by 'other distributions'. The Board decided paragraph 41(b)(iii) should not be amended in relation to this issue on the basis that there is apparently no significant issue in complying with the requirement in paragraph 41(b)(iii). The Board particularly noted it is a matter of professional judgement based on circumstances whether income tax equivalent income is in the nature of a distribution to owners as owners.
- BC33 The Board noted the view that paragraph 41(b)(iii) should be amended to require the disclosure of contributions from the GGS in its capacity as owner to PNFC sector and PFC sector entities to enable derivation of 'net distributions'. However, the Board noted that typically such information is already disclosed and therefore it is not necessary for AASB 1049 to mandate it.

Carrying amounts of assets attributable to functions [paragraphs 48(b), 50 & 51]

- BC34 The Board noted that AASB 1049 requires disclosure of the carrying amount of recognised assets that are reliably attributable to each function (paragraph 48(b)). The Board also noted that the relevance of such a disclosure when it is not based on an ABS GFS Manual concept was questioned by some. The Board decided paragraph 48(b) should continue to require the disclosure on the basis that the disclosure would assist users in identifying resources committed to particular functions relative to the costs of service delivery that are reliably attributable to those functions, which facilitates comparisons between jurisdictions. The Board also noted that, in due course, its Disaggregated Disclosures project will address, amongst other things, issues raised in the post-implementation review of AASB 1049. The Board noted that retaining the requirement would avoid the risk of otherwise removing the requirement and then potentially reinstating it as a result of the Disaggregated Disclosures project.

'Expenses, excluding losses, included in operating result' by function [paragraphs 48(c), 50 & 51]

- BC35 Consistent with the decision to retain the requirement in AASB 1049 to disclose carrying amount of recognised assets that are reliably attributable to each function (see paragraph BC34), the Board decided to retain the requirement to disclose 'expenses, excluding losses, included in operating result' (paragraph 48(c)).
- BC36 The Board noted that 'expenses excluding losses' is not explicitly described in AASB 1049. Furthermore, the Board noted the view that inclusion of this term in the functional information could confuse users (and preparers) as there is no clear definition of what is intended to be included in the calculation and that the phrase should be replaced with the phrase 'expenses from transactions', which would avoid the reconciliation required by paragraph 49. However, the Board decided paragraph 48(c) should not be amended for the following reasons:

- (a) if the reference to ‘excluding losses’ were omitted, it would seem to be anomalous to include losses, but not gains, given that gains and losses relating to an item might be netted off; and
- (b) ‘expenses excluding losses’ more closely aligns with GAAP than ‘expenses from transactions’, because ‘expenses from transactions’ does not include GAAP expenses classified as other economic flows.

Explanations of variances from budget [paragraphs 59(f) & 65]

BC37 The Board noted that the AASB 1049 requirement to include explanations of variances between budgeted and actual financial information was questioned by some practitioners for two primary reasons:

- (a) the requirement to explain variances is unnecessary as the variance explanations are not relevant to users because variance explanations are more relevant at entity level and the reasons for changes in budgetary assumptions are explained every time the budgets are updated; and
- (b) the inclusion of unaudited budgetary information within the audited financial statements results in audit report comments in relation to budget information within the statements. In particular, whilst audit of variances between budgeted and actual data is possible at the higher levels, at a lower level there is insufficient evidence available to make assessments.

BC38 The Board decided not to amend paragraph 59(f) in relation to this issue on the basis that disclosure of variance information provides useful information for users and facilitates the discharge of accountability by governments. Paragraph BC60 of AASB 1049 contains the Board’s rationale for the requirement for disclosure of explanations of major variances between the actual amounts presented on the face of the financial statements and corresponding budget amounts.

Capital management disclosures

BC39 The Board considered whether the exemption provided by paragraph Aus1.7 of AASB 101 for whole of governments and GGSs from presenting certain capital management disclosures required by paragraphs 134-136 of AASB 101 should be retained or removed.

BC40 The Board decided it would be inappropriate to reconsider the exemption as part of the post-implementation review of AASB 1049, on the basis that the issue should be considered in the context of a broader range of not-for-profit entities than whole of governments and GGSs.