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About this guide

Audience

Commonwealth entities financial statements guide — 2019-20 (RMG 125) is for use by all Commonwealth entities (entities), as defined by the Public Governance, Performance and Accountability Act 2013 (PGPA Act). It provides guidance for entity officials with responsibility for preparing financial statements in compliance with the:

- Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 (FRR)
- Australian Accounting Standards (AAS).

This RMG is for users with existing knowledge of FRR and AAS requirements.

How to use this guide

The PGPA Act, or other legislation that established particular entities, requires all entities to prepare financial statements that comply with the FRR and AAS. This guide:

- provides general information to support the preparation of annual financial statements (eg definitions, rounding and materiality policies) and explains accounting treatments required by the FRR, including where the AAS allows choice of accounting treatments
  - it is not a training tool and does not give ‘step-by-step’ guidance for preparing financial statements
- provides relevant extracts of the FRR that should be read, as supporting guidance does not duplicate content from the extract
- includes hyperlinks to relevant resources—also see Appendix A: Resources
- aligns with the Department of Finance (Finance) Primary Reporting and Information Management Aid (PRIMA) and PRIMA forms of financial statements (PRIMA forms), which assist entities in preparing financial statements.

Entities need to apply professional judgement in preparing financial statements, to:

- ensure the FRR and AAS are correctly applied for their entity’s classification and circumstances
- present fairly the entity’s financial position, financial performance and cash flows.

This RMG replaces Commonwealth entities financial statement guide (RMG 125), dated March 2018. This RMG is available at www.finance.gov.au and List of RMGs — A-Z.
Part 1. Foundations for financial statements

1. All Commonwealth entities are required to prepare annual financial statements in accordance with the Public Governance, Performance and Accountability Act 2013 (PGPA Act) or other legislation that established particular entities. The Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 (FRR) sets out the financial reporting requirements for Commonwealth reporting entities.

2. All Commonwealth reporting entities are required to prepare their annual, general-purpose, financial statements in accordance with the PGPA Act, the FRR and the Australian Accounting Standards (AAS) and/or other entity-specific legislation.

3. Consistent with paragraph 15 of Australian Accounting Standards Board (AASB) 101 Presentation of Financial Statements (AASB 101), entities are responsible for presenting information in their financial statements that present fairly the entity's financial position, financial performance and cash flows.

1.1 Legislative authority – the Financial Reporting Rule

FRR extract:

3 Authority

(1) This rule is made under the Public Governance, Performance and Accountability Act 2013.

(2) For reporting periods commencing on or after 1 July 2019, this rule sets out the requirements for the preparation of financial statements under:

(a) subsection 42(2) of the Public Governance, Performance and Accountability Act 2013;

(b) subsection 47(1) of the High Court of Australia Act 1979 in relation to how financial statements must be prepared by the High Court of Australia;

(c) section 193H of the Aboriginal and Torres Strait Islander Act 2005 in relation to how the accounts and financial statements must be prepared for the Land Account;

(d) subsections 50B(2) and (4) of the Defence Service Homes Act 1918 in relation to how financial statements must be prepared by the Defence Service Homes Corporation; and

(e) subsections 43(1) and (3) of the Natural Heritage Trust of Australia Act 1997 in relation to how financial statements must be prepared for the Natural Heritage Trust of Australia Account.

(3) Some provisions of this rule are made for the purpose of paragraph 102(1)(b) of the Public Governance, Performance and Accountability Act 2013.

4. The FRR sets out the common financial reporting requirements for Commonwealth entities to:

- promote consistency across entities in the preparation of financial statements
- facilitate comparison between entities' financial statements
• assist the preparation and auditing process
• enable preparation of the Commonwealth Consolidated Financial Statements (CFS).

1.2 Financial reporting requirements

5. **AASB 1053 Application of Tiers of Australian Accounting Standards** (AASB 1053) applies tiers of AAS for entities’ general purpose financial statements:

   - **Tier 1: Australian Accounting Standards**—incorporates international financial reporting standards issued by the International Accounting Standards Board and include requirements that are specific to Australian entities

   - **Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements**—comprises the recognition and measurement requirements of Tier 1 but with substantially reduced disclosure requirements.

6. While Tier 2 entities are not required to disclose, in their financial statements, the impact of any new AASB accounting standard that is issued but not yet effective, such impact is required for CFS purposes. Information required for the CFS is specified in the Supplementary Reporting Pack (SRP), issued annually to entities by Finance.

7. Entities are required to comply with end-of-year financial reporting requirements outlined in relevant estimates memorandum (EM) issued by Finance.

8. In preparing financial statements to present fairly the entity’s financial position, financial performance and cash flows, entities will need to:

   - **apply professional judgement**—the entity is encouraged to develop a formal position on issue/s, and inform their auditors as early as possible (eg if the reclassification of a comparative amount is impracticable under AASB 101)

   - **cross reference disclosures**—each required disclosure must be cross-referenced with relevant notes and/or schedules in accordance with AAS requirements (eg paragraph 113 of AASB 101). Other cross-referencing is to be included where it would provide useful additional information.

   - **consolidate accounts**—subsidiaries of the entity must be consolidated to present the financial performance and position of the consolidated entity. Therefore, the financial report of an entity must encompass all the entities it controls, accounted for in accordance with the consolidation standard **AASB 10 Consolidated Financial Statements** (AASB 10).

   - **disclose comparatives**—comparatives must be disclosed for the reporting period unless they are specified elsewhere in the FRR or an applicable AAS, such as **AASB 1055 Budgetary Reporting** (AASB 1055). This includes:

     o narrative information, if it is relevant to the understanding of the financial statements

     o re-presented or reclassified comparatives where the presentation or classification of an item is amended (unless this is impracticable)—disclosing the nature, the amount of and reason for the re-presentation or reclassification
o administered comparatives for entities that have switched from non-corporate to corporate, which may be included in a separate and shaded column next to the departmental comparatives. Additionally, whilst reclassification of an existing item between administered and departmental is not a change in accounting policy, an explanation is required to be included in the relevant note regarding the change in reporting departmental and administered items from the prior year.

- ‘net cost of services’ vs ‘profit or loss’—to better reflect the operating environment and reporting format of not-for-profit (NFP) entities (where not restricted by the AAS) all references to the AASB’s ‘profit or loss’ are to be replaced with ‘net cost of services’ (or ‘surplus or deficit’) in line with PRIMA. For-profit entities need to adjust the disclosure to reflect their circumstances.

Additional notes

9. Where an entity includes notes and disclosures in addition to those required under the FRR and the AAS then these should not be inconsistent with FRR and AAS requirements including measurement and recognition.

1.3 Principles required for financial reporting

10. The financial statements of each entity are required to consider and apply:

- *Statement of Accounting Concepts (SAC) 1 Definition of the Reporting Entity*
- interpretations issued by the AASB
- *AASB Framework for the Preparation and Presentation of Financial Statements* (AASB Framework)
- other Finance guidance relevant to the preparation of financial statements.

11. SAC and the AASB Framework are sources of guidance for entities may refer to if there is no AAS or interpretation that deals with an accounting treatment or disclosure issue (see *AASB 1048 Interpretation of Standards* (AASB 1048)). By themselves, these are not mandatory in the preparation or presentation of a reporting entity’s financial statement.

12. However, the principles in these documents (while not explicitly stated in the FRR) are of such importance that they must be considered in the process of preparing financial reports. If required, entities must be able to demonstrate that the principles:

- were considered and applied with due weight, in determining the entity’s situation
- have supporting documentation that shows the reason for the extent of application by the entity, for discussion with auditors.
1.4 Assurance and certification

13. To provide assurance on the completeness and accuracy of an entity’s financial statements:

- the Chief Financial Officer (CFO) of the entity must certify that information is based on properly maintained financial records, under subsection 41(2) of the PGPA Act

- an independent auditor’s report, issued by the Australian National Audit Office (ANAO), provides the auditor’s opinion on whether the entity’s financial statements:
  o have been prepared in accordance with the FRR and AAS
  o present fairly the entity’s financial position, financial performance and cash flows.

1.5 Events after the reporting period

14. AASB 110 Events after the Reporting Period (AASB 110) prohibits the preparation of financial reports on a going concern basis, if the event type indicates that the going concern assumption is no longer appropriate. If an entity receives information after the reporting date about conditions that existed at the reporting date, the disclosures that relate to those conditions are to be updated to reflect the new information.

15. If non-adjusting events after the reporting date are material, non-disclosure could influence the economic decisions of users based on the financial statements. Accordingly, an entity is to disclose the following for each material category of non-adjusting events after the reporting date:

- the nature of the event

- an estimate of the event’s financial effect or a statement that such an estimate cannot be made.
Part 2. Application and presentation

2.1 Applicable entities

FRR extract:

6 Applicable entities
(1) Financial statements must be prepared for the following:
   (a) each Commonwealth entity that is not the parent entity in an economic entity; and
   (b) each economic entity, comprising the Commonwealth entity and its subsidiaries.
   Note: Financial statements are not required to be prepared under this rule for
       (a) a company for the purposes of the Corporations Act 2001; or
       (b) the subsidiary of a Commonwealth entity;
       as these are not Commonwealth entities.
(2) Where an entity is the parent entity in an economic entity, it must either:
   (a) prepare parent entity financial statements as well as consolidated financial
       statements; or
   (b) disclose parent entity supplementary information as prescribed in
       Regulation 2M.3.01 of the Corporations Regulations 2001 in a note to the
       consolidated financial statements of the economic entity.

For profit or not-for-profit

16. Under paragraph 8 of AASB 1054 Australian Additional Disclosures (AASB 1054), an
    entity is required to disclose whether it is a for-profit or NFP entity. The distinction
    between for-profit and NFP entities is significant and has implications for the accounting
    policies that an entity can adopt. Entities are, by default, considered to be NFP—the
    onus is with an entity to make a case for being classified as for-profit.

17. A NFP’s principle objective is not the generation of profit (AASB 102 Inventories)—see
    the statement on the entity’s objectives. A NFP entity can be a single entity or a group of
    entities comprising the parent entity and each of the entities that it controls.

18. If legislation, regulations or constitution of an entity explicitly states that its ‘principal’,
    ‘main’ or ‘sole’ objective is other than the generation of a profit, then it is presumed that
    the entity is NFP. If an entity’s principal objective is not explicitly stated, the secondary
    criteria for classifying an entity as for-profit or NFP is:
    • the nature of funding
    • if financial targets reflect profit concepts or an objective for commercial success
    • whether the entity has an obligation to pay income tax or income tax equivalents
    • whether the entity intends to distribute a surplus, and/or
    • classification for Government Finance Statistics.
2.2 Authoritative requirements and materiality

FRR extract:

7 Authoritative requirements and materiality

(1) As per subsection 42(2) of the PGPA Act, the financial statements of each reporting entity must comply with:

(a) all applicable requirements of this rule, where the information resulting from applying this rule is considered material, or as specifically stated in this rule; and

(b) applicable AAS and Interpretations issued by the AASB that apply for the reporting period.

(2) For the purposes of paragraph (1)(a), materiality must be assessed in accord with the relevant AAS.

19. As per section 41 of the PGPA Act, reporting entities must maintain proper accounting records to support all disclosures required by the prescribed rules such as the FRR, including the preparation of annual financial statements under sections 42 and 48 of the PGPA Act.

20. Proper accounting records of all transactions must be maintained in accordance with section 41 of the PGPA Act and other applicable legal requirements including:

- sections 9 and 12 of the *Electronic Transactions Act 1999*
- section 24 of the *Archives Act 1983*.

Materiality

Note to users:

In this guide, the application of materiality consideration is consistent with other Finance guidance materials for financial statements and disclosures. However, entities should be aware that, under the *Auditor-General Act 1997*, auditors will determine their own level of materiality in accordance with the auditing standards made by the Auditor-General.

21. Unless otherwise stated in the FRR or applicable AAS, all disclosures are subject to materiality (in addition to information required by appropriations and other disclosures). The FRR requirements apply where information resulting from their application is material.

22. Appropriations (including special appropriations) are deemed material by nature. Therefore, entities must account for and disclose appropriations. For more information, see Part 8. Appropriations and Part 9.1 Special accounts.

23. Materiality assessments are to be performed at the level of the entity preparing the financial statements (ie not at the general government sector (GGS) level or whole-of-government level). Professional judgement is critical in the assessment process.
24. Unless an item is material by nature or deemed to be material, transactions and items generally need to be considered in the context of an appropriate measurement base (eg all items in financial statements, relative items, or classes of items), such as:

- statement of financial position items could be assessed relative to the appropriate asset or liability base
- cash flow items could be assessed against the net cash flow for operating, investing or financing activities
- statement of comprehensive income items could be assessed against total own-source revenue and total expense figures.

2.3 Reporting of departmental and administered items

FRR extract:

8 Departmental and administered: classification and reporting

(1) This rule applies to both departmental and administered reporting unless otherwise specified.

(2) Reporting entities must distinguish between ‘departmental’ and ‘administered’ in the financial statements for all disclosures outlined in this rule.

(3) The financial statements of reporting entities must present items as ‘departmental’ and ‘administered’ in accordance with Cabinet decisions on their classification.

(4) Changes must not be made to the classification of existing items without the approval of Cabinet or the Finance Minister.

(5) Reclassification of an existing item is not a change in accounting policy.

(6) Unless directed by legislation, Cabinet or the Finance Minister, corporate Commonwealth entities must not recognise monies collected on behalf of the Commonwealth as an administered revenue or asset. The relevant non-corporate Commonwealth entity will make the appropriate disclosures.

Note: Corporate Commonwealth entities are legally separate from the Commonwealth whereas non-corporate Commonwealth entities are part of the Commonwealth.

25. Items reported in financial statements must be classified as either:

- **Departmental items**—involve costs over which a non-corporate entity has control. Departmental appropriations can be used to make any payment related to the functions of the non-corporate entity for purposes covered by other items whether or not they are in the Act for an entity. Expenditure typically covered by departmental items includes:
  
  - employee expenses, suppliers and other operational expenses (eg interest and finance expenses)
  - the acquisition and capitalised maintenance of departmental assets valued at $10 million or less.
- **Administered items**—are those administered by a non-corporate entity on behalf of the Government (e.g., certain grants, benefits, and transfer payments). These payments are usually made pursuant to eligibility rules and conditions established by the government or the parliament. Specifically, administered items are tied to outcomes (departmental items are not).

26. Corporate entities undertake departmental reporting only as they have control over all their assets and liabilities, income received and expenses incurred.

Reclassification between departmental and administered items

27. Reclassification of existing departmental and administered expenses, assets, revenue and/or liabilities must meet the criteria in *EM 2012/41 Classification of Administered and Departmental Items* and have written approval by the Finance Minister.

28. Where the transfer of assets and/or liabilities under Machinery of Government (MoG) changes requires a reclassification between departmental and administered items:

- the receiving entity must notify the transferring entity of the need to reclassify and the transferring entity must reclassify the item/s prior to transfer
- transactions must be disclosed as ‘related party transactions’ for consolidation purposes.

2.4 Exemptions from the FRR

**FRR extract:**

**11 Exemptions from requirements in this rule**

(1) The Finance Minister may grant a written exemption to the accountable authority, from any specified requirements of this rule.

(2) An exemption must not be applied if it results in non-compliance with AAS.

(3) An exemption may be granted subject to conditions, including a requirement for alternative forms of disclosure.

(5) Where a reporting entity elects to apply any exemptions granted by the Finance Minister, information that would otherwise be reported must be available for consolidation into the Australian Government consolidated financial statements.

29. The Finance Minister may grant an exemption from specific FRR requirements. A granted exemption may be subject to conditions, including a requirement for alternative forms of disclosure.

30. An exemption would not be granted, if it may lead to a potential breach of the FRR or PGPA Act, or non-compliance with an AAS. Entities must be aware that material non-compliance with the AAS would also breach the PGPA Act.

31. Approved exemptions from the FRR requirements are listed in the *List of exemptions*. Approvals remain effective until they are rescinded in writing or when the FRR is repealed, whichever occurs first. An exemption that has been:

- applied should be disclosed, in accordance with section 10(e) of the FRR
• granted but not applied by the entity does not have to be disclosed.

How to apply for an exemption from the FRR

32. Entities seeking an exemption from specific FRR requirements are to submit a written request to accountingpolicy@finance.gov.au. The request must:

• demonstrate that the entity has a genuine need for an exemption, with consideration to:
  o the impact on potential users of financial statements (e.g., parliament)
  o alternative approaches to meeting the FRR requirements

• include the relevant section(s) of the FRR

• indicate the time period for which the exemption is required (e.g., current reporting period only or ongoing)

• be approved by the entity’s CFO, or another senior executive responsible for the preparation of financial statements.

33. Finance will review the request and if appropriate, will seek approval on behalf of an entity from the Finance Minister.

2.5 Applying AAS tiers and other reporting requirements

FRR extract:

18 AASB 1053 Application of Tiers of Australian Accounting Standards and other reporting requirements

(1) Subject to subsections (2) and (3) a reporting entity must, in preparation of the entity’s financial statements, apply Tier 2 reporting requirements (as a minimum).

18A Other information required for the Australian Government consolidated financial statements

(1) This section applies to information of a reporting entity if the information:

(a) is required for consolidation into the Australian Government consolidated financial statements; and

(b) is not reported in the entity’s financial statements.

(2) The reporting entity must:

(a) prepare the information on the basis of accounts and records kept in accordance with section 41 of the PGPA Act; and

(b) ensure that the information undergoes a management assurance process equivalent to that which the entity’s financial statements must undergo.

(3) The reporting entity must make the information available to the Department of Finance at the time and in the format requested by the Department of Finance.
When the information is made available to the Department of Finance, it must be accompanied by a statement by the CFO of the reporting entity that the information:

(a) has been prepared on the basis of accounts and records kept in accordance with section 41 of the PGPA Act; and

(b) has undergone a management assurance process equivalent to that which the entity’s financial statements must undergo; and

(c) is complete and accurate.

34. All entities must comply with the reporting requirements specified in the SRP.

35. AAS tiers apply to most reporting entities in preparing their financial statements. Subsection 18(1) of the FRR enables Tier 2 entities (i.e., those entities not listed in subsections 18(2) and 18(3)), to prepare financial statement disclosures that meet minimum disclosure requirements under relevant accounting standards. Entities that must apply Tier 1 reporting requirements, in the preparation of their financial statements, are listed at Appendix B.

36. While primary financial statements and supporting notes must still be prepared and audited, Tier 2 entities can reduce the disclosure of certain information, to shorten their financial statements and enhance readability. All Tier 2 entities must:

- prepare the minimum set of disclosures
- ensure their financial statements disclose all relevant material information (see paragraph 16 of AASB 1053).

37. Some Tier 2 entities are also required to include information for specific notes or full disclosure, as specified in section 18 of the FRR.

38. Under section 18 of AASB 1053, Tier 2 entities may elect to apply Tier 1 reporting requirements, or include additional disclosures using Tier 1 reporting requirements if, in their judgement, the additional disclosures are consistent with the objective of general purpose financial statements.

39. Under AASB 1054 RDR7, Tier 2 entities (including those listed in the FRR to prepare disclosure notes above the minimum required) should make a statement in their notes regarding their compliance with Australian Accounting Standards - Reduced Disclosure Requirements.

Accounting policy changes and accounting estimates

40. All accounting policy changes must be separately disclosed in the financial statements.

41. The process for making accounting estimates requires sound professional judgement based on the latest available information. Inherent business uncertainties and other activities mean that many items cannot be measured precisely—these items must be estimated. Entities are encouraged to document the basis for any accounting estimates, such as:

- judgements, assumptions, data sources and sensitivity analysis
- fair value (where relevant)
• the application of AAS methodologies.

Other information for consolidated financial statements

42. Under subsection 18(A) of the FRR, entities must make available to Finance any information not reported in their financial statements that is required for the CFS. Entities must ensure that, any additional information provided to Finance for the CFS is first quality assured, with similar governance processes adopted for preparing entity’s financial statements.

2.6 Early adoption of accounting pronouncements

FRR extract:

19 Early adoption of accounting pronouncements

(1) A reporting entity must have approval from the accountable authority of the Department of Finance if they wish to adopt an AAS or AASB Interpretation earlier than its effective date of application other than as permitted or required by this rule.

(2) The accountable authority of the Department of Finance may instruct one or more entities to early adopt an AAS or AASB Interpretation.

43. Due to potential impacts for preparing the CFS, entities must seek approval from the accountable authority of Finance for early adoption of new AAS or AASB interpretations.

2.7 Improving the presentation of financial statements

44. Reporting entities are encouraged to use professional judgement to improve the presentation of their financial statements for users, such as:

• reviewing the overview (previously called the ‘summary of significant accounting policies’) to ensure it:
  o explains how FRR and AAS requirements relate to the entity
  o does not simply repeat standard accounting information
  o does not contain unnecessary information

• using primary statements rather than the notes (an entity may not wish to include information in a note if it only restates information from primary statements)

• reconsidering the format of note disclosures, particularly the format of tables, to make information easier to read and understand

• removing information that is not material

• providing information/disclosures to support the CFS, at the time and in the format requested by Finance.

45. Prompts to user-focused presentation are included at Appendix C.
2.8 PRIMA forms

46. **PRIMA forms** assist entities in preparing financial statements. PRIMA forms:
   - detail common disclosures and related notes for financial statements required by the FRR and AAS, but do not cover disclosures for all AAS and AASB Interpretations
   - incorporate other reporting obligations (eg Corporations Act 2001).

47. The use of PRIMA forms is not mandatory, however, entities are encouraged to follow the overall format and structure. Where required, Tier 2 entities may use professional judgement to modify PRIMA forms disclosures to reflect the entity’s circumstances or user’s needs. For example, an entity may:
   - include further disclosures to reflect their business operations or meet stakeholders’ information needs—additional information or disclosures must not contravene AAS
   - exclude components of the PRIMA forms that are not relevant to their operations or where no activity has taken place in either the current or previous financial reporting period, unless inclusion is mandatory under the FRR and/or AAS
   - alter or amend the numbering of notes to financial statements as set out in PRIMA forms, to better support the contextual and logical flow of information for users
   - alter the format (eg change the font, use of italics or orientation of a table), or use graphs and tables to communicate key results, movements or variances
   - aggregate line items that are not material
   - amend disclosures to reflect the nature of the entity or its activities, financial results and position at the reporting date.

48. PRIMA forms demonstrate either Tier 1 or Tier 2 disclosures. Entities required to prepare Tier 1 disclosures, in accordance with subsection 18(3) of the FRR, will need to modify their disclosures accordingly.

2.9 Non-corporate entities and payment of debts

49. Under section 15 of the PGPA Act, the accountable authority of an entity is responsible for the entity’s overall financial management and proper use and management of public resources in a way that promotes the financial sustainability of the entity, such as managing risks, obligations and opportunities of the entity.

50. It is not necessary for a non-corporate entity to continue in its current form for a statement to be made about payment of debts. If a non-corporate entity is abolished, or substantially restructured, the Commonwealth remains responsible for the debt.

2.10 Rounding off

51. Financial statements may be rounded-off, as shown in Table 2.1.
Table 2.1: General rounding rules

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<th>Rounding thresholds</th>
<th>Application</th>
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<td>(Subject to the listed exceptions)</td>
<td>For these thresholds, rounding-off:</td>
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<td><strong>General rounding</strong>—rounding is to the nearest dollar</td>
<td>- may be applied separately for departmental and administered reporting, but</td>
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<tr>
<td><strong>Entities with assets, liabilities, expenses, income, commitments or contingencies in excess of $10 million</strong>—rounding is to the nearest $1,000, or if less than $500, rounded to zero</td>
<td>- must be consistently applied for departmental and administered reporting (ie whether or not the rounding off differs between departmental and administered disclosures).</td>
</tr>
<tr>
<td><strong>Entities with assets, liabilities, expenses, income, commitments or contingencies in excess of $1 billion</strong>—rounding is to the nearest $1 million, unless the amount is less than $500,000, in which case the amount needs to be rounded to zero.</td>
<td>When presenting amounts in financial statements, use:</td>
</tr>
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<td>- '0' for an amount rounded down to zero</td>
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<tr>
<td>- '-' where the amount is zero.</td>
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**Exceptions:**

| Appropriations, special accounts and reporting of outcomes—rounded to the nearest $1 million. | To be consistently applied to departmental and administered reporting. If application results in different levels of rounding to departmental and administered reporting, the lower level of rounding is applied. |

2.11 Appropriations receivable

52. Appropriations receivable are to be measured at nominal amounts. Being non-contractual, they are not financial instruments under AASB 9 and, therefore, the fair value measurement and disclosure requirements in AASB 13 *Fair Value Measurement* (AASB 13) do not apply to appropriations receivable.

53. Appropriations receivable are to be assessed for impairment in accordance with *AASB 136 Impairment of Assets* (AASB 136). However, impairment expenses are unlikely to occur as amounts not expected to be available are normally addressed by applying section 40 of the FRR.
2.12 Certificates and assurance

FRR extract:

10 Certificates and assurance

Each reporting entity must present a statement signed by the accountable authority of the entity or a member of the accountable authority of the entity (if the accountable authority is not an individual) and the CFO of the entity, stating:

(a) whether the financial statements, in their opinion, comply with subsection 42(2) of the PGPA Act;

(b) whether the financial statements, in their opinion, have been prepared based on properly maintained financial records as per subsection 41(2) of the PGPA Act;

(c) for reporting entities other than the Reserve Bank of Australia, whether, in their opinion, there are, when the statement is made, reasonable grounds to believe that the entity will be able to pay its debts as and when they fall due;

(d) when additional information is included in the notes to comply with subsection 42(2) of the PGPA Act, the reasons for including this additional information and the location of the additional notes in the financial statements;

(e) the particulars of any exemptions of this rule applied by the reporting entity;

(f) for corporate Commonwealth entities, that the statement has been made in accordance with a resolution of the members of the accountable authority; and

(g) the date on which the statement is made.

54. Entities must include a statement with their financial statements in accordance with section 10 of the FRR, signed by the entity’s accountable authority or a member of the accountable authority (if the accountable authority is not an individual) and the CFO. For corporate entities, the certification must state that the statement is made in accordance with a resolution of the members of the accountable authority.

55. An entity is required to disclose additional information as necessary to present fairly the entity’s financial position, financial performance and cash flows, under section 10 of the FRR and under subsection 42(2) of the PGPA Act.
Part 3. Statement of comprehensive income

56. This Part excludes information on appropriations—see Part 8: Appropriations.

FRR extract:

**12 AASB 101 Presentation of Financial Statements**

When applying AASB 101 *Presentation of Financial Statements* in preparation of financial statements, reporting entities must present all items of income and expense recognised in a period in a single statement of comprehensive income.

57. Under section 12 of the FRR each entity must present income and expenses in a single statement of comprehensive income—entities are not permitted to prepare a separate income statement and statement of comprehensive income (even though AASB 101 permits this).

58. NFP entities must use the Net Cost of Services format for the statement of comprehensive income consistent with PRIMA forms.

59. Presentation of expenses in the comprehensive income should be on a positive basis unless the specific expense item is a negative expense (eg credit balance)—to support transparency.gov.au disclosures.

Extraordinary items and separate disclosures

60. Under the AASB 101:

   - an entity must not present any items of income and expense as extraordinary items, either on the face of the statement of comprehensive income or in the notes (AASB 101, paragraph 87)
   - when items of income and expense are material, their nature and amount are to be disclosed separately (AASB 101, paragraph 97)
   - paragraph 98 of AASB 101, lists circumstances that would give rise to the separate disclosure of items, either in the statement of comprehensive income or the notes.

Losses and gains from asset sales

61. Proceeds from the disposal of assets and the carrying amount of assets sold, are to be netted-off as a gain or loss on disposal. A material gain is to be presented as a separate class of income from revenue.

62. Material gains and losses on the disposal of non-current assets (including investments and operating assets) are to be reported in the notes by deducting the carrying amount of the asset and the related selling expenses from the proceeds on disposal. Entities must separately disclose this information in accordance with disclosure requirements.
Accounting for the Goods and Services Tax (GST)

63. As required in the Interpretation 1031 Accounting for the Goods and Services Tax, the net amount of GST recoverable from, or payable to the Australian Taxation Office (ATO), shall be included as part of a receivable or payable in the statement of financial position. Receivables and payables are to be disclosed, inclusive of GST.

64. Revenues and expenses must be recognised net of the GST amount, except where the:

- amount of GST incurred is not recoverable from the ATO
- GST must be recognised as part of the expense.

65. Entities should make it clear in commitment disclosures whether an amount is inclusive or exclusive of GST.

3.1 Revenue

Other comprehensive income note – reclassification adjustments

66. Various AAS specify if, and when, amounts previously recognised in other comprehensive income are to be reclassified to net cost of services. These are reclassification adjustments—see paragraphs 92-96 of AASB 101.

Table 3.1: Examples of when a reclassification adjustment may arise

<table>
<thead>
<tr>
<th>Reclassification adjustments may arise:</th>
<th>Reclassification adjustments do not arise:</th>
</tr>
</thead>
<tbody>
<tr>
<td>On the disposal of a foreign operation see: AASB 121 The Effects of Changes in Foreign Exchange Rates (AASB 121)</td>
<td>For changes in revaluation surplus recognised in accordance with:</td>
</tr>
<tr>
<td></td>
<td>• AASB 116 Property, Plant and Equipment (AASB 116), or</td>
</tr>
<tr>
<td></td>
<td>• AASB 138 Intangible Assets (AASB 138)</td>
</tr>
<tr>
<td>Where an asset is reclassified from fair value through other comprehensive income to amortised cost or vice versa—see AASB 9 Financial Instruments (AASB 9).</td>
<td>For re-measurement of defined benefit plans recognised in accordance with AASB 119 Employee Benefits (AASB 119).</td>
</tr>
</tbody>
</table>

67. A reclassification adjustment shall be included with the related component of other comprehensive income, in the period the adjustment is reclassified to net cost of services.

Revenue recognised by not-for-profit entities

68. To determine if a transaction is in the scope of AASB 15 Revenue from Contracts with Customers (AASB 15), AASB 1058 Income of Not-for-Profit Entities (AASB 1058) or
both, NFP entities must perform a detailed contract review for their income streams. The following decision tree is to assist with the review:

**Figure 3.1: Decision tree for revenue recognised by NFP entities**

- Enforceable contract? (AASB 2016-8, F10-18)?
  - Yes → Sufficiently specific performance obligation(s)? (AASB 2016-8, F20-27)?
    - Yes → Entity retains goods/services specified in contract? (i.e. for own use) (AASB 2016-8, F27)?
      - Yes → Significant donation component in contract?
    - No → AASB 1058 Income of NFP Entities
  - No → AASB 15 Revenue from Contracts with Customers

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*Note: application of accounting standards for licences issued by NFP public sector licensors will be addressed separately below.

**Application of revenue standards**

69. AASB 15 does not apply to the customer in the contract. Under paragraphs 22-30 of AASB 15, performance obligations are required to be identified, and the transaction price must be allocated before the application of the revenue standards (paragraphs 73-86 of AASB 15).

70. Where the following is present, it may indicate that a contract component is likely to be for enabling the NFP to further its objectives (i.e. in the nature of a donation):
   - a non-refundable component of the transaction price
   - where the entity has the status of a deductible gift recipient—the donor can claim part of the transaction price as a tax deduction for a donation.

71. As listed in paragraph B2 of AASB 1058, examples of transactions that do not relate to performance obligation/s (i.e donation transactions) are:
   - cash and other assets received from grants, bequests or donations
• receipts of appropriations by government departments and other public sector entities
• receipts of taxes, rates or fines
• assets acquired for nominal or low amount.

72. For more information, see Finance position paper *Implementation Options for AASB 1058 Income of not-for-profit entities in conjunction with AASB 15 Revenue from contracts with Customers.*

Revenue recognition

73. Entities shall measure and recognise the amount of the transaction price as revenue when a performance obligation is satisfied. In certain circumstances, when the income recognition needs to be deferred, entities are required to have a reliable basis for attributing expenses to the related performance obligation.

Variable consideration

74. Contracts may include variable consideration, due to discounts, rebates, refunds, credits, price concessions, incentives, penalties or other similar items. Where this is the case, under paragraph 54 of AASB 15, entities shall apply one method consistently throughout the contract when estimating the effect of an uncertainty on variable consideration.

75. Of the two methods specified in paragraph 53 of AASB 15, entities must select the one that is expected to best predict the amount of consideration the entity will be entitled to.

Non-contractual income from statutory requirements

76. Income arising from statutory requirements (eg taxes, rates and fines) recognised during the period must be disaggregated into categories that reflect how the nature and amount of income are affected by economic factors (paragraph 28 of AASB 1058), noting that:

• taxes, rates and fines are not recognised in accordance with AASB 15, even when they are raised in respect of specific goods or services and they are not contributions by owners acting in their capacity as owners (paragraphs B28-29 of AASB 1058)

• income tax receivable from a taxpayer, the interest income and impairment losses recognised in relation to such receivables during the period are not a financial asset as defined in *AASB 132 Financial Instruments: Presentation.*

• under paragraph 30 of AASB 1058, other information that may be appropriate for an entity to disclose includes for each class of taxation, income that the entity cannot measure reliably during the period in which the taxable event occurs (paragraphs B28-31 of AASB 1058), including:
  o information about the nature of the tax
  o the reason/s why that income cannot be measured reliably
  o when that uncertainty might be resolved.
Licences

77. Appendix G of AASB 15 provides implementation guidance for NFP public sector licensors, including for:

- determining how to account for revenue from licences
- distinguishing a licence (ie subject to AASB 15) from a tax (ie subject to AASB 1058)
- non-contractual licences arising from statutory requirements
- recognition exemptions.

Accounting for grants and disclosing assistance by for-profit entities

FRR extract:

14 AASB 120 Accounting for Government Grants and Disclosure of Government Assistance

(1) When applying AASB 120 Accounting for Government Grants and Disclosure of Government Assistance in preparation of financial statements, reporting entities that are for-profit entities must:

(a) recognise non-monetary government grants at fair value and not at nominal amount;

(b) present government grants related to assets as deferred income and not as a deduction to the carrying amount of the asset; and

(c) present government grants related to income as income in the statement of comprehensive income and not deduct them from the related expense.

(2) To the extent that receipts under the Paid Parental Leave Scheme are regarded as income, paragraph (1)(c) does not apply to these receipts.

78. AASB 120 Accounting for Government Grants and Disclosure of Government Assistance (AASB 120) provides (for-profit entities only) with a number of options for accounting for government grants. Section 14 of the FRR removes the alternative options for for-profit entities, except for transactions under the Paid Parental Leave (PPL) scheme.

79. Under sections 7 and 8 of AASB 120, a grant is not to be recognised until there is reasonable assurance that the entity will comply with the grant conditions and that the grant will be received. Receipt of a grant, of itself, is not conclusive evidence that the grant conditions have been, or will be, fulfilled. Paragraph 10A of AASB 120 requires the benefit of a government loan at below the market rate of interest to be treated as a government grant. Such loans are to be recognised and measured in accordance with AASB 9.

Paid Parental Leave scheme

80. Payments under the PPL scheme are taxable and subject to income and residency tests. PPL payments are not salary for workers compensation purposes and PPL leave is not to be counted as paid leave.
81. Employers are not obliged to make payments unless they have received funding from the government prior to payroll cut off.

82. Section 27 of the *Public Governance, Performance and Accountability Rule 2014* (PGPA Rule) provides that amounts received by employers under the scheme are ‘relevant non-corporate entity receipts’ and may be retained and used by non-corporate entities in accordance with section 74 of the *PGPA Act*. Entities are responsible for determining the payroll, accounting, recording and reconciliation processes relating to receipt and payment of parental leave.

83. Under section 74 of the *PGPA Act*, non-corporate entities are to disclose PPL receipts in their financial statements as ‘relevant non-corporate Commonwealth entity receipts’.

84. For the PPL scheme, accounting treatments include:

- **the statement of comprehensive income**—amounts received by employers under the scheme are not revenue for the purposes of *AASB 1058* therefore, payments to employees for parental leave are not expenses

- **accounting treatment for statement of financial position**—as employers have received amounts at balance date that have not yet been paid to employees, these must be accounted for as cash and a liability (ie payable)

- **statement of cash flows**—for the purposes of *AASB 107 Statement of Cash Flows* (AASB 107), receipts and payments must be accounted for as operating cash flows—see paragraphs 13-15 of AASB 107. Cash flows associated with the PPL scheme are to be reported on either a gross or net basis, in accordance with paragraph 22(b) of AASB 107.

### 3.2 Expenses

#### Recognition of accrued expenses

85. Accrued expenses are only to be recognised to the extent that they meet the requirements for recognition of the liability under *AASB 137 Provisions, Contingent Liabilities and Contingent Assets* (AASB 137). For guidance and examples on what constitutes a present obligation, see paragraphs Aus26.1 and Aus26.2 of AASB 137.

#### Reimbursements

86. Where an amount that has been expensed is refunded to the entity, it is appropriate to treat this amount as a reduction in the expense, except where:

- the amount is received in a subsequent year—in which case it is recorded as income

- the expense is incurred by the Department of Foreign Affairs and Trade (DFAT) on behalf of another entity and DFAT is subsequently reimbursed by that entity. DFAT may record the reimbursement as a reduction in the applicable expense item, regardless of the year in which the reimbursement is received.

87. For guidance on retainable receipts under the provisions of *PGPA Act* (section 74) and section 27 of the *PGPA Rule*—see *Collecting revenue or money (RMG 307)*.
88. The treatment for accrual accounting purposes may not be the same as treatment for appropriations. Refunded amounts can be added to an entity’s most recent departmental appropriation item, regardless of the accounting treatment, if the type of receipt is prescribed in PGPA Rule subsection 27(4) for the purpose of PGPA Act subsection 74(1).

Employee related expenses

89. For the following employee related expenses:

- **employee benefits expenses**—include employee remuneration (both monetary and non-monetary), but do not include payments or reimbursements of out-of-pocket expenses

- **transfer of annual and long service leave entitlement**—under paragraph 42(b) of AASB 1004, if a payment in consideration for the assumption of annual or long service leave liability is made or is to be made, the receiving entity shall recognise the assumed liability and increase in assets (cash or cash receivable)
  - where the payment is less than the total amount of the liability for employee entitlements assumed, the receiving entity shall recognise an expense equal to the amount of that shortfall
  - cash received in consideration for the assumption of the liability must not be recognised as revenue

- **separation and redundancy/termination benefits expenses**—payments do not include any benefits that would have been accrued and payable if the redundancy had not occurred (eg accrued leave entitlements and lump sum superannuation payments). Termination benefits do not include any benefits that are a result of employment being terminated at the request of the employee (ie without an entity’s offer or resulting from mandatory retirement requirements). Such benefits are post-employment benefits.

Depreciation

90. Each part of an item of property, plant and equipment (PPE), with a cost that is significant in relation to the total cost of the item, is to be depreciated separately. If the useful life and depreciation method are the same for each significant part, such parts may be grouped in determining the depreciation charge.

91. Depreciation of PPE used for development activities may be included in the cost of an intangible asset, recognised in accordance with AASB 138.

92. Depreciation of an asset ceases at the earlier date of:

- the asset being classified as held for sale, in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* (AASB 5), or

- the date that the asset is derecognised.

93. Depreciation does not cease when the asset becomes idle or is retired from active use.
94. Heritage and cultural assets are not depreciated when appropriate restoration activities are undertaken to deem the assets have an indefinite useful life. For more information, see Part 4.5 Heritage and cultural assets.

Write-down and impairment of assets

95. For NFP entities, if the carrying amount of a class of assets is increased as a result of a revaluation, the net revaluation increase shall be:
   - recognised in other comprehensive income
   - accumulated in equity under the heading of asset revaluation surplus
   - recognised in net cost of services, to the extent that it reverses a net revaluation decrease of the same class of assets previously recognised in net cost of services.

96. Under AASB 136, entities are required to assess at each reporting date if there is indication that an asset may be impaired and, if so, to assess assets for impairment. Intangible assets with an indefinite useful life or intangible assets not yet available for use must be tested for impairment annually, by comparing the carrying amount to the recoverable amount.

Recognition of accrued grant expenses

97. Accrued grant expenses are only recognised to the extent that they meet the requirements to recognise the liability under AASB 137 and that grant conditions (ie grant eligibility criteria) were met by the grantee entity, or those entities that have provided services or facilities required by the grant agreement.

98. Paragraphs Aus26.1 and Aus26.2 of AASB 137 provide additional guidance and examples on what constitutes a present obligation.

3.3 Borrowing costs

FRR extract:

15 AASB 123 Borrowing Costs

When applying AASB 123 Borrowing Costs in preparation of financial statements, reporting entities that are not-for-profit entities must expense borrowing costs as incurred.

99. While paragraph Aus8.1 of AASB 123 Borrowing Costs (AASB 123) allows NFP entities to elect to recognise borrowing costs as an expense in the period in which they are incurred, section 15 of the FRR removes such election (ie NFP entities must expense borrowing costs as they are incurred).

3.4 Leases

100. AASB 16 Leases (AASB 16) applies to financial reporting periods on or after 1 January 2019.
101. This standard sets the principles for the recognition, measurement, presentation and disclosure of leases to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. Entities are to:

- consider the terms and conditions of contracts and all relevant facts and circumstances when applying AASB 16
- apply the standard consistently to contracts with similar characteristics and in similar circumstances.

Transition to AASB 16

102. Under the options for lease incentives received, AASB 16 permits entities to derecognise this balance and recognise an adjustment to the retained earnings opening balance, as at the date of initial application of the standard. For transition options, see RMG 110 - AASB 16 - Leases Implementation Guide.

103. On transition, entities will only recognise lease incentives receivable when, in accordance with the contract terms and conditions:

- the entity has incurred the costs prior to transition to AASB 16
- is awaiting for the lessor to refund and/or make available the lease incentives.

104. For the lessee, to recognise the receivable, the lessor must be obliged to provide the lease incentives to the lessee.

105. For more information on the implementation of AASB 16, see:

- EM 2019-03 Implementation of AASB 16 Leases
- EM 2019-16 Implementation of AASB 16 Leases – Phase Two
- EM 2019-30 Implementation of AASB 16 Leases – Phase Three
- guidance on determining if an arrangement constitutes or contains a lease, at paragraphs B9 – B11 and the decision tree at paragraph B31 of AASB 16.

Disclosure of leases

106. For lessees, AASB 16 removes the distinction between operating and finance leases. On the balance sheet, all lessee leases are to be recognised as a right-of-use (ROU) asset and lease liability.

107. For lessors, each lease is to be classified as either an operating lease, or a finance lease. Lessors are to:

- disclose minimum lease payments, sublease payments and contingent rents—disclosed separately for each class
- disclose operating leases in the notes to the financial statements
• **classify leases with a land component for accounting purposes**—assess the classification of each element as a finance lease or an operating lease separately, as detailed in RMG 110 - AASB 16 - Leases Implementation Guide.

**Lessees’ treatment of right-of-use assets**

108. Lease ROU assets should be classified by Commonwealth lessees as separate asset classes to corresponding assets owned outright. Entities must disclose ROU assets as a separate class.

109. Commonwealth lessees are required to apply a cost model under AASB 16 to measure lease ROU assets for initial recognition, initial measurement and subsequent measurement of lease ROU assets. See subparagraph 17(2A) of the FRR and section 4.2 Valuation of non-financial assets.

**Lessor classification of a sublease**

110. For a sub-lessee, whether a sublease is accounted for as a finance lease or an operating lease depends on whether substantially all the risks and rewards incidental to ownership of the underlying ROU asset are transferred. The minimum benchmark for a sublease to be considered a finance sublease is the transfer of at least 75 per cent of the head lease ROU asset.

**Lease maturity analysis**

111. Under AASB 16:

- lessee disclosures on the maturity analysis for lease liabilities must also be disclosed separately in notes to the financial statements (paragraph 58)
- lessor payments receivable are to be disclosed with a maturity analysis on an annual basis for the first five years and a total for the remaining years (paragraph 94).

**3.5 Key management personnel remuneration**

**FRR extract:**

27 **Key management personnel remuneration**

1. The disclosure note for reporting entities must be prepared using actual key management personnel expenses (on an accrual basis).
2. A reporting entity is not required to prepare disclosures under this section for the entity’s key management personnel subject to a fee-for-service contract arrangement where the entity is not the direct employer.
3. For the purpose of this section, individuals on secondment must be disclosed by the receiving entity only.
4. Reporting entities must disclose the total number of key management personnel that are included in the disclosure note.
5. Reporting entities must disclose:
Measurement and disclosure

112. Key management personnel (KMP) remuneration is defined in AASB 124 Related Party Disclosure (AASB 124) as consideration paid, payable or provided by the entity and is to be measured in accordance with AASB 119, with the exception of superannuation which is to be measured as follows:

- **individuals in a defined superannuation contribution scheme** (eg Public Sector Superannuation accumulation plan (PSSap))—superannuation includes defined superannuation contribution amounts typically located on payslips of individuals

- **individuals in a defined superannuation benefit scheme** (eg Public Sector Superannuation Scheme (PSS) and Commonwealth Superannuation Scheme (CSS))—superannuation includes the Notional Employer Contribution Rate amount and the Employer Productivity Superannuation Contribution (also known as the productivity component).

113. Other KMP measurement and disclosure requirements, include:

- **promotion of an individual to a KMP during the reporting period**—all remuneration earned prior to the promotion is excluded from calculations, unless the person acted as KMP prior to their appointment/promotion

- **disclosure of the total number of KMP**—to be included in the KMP remuneration note (subsection 27(4) of the FRR), calculated as the total number of individuals who have remuneration included in the KMP remuneration table

  - entities may need to provide an explanation if the total number of KMP appears unusual or warrants additional explanation (eg the reporting entity had a high number of part-time directors, or many KMP were promoted in a restructure that occurred during the year)

- **part-time KMP**—KMP who work part-time and who meet the relevant inclusion criteria are to be included in the disclosures

- **acting arrangements**—the period of acting by itself is not a reliable indicator that a person is KMP. In determining if acting arrangements should be included in the KMP remuneration disclosure, entities should exercise professional judgement in applying the definition of KMP in AASB 124. Considerations may include:

  - whether there is any acting arrangements directly preceding a permanent promotion to a KMP position, and/or
o roles and responsibilities given to acting personnel (i.e., decision-making the person was involved in during the acting period and the significance of those decisions on the entity’s financial position, performance and operations).

KMP secondment arrangements

114. In the context of this RMG, a secondment may occur between:

- one Australian Public Service (APS) entity and another APS entity, or
- an APS entity and a non-APS entity.

115. Secondment is an arrangement where an employee ‘lent’ by one entity/organisation to perform work with/for another entity/organisation for a period of time. During the secondment period, the employee remains an employee of their home entity/organisation. The essence of a secondment arrangement is that:

- **for an APS employee**—the employee’s APS entity (the home employer, that has signed the employment contract) directs them to perform duties in/for another APS entity, or a non-APS organisation (the host employer)
- **for a non-APS employee**—the employee’s non-APS organisation (the home employer) directs them to perform duties in/for an APS entity (the host employer).

116. Typically, the home employer remains responsible for the payment of salary and nearly all employment terms and conditions. However, the host employer may, for practical reasons, pay the employee or reimburse the home entity for the costs of the employee.

117. For the purposes of the KMP remuneration note, amounts are to only be reported by the host employer and the expense is measured as follows:

- **where a formal written agreement for secondment exists**—the amount of remuneration to be disclosed, is in line with the formal agreement
- **where no formal written agreement for secondment exists between the home and host entities**—the remuneration expense relating to the secondee is to be obtained from the home entity.

118. Entities benefiting from a resource received free of charge arrangement under a secondment arrangement are to make a statement to the effect that the amounts disclosed are included as receipt of goods or services from another entity.

KMP remuneration note

119. Entities are required to disclose remuneration using the following four major categories:

- short-term employee benefits (includes for example: salary annual leave expense and performance bonus)
- other long-term employee benefits (includes for example: long-service leave expense, long-term disability benefits, profit-sharing)
- post-employment benefits (includes for example: superannuation, post-employment life insurance and post-employment medical)
• termination benefits, other than accrued leave entitlements.

120. The remuneration note is to include:

• the accrued leave expenses for the period (subsection 27(1) of the FRR)

• performance bonuses (ie expenses incurred during the reporting period not the cash paid).

121. The remuneration note is to exclude:

• leave balances transferred from other entities, where they only impact on the provision rather than the expense (paragraph 42 of AASB 1004)

• leave paid out on separation—this is a reduction in the provision and was previously reported as remuneration when the entitlement was earned.

Other KMP disclosures

122. Under paragraph 17A of AASB 124, disclosure of KMP compensation is not required by category if the KMP services are provided by a separate management entity. Where KMP services are from another entity on a fee-for-service contract arrangement, it is not a requirement to include the breakup of amounts in the disclosure of KMP remuneration. However, the amount in total needs to be disclosed.

123. Other KMP disclosures include:

• ministers’ remuneration—implementation guidance (paragraphs IG7 and IG8) applies to all KMP including ministers. Entities:
  o are not required to disclose ministers’ remuneration in their financial statements
  o may include (at the entity’s discretion) a note to disclose the fact that ministers’ remuneration is met by the Australian Public Service Commission and Finance through special appropriations

• consolidated financial statements—when preparing the consolidated financial statements for an economic entity, the parent entity is required to separately disclose the KMP of the following in accordance with the requirements of this topic:
  o the economic entity
  o the parent entity, (including where the parent entity elects to disclose only parent entity supplementary information as permitted by section 6 of the FRR).

• related party transactions—the objective of AASB 124 is to draw attention to the possibility that an entity’s financial position and operating result and performance may have been affected by transactions with related parties. The criteria that are relevant when assessing materiality for disclosing transactions between an entity and its KMP related parties are discussed in:
  o AASB 124 Agenda Decision (April 2017)
  o AASB Practice Statement 2 (December 2017)
other references such as the *Australian Implementation Guidance* to AASB 124 can also assist entities in making materiality judgements.

124. Paragraphs 10 and 11 of AASB 1054 require the disclosure of auditors’ remuneration. The fair value of audit services provided free of charge is to be shown in the statement of comprehensive income with a corresponding expense under ‘other revenue’. However:

- a separate note is not required where audit services were provided free of charge
- ANAO-conducted performance audits are not services to the reporting entity.
Part 4. Statement of financial position

4.1 Receivables for statutory charges

FRR extract:

20 Receivables for statutory charges

Receivables for statutory charges must be assessed for impairment under AASB 136 Impairment of Assets.

125. Statutory charges (receivable or payable) are not financial instruments—examples of statutory charges include GST (receivable from or payable to the ATO), levies, rates and fines. However, the initial recognition and measurement of statutory receivables is treated as if they are financial instruments under AASB 9.

126. Material individual receivables should be separately assessed for impairment. When statutory receivables exhibit similar characteristics that provide information about the possible collectability of the amounts owing to the entity, they shall be grouped together and assessed collectively for impairment.

127. AASB 136 is relevant for impairment for statutory receivables and applies to administered assets that are not financial instruments. Estimates, averages and shortcuts may be applied under paragraph 23 of AASB 136, for determining fair value less costs of disposal or value in use. This assessment can be made on a portfolio basis where this is appropriate (eg impairment of a large portfolio of statutory receivables).

128. Where the statutory receivables are material, entities are encouraged to include in their accounting policy, a reference to the fact that impairment is made under AASB 136.

4.2 Valuation of non-financial assets

FRR extract:

17 Valuation of non-financial assets (AASB 16 Leases, 116 Property, Plant and Equipment, AASB 138 Intangible Assets, AASB 140 Investment Property)

(1) When applying AASB 16 Leases, AASB 116 Property, Plant and Equipment, AASB 138 Intangible Assets or AASB 140 Investment Property in preparation of financial statements, reporting entities must apply subsections (2) to (5).

(2) Unless required by the applicable standard to be measured otherwise, subsequent to initial recognition entities must measure every class of asset listed below at fair value in accordance with AASB 116 or AASB 140 as applicable:

(a) land;
(b) buildings;
(c) heritage and cultural assets (where not intangible assets);
(d) investment properties; and
(e) material other property, plant and equipment.
(2A) Despite subsection (2), if a right-of-use asset recognised under AASB 16 relates to a class of property, plant and equipment to which the lessee reporting entity applies the revaluation model in AASB 116, the lessee reporting entity must, after the initial measurement of the right-of-use asset, measure the right-of-use asset by applying the cost model in AASB 16.

(3) Immaterial other property, plant and equipment may be measured at cost.

(4) Intangible assets must be valued by class in accordance with AASB 138, at:
(a) cost, in the absence of an active market; or
(b) fair value, where an active market exists for all assets in a class.

(5) Investment property must be revalued annually in compliance with AASB 140.

(6) For-profit entities or a reporting entity that is a university may elect not to apply the requirements relating to the valuation of non-financial assets in subsections (1) to (5).

Asset recognition, valuation and depreciation

129. As permitted by paragraph 35 of AASB 116, either the gross or net approach to disclosing revalued assets may be used.

- For guidance on assets held for sale as defined in AASB 5, see Accounting for non-current assets held for sale (RMG 111).

- For more information on accounting for PPE, see Accounting for subsequent expenditure on property, plant and equipment (RMG 113).

130. AASB 116 defines a class of assets as ‘a grouping of assets of a similar nature and use in an entity’s operations’. If an asset of a type listed in subsection 17(2) of the FRR is to be revalued, every other asset in the class in which that asset falls must also be revalued. Types of assets referred to in subsection 17(2) of the FRR are not automatically synonymous with classes. Classes and valuation classes are not necessarily a direct reflection of the groups of assets that are reported in disclosures such as ‘3.2A: Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment and Intangibles’

131. Internally developed software is separable under AASB 138 and, if it meets the criteria under paragraphs 21 and 57 of AASB 138, can be recognised as an asset. For more information, see Accounting for internally developed software (RMG 109).

132. Expenditure for research and development costs related to intangible assets that are not capitalised, is to be disclosed under AASB 138.126.

133. Each non-financial asset held at fair value listed in subsection 17(2) of the FRR or recognised in compliance with paragraph 17(4)(b) of the FRR, other than investment properties, should be assessed each year to ensure that the carrying amount does not differ materially from fair value as at reporting date. Where there is a material difference, then the entire class needs to be revalued (ie not just the individual assets).

134. Where valuation is at fair value, AASB 13 sets out the requirements for measurement. Each entity is responsible for arranging appropriate valuations for assets they control or administer on behalf of the Commonwealth, on a timely basis for inclusion in financial statements.
135. Subsection 17(2) of the FRR requires Commonwealth lessees to continue to measure ROU assets at cost (not revalued to fair value) after the initial measurement.

136. Subsection 17(3) of the FRR allows an entity to measure immaterial other PPE at cost in accordance with paragraph 29 of AASB 116. This then requires those assets to be disclosed as a separate class of non-financial assets (eg minor PPE).

137. In choosing the valuation model for immaterial PPE, consideration needs to be given to the cost of valuations against the benefit of doing so. Entities also need to exercise professional judgement to assess if immaterial PPE at an individual item remains immaterial for the total class of assets.

138. A change of valuation of immaterial (or minor) other PPE from fair value to cost, is a change in accounting policy under AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors (AASB 108) that requires the entity to return the item to original cost less accumulated depreciation and amortisation (ie not simply a cessation of revaluation).

PPE: fair value measurement of asset under construction

139. In order to recognise assets under construction/work in progress (WIP), entities need to satisfy the recognition test under AASB 116.7 (ie that the expenditure on WIP is probable to realise future economic benefits). The FRR requires the valuation of PPE using the revaluation model at AASB 116. Where WIP assets are included in a PPE class, WIP is to be measured at fair value.

140. A number of techniques such as an indexation test can be used to guide an entity in determining if there is likely to be a material difference between carrying amount of WIP and current replacement cost—see Example 4.1. PPE WIP assets indexation test.

**Example 4.1: PPE WIP assets indexation test**

<table>
<thead>
<tr>
<th>Age of WIP as at 30 June 201X</th>
<th>WIP carrying value ($’000)</th>
<th>Index applied* (CPI)</th>
<th>WIP indexed amount ($’000)</th>
<th>Difference (%)</th>
<th>Difference ($’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 1 yr</td>
<td>$10,000</td>
<td>-</td>
<td>$10,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1 - 2 yrs</td>
<td>$10,000</td>
<td>1.030</td>
<td>$10,300</td>
<td>-</td>
<td>$300</td>
</tr>
<tr>
<td>2 - 3 yrs</td>
<td>$10,000</td>
<td>1.061</td>
<td>$10,609</td>
<td>-</td>
<td>$609</td>
</tr>
<tr>
<td>3 - 4 yrs</td>
<td>$10,000</td>
<td>1.093</td>
<td>$10,927</td>
<td>-</td>
<td>$927</td>
</tr>
<tr>
<td>4 - 5 yrs</td>
<td>$10,000</td>
<td>1.126</td>
<td>$11,255</td>
<td>-</td>
<td>$1,255</td>
</tr>
<tr>
<td></td>
<td>$50,000</td>
<td>1.158</td>
<td>$53,091</td>
<td>6.18%</td>
<td>$3,091</td>
</tr>
</tbody>
</table>
In this example:

- CPI is assumed to be 3% pa compounded (ie Indexed Amount = Cost Amount X (1+r)^n where r is CPI and n is number of years).

- the carrying amount of the WIP assets (all part of its ‘plant and equipment’ asset class) at cost differs from the indexed amount by 6.2%. If this amount was considered material for the asset class, the entity would need to revalue the relevant WIP assets in accordance with AASB 13.

**NB:** If the WIP carrying amounts have already been subject to indexation (eg indexation clauses in a construction contract), then this approach would need to be modified.

141. It is generally considered that there is no active market for the sale of partially completed PPE assets. In such circumstances, it is appropriate for the entity to use the cost approach (current replacement cost) under **AASB 13**.

142. While the FRR does not mandate WIP to be at fair value (ie where WIP is not included within the PPE class), entities should still consider whether the carrying value of WIP, adjusted for any impairment loss, would differ materially from its fair value. This is particularly so where the construction period is extended over several years and there is a risk that WIP expenditure includes items unlikely to meet **AASB 116** asset recognition requirements (eg discontinued project elements and significant rework).

**Accounting for land under roads**

143. Under **AASB 1051 Land Under Roads** (AASB 1051), land under roads is defined as ‘land under roadways, and road reserves, including land under footpaths, nature strips and median strips’. Under **AASB 116**, land under roads acquired on or after 1 July 2008 is to be recognised. Finance has determined that land under roads acquired before this date will continue to be not recognised.

144. Roads constructed on land are to be recognised and measured under **AASB 116**. Land under roads acquired on or after 1 July 2008 shall only be recognised if:

- **it is probable that associated future economic benefits will flow to the entity**—paragraph Aus49.1 of the Framework for the Preparation and Presentation of Financial Statements states that, for NFP entities, assets provide a means for entities to achieve their objectives. Future economic benefits are synonymous with the notion of service potential and can be from the provision of needed services to beneficiaries.

  - while the framework is silent on the degree of contribution necessary to meet this requirement, the future economic benefits test is assumed to be satisfied where it is probable that the entity will achieve its objectives. Entities need to regularly assess land under roads contribution against their objectives.

- **the cost or fair value can be reliably measured**—fair value is determined in accordance with AASB 13. The valuation of land under roads is based on its potential rather than as a road, where physically possible, legally permissible and financially feasible—see Example 4.2. However, in many cases the land under roads cannot have an alternate use because of road dimensions, the need for continued road access and planning restrictions on surrounding areas etc.
• **the amount is material**—even where the value of land under roads can be determined, it may only be recognised as an asset when material (in accordance with the applicable AAS).

**Example 4.2: Valuation of land under roads**

If the land on which the roads in the parliamentary triangle in Canberra is commercially zoned, it would be valued on the basis of its potential to put an office building upon it, rather than as a road.

145. For assistance in determining whether land under roads can be reliably measured, email accountingpolicy@finance.gov.au.

### 4.3 Impairment of non-financial assets

**FRR extract:**

#### 22 Impairment of non-financial assets

For the purposes of AASB 136, parts of reporting entities are not cash generating units where they are primarily dependent on funding from appropriations.

**Generation of cash inflows**

146. Entities, or parts of entities, other than those whose main purpose is to generate net cash inflows, are not cash-generating units for the purpose of AASB 136.

147. Non-corporate entity receipts related to income from the sale of goods and services, retained under section 74 of the PGPA Act, are to be included for determining whether entities are cash-generating units under AASB 136.

**Impairment process**

148. NFP entities must refer to paragraph Aus5.1 of AASB 136 for non-cash generating assets held for continuing use of their service capacity—noting that under the revaluation model in AASB 116 and AASB 138, AASB 136 does not apply to assets regularly revalued to fair value.

**Indicators of impairment**

149. Impairment indicators that are developed need to be appropriate to the entity’s operations and consider the materiality of the asset/asset class and the internal and external minimum indicators of impairment listed in paragraph 12 of AASB 136.

150. Where an asset is assessed for impairment, some minimum impairment indicators specified in AASB 136 will be more relevant than others. The consideration of indicators of impairment is to be documented.
4.4 Analysis of non-financial assets

151. Sufficient information and sub-total columns are to be disclosed for the reconciliation of amounts with corresponding line items on the statement of financial position. Notes to the financial statements need to include:

- reconciliation of the opening and closing balances of PPE and intangibles
- reconciliation of the opening and closing balances of investment property.

4.5 Heritage and cultural assets

152. Heritage and cultural assets are buildings, other structures, works of art, artefacts, collectables, historical treasures, nature reserves, national parks, or similar items that are used for their cultural, environmental or historical significance. Heritage and cultural assets will generally be:

- used for public exhibition, education or research; and/or
- protected, cared for, and preserved.

153. Heritage and cultural items are for the community’s benefit and represent, in part, Australia’s cultural and historic background. These assets are primarily used for purposes relating to their cultural, environmental or historical significance.

154. However, structures that assist in the display, transport or storage of items (eg backdrops, hanging apparatus, storage racks or protective cases) are not heritage and cultural items—except where it has heritage or cultural value in its own right, or is an integral part of the heritage and cultural item. For example, an asset that is an integral part of a heritage and cultural asset may be include the original frame surrounding a painting which is classified as a heritage and cultural asset.

FRR extract:

21 Heritage and cultural assets
(1) Only assets that are primarily used for purposes that relate to their cultural, environmental or historical significance can be accounted for as heritage and cultural assets.

(2) Heritage and cultural items must only be recognised as assets where they meet the asset definition and recognition criteria set out in AASB 116 Property, Plant and Equipment or AASB 138 Intangible Assets.
FRR extract:

30 Heritage and cultural assets

(1) When a reporting entity controls or administers heritage and cultural assets, the notes to the financial statements must disclose:
   (a) a description of the items that are material to the entity’s financial statements; and
   (b) the curatorial and preservation policies for those material heritage and cultural assets.

(2) Where this information is publicly available, reporting entities may instead provide a cross-reference to this information. These policies must include details on acquisition, preservation, management and disposal of heritage and cultural assets.

Asset recognition criteria

155. Not all heritage or cultural items will meet the accounting definition of assets despite having intrinsic heritage value. Only items useful to achieving the entity’s objectives and with a financial value that can be reliably measured are recognised as assets.

156. Heritage and cultural assets acquired at no cost, or for a nominal cost, are to be initially recognised at fair value, as at the date of acquisition. Entities need to exercise professional judgement in determining whether fair value can be reliably measured for a heritage or cultural asset as at the date of acquisition.

Useful lives

157. The AAS contemplate indefinite useful lives for some assets and non-depreciation of these. This does not exempt the asset from impairment testing.

158. Under paragraph G3 of AASB 116, heritage and cultural assets may be deemed to have an indefinite useful life, and as such not depreciated, where appropriate curatorial and preservation policies are established and implemented. Entities must ensure such policies satisfy the criteria in the Australian Implementation Guidance to AASB 116 and only depreciate these assets where they are determined to have a limited life.

159. To establish evidence that the policies have been adopted by the entity’s governing body, it is critical to:
   - demonstrate clear understanding on what condition an entity is seeking to maintain an asset; and
   - document how the policy is being followed for its condition to be maintained.

Primary use of assets

160. An example of an item subject to subsection 21(1) of the FRR is buildings of historical interest that are used primarily to provide office accommodation. These are not to be accounted for as heritage and cultural assets.
Curatorial and preservation policies

161. When disclosing information required by subsection 30(1) of the FRR, entities are not required to disclose sensitive material (e.g., information about fraud/theft prevention) if contained in the same document as curatorial or preservation policies.

4.6 Assets held in trust

FRR extract:

31 Assets held in trust

(1) Financial statements of reporting entities must include a note giving particulars of financial assets held in trust when the entity is a trustee in a legal trust arrangement. A legal trustee relationship may occur through formal appointment or otherwise.

(2) The note referred to in subsection (1) must contain a summary of the categories of assets held in trust at the end of the reporting period and the purpose for which they are being held.

(3) Where a reporting entity holds non-monetary assets in trust, the entity need only provide a general description of those assets as part of the disclosure note.

Trust amounts

162. For trust amounts received as retainable receipts under section 74 of the PGPA Act:

- where the trust is not controlled by the entity and is held for the benefit of a person or entity other than the entity itself or the Commonwealth, a footnote should be included in the special account note to specify that trust money retained under section 74 of the PGPA Act and subsection 27(3) of the PGPA Rule, is not reported in the special account.

- entities should refer to the annual appropriations and assets held in trust notes.

163. Trust amounts will be included in the assets held in trust disclosure note and reported separately. These amounts will not be included in the statement of profit or loss and the statement of financial position where the amounts are not controlled by the entity or held for the benefit of the Commonwealth. Entities should seek legal advice to confirm whether amounts retained are actually trust amounts.

164. For trust amounts credited to the special account, the amount will be included in the special account balance and a footnote is required to specify that such an amount is included.

165. Reporting and disclosure requirements for entities who held part of the closing balance of a special account on trust are detailed at Appendix D: Disclosure of trust moneys.

166. Administered receipts relating to a special account and remitted by an entity to the OPA, should be treated as cash equivalents in the entity's:

- administered schedule of assets and liabilities
- administered cash flow statement
• administered reconciliation schedule
• administered – financial assets note
• special accounts note.

167. The balance of the OPA (incorporating balances of special accounts transferred by entities to the OPA) will be disclosed as appropriate by Finance, on behalf of the whole of government in its financial statements as cash/cash equivalents in the administered schedule of assets, and liabilities and administered – financial assets note.

168. Special account balances held in the OPA (excluding trust amounts) will be included in the financial instrument disclosure note under AASB 9. There is a contractual right to receive cash and this is therefore a financial instrument and a financial asset to the entity. While amounts may be held in the OPA, receipts collected and subsequent payments are distinct from contributions to entities via appropriation funding.

169. Special account balances held by an entity in a bank account (excluding trust amounts) will be included in the financial instrument disclosure note. Under AASB 9, a cash deposit held in a bank account creates a contractual right to receive cash and is therefore a financial instrument and a financial asset to the entity.

170. For more guidance on special accounts reporting, see :
• EM 2017/47 and its attachments

Trust disclosure

171. For agreements that constitute a legal trust (including for charitable purposes under trust law), entities are encouraged to obtain legal advice if they are unsure as to whether or not an asset is held in trust.

172. All trust accounts are to be identified by the type of trust (beneficiary or other third party purpose) and disclosed in the notes to the financial statements.

Special accounts

173. Entities must report assets covered by subsection 31(1) of the FRR that stand to the credit of a special account in the notes to the financial statements for special accounts (see Part 9.1 Special accounts).

174. Entities are to cross-reference monetary assets held in trust that are disclosed in their special account note. However, amounts held in trust will not necessarily form part or all of the balance of a special account.

175. Under s74 of the PGPA Act, trust moneys may be received as retainable receipts. These amounts will increase the departmental appropriation and are to be disclosed in the appropriation table amounts, with an appropriate footnote.

176. Trust moneys may be credited to an entity’s special account either to the special account held in Official Public Account (OPA), or the special account held in an entity’s bank account—only where this is permitted by special account crediting clauses. The
amount is to be included in the special account balance and disclosed with an appropriate footnote (see Part 9.1 Special accounts).

177. For both situations, trust amounts will be included in the assets held in trust disclosure note and reported separately. These amounts will not be included in the Statement of Profit or Loss and the Statement of Financial Position as the amounts are not controlled by the entity or held for the benefit of the Commonwealth. Entities should seek legal advice to confirm whether amounts are actually trust amounts. Appendix D illustrates reporting and disclosure requirements for trust moneys.

**Unidentified receipts**

178. Money found on Australian Government premises and other unidentified receipts are to be accounted for as administered receipts. As there is no beneficiary or third-party purpose, these receipts must not be treated as assets held in trust. For more information, contact Financial Management Branch at receipts@finance.gov.au.

**Consolidated Revenue Fund money outside the Commonwealth**

179. Other Consolidated Revenue Fund (CRF) money is not trust money. An amount of money is other CRF money if it is in the physical possession or a bank account, of a person other than the Commonwealth and that person is acting on behalf of the Commonwealth in relation to that money. More information about other CRF money held by persons outside the Commonwealth is provided at Part 4.12 Financial Instruments

**4.7 Liabilities – general information**

180. An essential characteristic of a liability is the existence of a present obligation, being a duty or responsibility for the entity to act or perform in a certain way. A liability is only recognised when the entity has little or no discretion to avoid the sacrifice of future economic benefits. For example:

- a liability for workers’ compensation premium is recognised at the earlier of:
  - the start of the period for which there is a legal obligation to have workers’ compensation insurance, or
  - when the invoice is due to be paid under the terms of the contractual arrangement for insurance coverage

- employee benefit liability, such as for unpaid salary or superannuation is to be recognised at the earlier of:
  - when service is provided by the employee, or
  - the time of obligation specified in the employment agreement.

**Obligations**

181. The existence of an obligation does not mean the identity of the party, to whom the obligation is owed, should be known—this party may be different from the party that will receive the goods and services under the obligation.
182. While most obligations are legal, others are constructive. A constructive obligation is defined in paragraph 10 of AASB 137. A constructive obligation is created, inferred or construed from facts in a particular situation, rather than from an agreement or being imposed by government. For example, a constructive obligation exists where:

- an entity has committed to remove environmental contaminants used in the past for building construction
- the removal of these contaminants is not required under legislation but there is an established practice for performing such work
- the public has a reasonable expectation that the entity will fulfil its commitment.

**Decommissioning, restoration and similar provisions (‘make good’)**

183. For guidance on the accounting and disclosure requirements for initial recognition of make good provisions and subsequent accounting, including the unwinding of the discount and changes made to the provision—see Accounting for decommissioning, restoration and similar provisions (‘make good’) (RMG 114).

**Recognition of grant liabilities**

184. Grant liabilities to state, territory and local governments are only recognised to the extent that grant conditions (such as grant eligibility criteria) were met by the grantee government entity, or those governments have provided required services or facilities under the grant agreement. In such cases, only amounts outstanding in relation to current or previous periods satisfy the definition of liabilities.

**Social benefit payments**

185. Social benefits are typically, though not exclusively, provided by Budget funded agencies in the form of a regular (e.g. fortnightly) cash payment (e.g. Newstart allowance, pensions and PPL).

186. However, there may be circumstances where non-cash benefits are provided and/or the paying entity is not Budget funded (e.g. the National Disability Insurance Agency, a corporate Commonwealth entity, provides cash and in-kind benefit to National Disability Insurance Scheme recipients).

187. A standard requirement of social benefits payments is the use of ongoing eligibility requirements to assess the recipients’ entitlement to the payment—so a recipient will not qualify for the payment if they cease to satisfy the eligibility criteria. Eligibility requirements are usually set in the legislation authorising the payment.

188. Under paragraph 60 of the *Framework for the Preparation and Presentation of Financial Statements*, obligations may be legally enforceable or arise from custom, equitable consideration or the desire for good relations. In the case of social benefits, the government incurs a liability at the time it has a legal obligation to make payment (i.e. when the recipient meets the eligibility requirements).

189. Consequently, social benefits payments will not give rise to a constructive obligation under AASB 137 and no liability will be recognised for potential claimants who have not applied for the benefit as the government has no legal obligation until a claim is lodged and the applicant is assessed to have met the eligibility requirements.
190. Under paragraph Aus 26.1 of AASB 137, the present obligation (and consequently the liability) for social benefits payment is recognised at the point when the entitlement conditions are met for payment during a particular payment period. Paragraph Aus26.1 only automatically applies to entities that are part of the Commonwealth legal entity. However, paragraphs 10 and 11 of AASB 108, require entities to consider accounting standards dealing with similar issues and would reasonably extend the application of paragraph Aus 26.1 to include corporate entities.

191. As the present obligation does not extend beyond the current payment period, payments the government may make in future periods, however probable, are future obligations that do not meet the recognition criteria for liabilities.

192. The expense for social benefits payments is recognised at the time the cash payment or other benefit is due (ie the ‘due and payable’ basis). At the end of each reporting period a liability is recognised for the outstanding accrual for the payment period (eg if 30 June fell in the middle of a fortnightly payment period, the liability would be the seven days’ accrual for eligible recipients).

193. The ‘due and payable’ basis is considered to be the most appropriate under accounting standards, and is consistent with the approach currently taken in accounting for social benefit payments.

194. Entities should review existing social benefits payments to confirm they are accounted for on a ‘due and payable’ basis. If another accounting treatment has been used, to determine if a change in accounting treatment is required, contact accountingpolicy@finance.gov.au

195. If an accounting treatment other than the ‘due and payable’ basis is used for an existing payment and this will be changed to the ‘due and payable’ basis, this is normally disclosed as a change in accounting policy under paragraph 29 of AASB 108, and applied retrospectively, where practicable, under paragraph 19 of AASB 108.

196. The most probable change in the accounting policy will be a change in the length or scope of the social benefit liability. This will have no impact on the underlying cash balance (as the timing of cash payments is determined under the relevant legislation) and is unlikely to have a significant impact on the fiscal balance.

197. Fortnightly payments are recognised as an expense when they are made. Any unpaid amounts at year end should be accrued. Where there is any uncertainty over the number of claimants, amount or timing, this can be recorded as a provision.

4.8 Liabilities relating to dividends
FRR extract:

23 Liabilities relating to dividends

(1) Where legislation provides that a Minister(s) may determine the amount to be paid as a dividend or similar distribution, the reporting entity must recognise a liability for any dividend or distribution determined by the Minister(s) at the date of the Ministerial determination.

(2) Where a wholly-owned Australian Government entity is required to pay its profit for the year to the Australian Government, a liability for the dividend must be recognised for an amount equal to profit for the current year as at the reporting entity’s reporting date.
(3) Where a reporting entity is required to pay its profit for the year to the Australian Government after the deduction of certain amounts, a liability for the dividend must be recognised if those amounts are known before the date of completion of the financial statements. If these amounts are not known before this date, the entity should instead disclose a contingent liability.

198. Enabling legislation normally sets out procedures for dividends. Typically, the board or other governing body recommends a dividend to the minister. The minister has the authority to accept or reject a recommendation. A liability for the dividend is not recognised by the entity until the minister has made a determination.

199. Sometimes, legislation or government policy provides for a dividend to be paid as an amount or percentage of profit for the year, or profit less specified deductions. In such cases there is no need for a determination to create a liability. A liability for dividends arises at the reporting date, when the amount is known.

200. In accordance with paragraphs 12 and 13 of AASB 110, if an entity declares dividends to holders of equity instruments after the reporting date, no liability is to be recognised at the reporting date. Such dividends are to be disclosed in the notes to the financial statements in accordance with AASB 101.

4.9 Employee benefits

FRR extract:

24 Employee benefits

(1) In calculating long service leave (LSL) liability, reporting entities with:

(a) less than or equal to 1,000 full-time equivalent (FTE) employees can use the shorthand method (as per the Commonwealth Entities Financial Statements Guide); and

(b) greater than 1,000 FTE employees must estimate the entity’s LSL liability using one of the following methods:

(i) an actuarial assessment;

(ii) a detailed calculation basis (eg employee by employee); or

(iii) where the employee profile is demonstrably not materially different from the Australian Government’s standard profile, entities may use the shorthand method (as per the Commonwealth Entities Financial Statements Guide).

(2) On-costs (eg workers’ compensation insurance and payroll tax) are not employee benefits.

Sick leave

201. Where sick leave (ie ‘personal/carer’s leave’ under the Fair Work Act 2009) is non-vesting and average sick leave estimated to be taken each year is less than the annual entitlement, there is no requirement to record a provision for sick leave at year end.
LSL - probabilities and discount factors tables

202. The LSL – Table of Probability Factors (referred to in Examples 4.4 and 4.5) are available in the Standard Parameters for use in Financial Statements.

Example 4.4: Measurement of additional costs

**Measurement**

**Additional costs**

- Entities need to make an allowance for additional costs (eg superannuation costs) expected to settle leave provisions.
- The recommended approach to calculate additional costs is:

  \[
  \text{additional costs} = \text{total estimated liability} \times (X \times Y)
  \]

  Where:

  \(X\) = costs as a % of employees’ salaries (this includes superannuation, employee allowances and additional annual and LSL accrued when the leave is taken)
  \(Y\) = proportion (as a %) of accrued leave expected to be taken in-service by all employees

- Some additional costs only apply if the leave is taken in-service. To calculate the expected leave taken in-service, entities need to review historical employee data or apply reasonable estimates. The entity’s human resource area may assist this process.

- The probability that the leave will be taken in-service rather than paid out is important in determining the additional costs percentage to apply. For example, if an employee’s superannuation costs were calculated as 15% on total salary but they are expected to only take 60% of their LSL in-service, additional costs of 9% (60% multiplied by 15%) would be applied to the provision.

The ‘shorthand method’

203. The ‘shorthand method’, developed by the Australian Government Actuary in the mid-1990s and reviewed in July 2010, is still acceptable for application by entities as the weighting factors are not expected to have materially changed.

Example 4.5: The shorthand method

**The shorthand method**

**Step 1: Obtain nominal, accrued LSL information**

- Obtain details of each employee’s balance of accrued LSL entitlement. This is the amount accrued during service (including eligible prior service for LSL with previous employers) less the amount taken (including amounts redeemed for payment).

- For example, where full-time employees accrue 9 calendar days per year of service:
(a) an employee who has worked for half a reporting period has accrued 4.5 days
(b) an employee who has worked for 11 years and has taken 10 days of LSL has accrued 89 days.

- Each employee’s LSL entitlement is required to be expressed as a dollar amount (including eligible prior service). As each employee’s LSL entitlement is expressed in calendar days an adjustment is required to remove the effect of weekends as applicable. An adjustment is relevant if the LSL is converted to dollars using a daily rate but an adjustment is not required if the LSL is converted to dollars using an annual salary.

**Step 2: Calculate the probability-weighted accrued LSL**

- Apply the formula as follows to calculate the nominal probability-weighted accrued LSL:

\[
A = B \times C
\]

Where:
- \(A\) = nominal probability-weighted LSL
- \(B\) = amount from Step 1
- \(C\) = probability weight in the LSL – Table of Probability Factors

**Step 3: Calculate the present value of the (probability-weighted) LSL liability**

- For each employee, multiply ‘\(A\)’ from Step 2 by the factor determined by reference to the LSL – Table of Discount Factors.

- The salary growth rate is the entity’s estimate of the average annual salary growth rate expected over ten years.

- Where discount or salary growth rates:
  
  (a) are within range of rates presented in the table, entities need to round the rate to the nearest amount or extrapolate between rates presented in the table
  
  (b) are not within range of the rates presented in table, entities are required to consult with Finance and obtain actuarial advice.

**Step 4: Calculate the estimated LSL liability for the entity**

- The total estimated liability for the entity is the sum of the liabilities for each employee.

- The shorthand method does not take into consideration additional costs. These additional costs need to be added to arrive at the final liability.
4.10 Post-employment plans: measurement and disclosure

FRR extract:

25 Measurement and disclosure of post employment plans

(1) For plans where the actuarial risk (shortfall risk) falls on the entity, the reporting entity must account for them as defined benefit plans.

   Public Sector Superannuation Scheme (PSS), Commonwealth Superannuation Scheme (CSS) and military superannuation schemes (including the Military Superannuation and Benefits Scheme (MSBS))

(3) The Australian Government has a legal liability to meet the deficits of the PSS, CSS and military superannuation schemes; and as such liabilities related to these schemes are reported on behalf of the Australian Government in the administered reports of:

   (a) Finance (for PSS and CSS); or
   (b) Department of Defence (for military superannuation schemes).

(4) Reporting entities making contributions for employees to the PSS, CSS and military superannuation schemes must:

   (a) account for and make the required disclosures in accordance with AASB 119 as if they were contributing to defined contribution plans; and

   (b) disclose the following facts and reference:

      (i) that the entity is accounting for the scheme as a defined contribution plan;

      (ii) that at the whole of Government level the scheme is a defined benefit plan and is accounted for as such; and

      (iii) a reference to the financial statements in which the defined benefit disclosures have been or will be made.

(4A) Despite subsection (4), reporting entities participating in the PSS and CSS schemes must not account for additional lump sum payments (which are not considered compensation under AASB 124) that are payable to Finance in relation to those schemes.

(5) Reporting entities participating in the PSS and CSS schemes must reference the administered disclosures made in Finance’s financial statements for these schemes. Finance’s financial statements do not need to be published for these references to be made.

Post-employment plans

204. Superannuation additional lump sum (ASL) paid by an entity to the consolidated revenue fund payments in relation to the PSS and CSS are not considered compensation under AASB 124 Related Party Disclosures and is not an individual employee benefit. Thus ASL payment should be excluded from the KMP remuneration disclosure note, this does not mean it is not an employee related expense just not specific remuneration for an employee.
Discount rate

205. Consistent with AASB 119, for-profit entities are required to use the market yield on high quality corporate bonds when discounting employee benefit obligations. NFP entities are required to use the market yields on government bonds to discount employee benefits.

4.11 Financial instruments

FRR extract:


(1) When applying AASB 7 Financial Instruments: Disclosures, AASB 9 Financial Instruments and AASB 132 Financial Instruments: Presentation in preparation of financial statements, reporting entities must apply subsections (2) to (8).

Financial liabilities

(2) Unless otherwise required under AASB 9, an entity must use the same classification for a financial liability that existed at the end of the last reporting period that began before 1 January 2018, as the entity used for the liability for that period.

Expected credit losses

(3) If permitted under an AAS, entities must apply, for the following, the simplified approach for recognition of expected credit losses available under AASB 9:

(a) trade receivables;
(b) contract assets (subject to subsection (4));
(c) lease receivables.

(4) Paragraph (3)(b) applies in relation to:

(a) the first reporting period to which AASB 15 Revenue from Contracts with Customers applies; and
(b) later reporting periods.

Derivatives and hedging

(5) Where an entity has held derivative financial instruments that are not part of a qualifying hedging arrangement at any time during the period, it must disclose:

(a) the management’s objectives for holding or issuing those derivatives;
(b) the context needed to understand those objectives; and
(c) the strategies for achieving those objectives.

Regular way purchase or sale

(7) For regular way purchase or sale, entities must apply trade date accounting.
Definitions and measurement

206. **AASB 7 Financial Instruments: Disclosures** (AASB 7) applies to recognised and unrecognised financial instruments:

- **recognised financial instruments** include financial assets and financial liabilities that are within the scope of **AASB 9**

- **unrecognised financial instruments** include some financial instruments that, although out of scope of **AASB 9**, are within scope of **AASB 7** (e.g. credit risk disclosure requirements in paragraphs 35A – 35N of **AASB 7**, apply to those rights specified in **AASB 15**, and paragraph 5A of **AASB 7**).

207. Under **AASB 7**, disclosures are to be made by the ‘class’ of financial instrument. ‘Classes’ are smaller units than categories (e.g. loans and receivables category of financial instruments contain classes such as cash at bank and trade receivables).

208. Appropriations receivable and statutory charges (receivable or payable) are not financial instruments (e.g. statutory charges are GST receivable from or payable to the ATO, however, amounts payable to, or receivable from, other entities need to be disclosed inclusive of GST).

209. Financial guarantee contracts as defined in **AASB 9** do not include performance guarantees. For guidance on fair value measurement considerations for the recognition and measurement of financial instruments, see **AASB 13** and Chapter 5 of **AASB 9**.

210. When financial instruments must be disclosed by class, entities need to ensure they have appropriate classes for disclosure requirements of **AASB 7**.

211. Trust amount and statutory credits received in the special account will be excluded from the financial instrument disclosure table—see **Part 9.1 Special accounts**.

Initial measurement

212. **AASB 9** advises that, except in some circumstances, the fair value of a financial instrument is normally the transaction price (e.g. a loan issued on favourable terms—in this case a valuation technique is employed to determine fair value).

213. Under **AASB 13**, a valuation technique must use prevailing market data for identical or comparable/similar financial instruments issued in the market. Similar financial instruments have substantially the same terms in regard to denominated currency term, type of interest rate (fixed or floating) and other relevant factors.

214. Appendix B5.1.2A or **AASB 9** allows different treatment where fair value is based on:

- quoted price in an active market for an identical asset, or

- a valuation technique that uses only data from observable markets.
215. In the above circumstances, the difference between fair value and transaction price goes through as gain or loss. In all other cases the difference between fair value and transaction price is deferred only to the extent that it arises from a change in a factor that market participants would take into account when pricing the asset.

216. Upon examination of available market data, if there is not sufficient data to determine a prevailing market interest rate, or acceptable interest rate range for financial instruments issued, then fair value is the transaction price.

217. If a prevailing interest rate or range is determined, and the financial instrument is issued at a rate below this rate, a valuation technique will result in a value less than the transaction price—it is likely the difference would be recognised as an expense, unless upfront compensation is received for the discount.

Subsequent measurement, classification and concessional loans

218. For:

- **subsequent measurement**—requirements of subsequent measurement of financial assets and liabilities are provided in paragraph 5.2.1 to 5.3.2 of AASB 9
- **disclosure**—disclosure requirements of AASB 13 apply to financial instruments where AASB 7 requires or permits fair value disclosures.
- **the classification of financial instruments**—the classification, or designation, of financial instruments for an entity has the effect of designating those instruments in the Commonwealth CFS.
- **concessional loans**—for guidance, see Accounting for concessional loans (RMG 115).

Analysis of market risk sensitivity

219. AASB 7 requires disclosures of market risk sensitivity analysis and permits the analysis to be disclosed as either:

- a separate sensitivity analysis for each type of market risk the entity is exposed to, based on changes in the risk variable considered ‘reasonably possible’, or
- analysis taking account of interdependencies between market risk variables, if it is used to manage the entity’s financial risks.

220. Entities are encouraged to adopt the disclosures in PRIMA forms as part of their market risk sensitivity analysis. Where the sensitivity analysis disclosed is unrepresentative of the risk inherent in a financial instrument, the entity is required to disclose that fact and the reason for this belief.

Market risk sensitivity – standardised rates

221. Interest rate (IR) and foreign exchange (FX) sensitivity analyses have been prepared on a ‘reasonably possible’ change basis. A ‘reasonably possible’ change of IR or FX has been estimated using both statistical and non-statistical analyses. Note: the Commonwealth does not predict IR and FX rates but instead utilises historical data to conduct market risk sensitivity analysis.
222. The statistical analysis for the IR Sensitivity Analysis Rate (IRSA Rate) has, for the past five years, been based on the cash rate issued by the Reserve Bank of Australia as the underlying dataset. Information is then revised, and adjusted, for reasonableness under current economic circumstances.

223. Statistical analysis for the FX Sensitivity Analysis Rate (FXSA Rate) is based on main currencies movement for the last five years. The five main currencies the Commonwealth has exposure to are USD, EUR, GBP, JPY and NZD. Information is revised and adjusted for reasonableness under the current economic circumstances.

**Market risk sensitivity – alternative rates**

224. Entities are to use the rates indicated in Standard Parameters for use in Financial Statements unless otherwise agreed with Finance.

225. Entities that hold financial instruments for which they consider the underlying risk profiles to be substantially different from assumptions used in this RMG need to contact Finance to discuss the use of alternative rates. System limitations do not provide suitable grounds for use of an alternative rate.

**Other CRF money held by persons outside the Commonwealth**

226. Other CRF money, as described by section 105D of the PGPA Act, forms part of the CRF but is held and managed by an entity other than the Commonwealth.

227. As a result, other CRF money is not reported as cash held in financial statements and is to be managed in accordance with an arrangement (under section 23 of the PGPA Act), which is compliant with the requirement of section 29 of the PGPA Rule.

228. For more information, see Other CRF money (RMG 303) or email pmra@finance.gov.au.

**4.12 GST treatment in the statement of financial position**

229. Under paragraph 8 and 9 of Interpretation 1031 Accounting for the Goods and Services Tax (GST) (Interpretation 1031) receivables and payables should be inclusive of GST in the statement of financial position.

230. Commitments may be inclusive or exclusive of GST but entities must disclose the GST treatment applied. However, as commitments are potential receivables or payables, for consistency with Interpretation 1031, entities are encourage to treat commitments as inclusive of GST.
Part 5. Cash flows, contingencies, commitments

5.1 Statement of cash flows

FRR extract:

13 AASB 107 Statement of Cash Flows

When applying AASB 107 Statement of Cash Flows in preparation of financial statements, reporting entities must:

(a) present a cash flow statement using the direct method in compliance with AASB 107;

(b) present dividends paid as a component of financing activities; and

(c) show administered cash flows to/from the Official Public Account (OPA) as adjustments to administered cash held by an entity, rather than as cash flows related to operating or other activities.

231. Entities are required to prepare a statement of cash flows in accordance with AASB 107, including:

- **cash flows in a foreign currency**—recorded in Australian dollars, by applying the exchange rate between the functional currency and the foreign currency at the date of the cash flow (AASB 107, paragraphs 25 to 28)

- **restrictions on use of cash balances**—the amount of significant cash and cash equivalent balances that is held by the entity and not available for use by the group (ie parent entity and other subsidiaries) is to be disclosed with an explanation on the restrictions of use

- **other CRF money**—considered in the context of paragraph 48 of AASB 107

- **appropriation designated as contributions by owners**—cash flow activities being disclosed under financing activities

- **administered cash flows to/from the OPA**—disclosed as adjustments to administered cash held.

232. Subject to paragraph 11 of Interpretation 1031 Accounting for the Goods and Services Tax (GST) and AASB 107, cash flows are to be disclosed on a gross basis.

**OPA transfers**

233. Transfers of PGPA Act section 74 receipts to the OPA are to be presented as operating cash flows. If non-corporate entity receipts are returned to the OPA and subsequently redrawn as departmental appropriation, this is to be disclosed as separate operating cash outflow and inflow (ie not netted off).
Cash flow reconciliation – disclosure

234. Details of transactions that do not result in cash flows but affect assets and liabilities, must be disclosed, such as:

- conversions of liabilities to equity
- acquisitions of entities by an equity issue
- acquisitions of assets by assuming directly related liabilities (eg purchase of a building by incurring a mortgage to the seller)
- acquisitions of assets by entering into finance leases
- exchanges of non-cash assets or liabilities for other non-cash assets or liabilities
- asset transfers because of restructuring.

235. Where the related item in the statement of financial position is cash, and its amount equals the amount in the statement of cash flows in both the current and immediately preceding reporting periods, no reconciliation is required.

236. Disclosure of additional information to aid users’ understanding of an entity’s financial position and liquidity, with a management commentary, is encouraged and may include:

- the amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities
- the aggregate amount of cash flows that represent increases in operating capacity separate to those cash flows required to maintain operating capacity.

5.2 Contingencies

FRR extract:

29 Contingencies

(1) Contingent liabilities and assets that can be reliably measured must be classified by class.

(2) Unquantifiable contingent liabilities and assets must be explained in a note to the financial statements.

(3) If a reporting entity has given a financial guarantee, it must:

(a) state that fact as part of its note for contingent liabilities and assets; and
(b) include a cross reference to details regarding the guarantee in other notes to the financial statements.

237. Entities need to:

- review the Statement of Risks (SoR), published in Budget Paper No. 1: Budget Strategy and Outlook, to ensure that all relevant contingencies are considered for disclosure in the statements. Entities may need to consider when the SoR was
prepared (eg at Budget or at Mid-Year Economic and Fiscal Outlook) to determine details of relevant contingencies

- ensure contingencies disclosed in the SoR are consistent with their annual financial statements (including whether the contingency is quantifiable or unquantifiable).

238. SoR disclosure requirements may differ (eg the threshold applied for the SoR differs to the materiality level applied for entity financial statements). Entities are encouraged to include an explanation of any differences in the SoR and their financial statements in relevant work papers. Where appropriate, entities may wish to discuss this matter with their auditors.

239. Paragraph 2.1(e) of AASB 9 includes financial guarantee contracts in its scope (as defined in AASB 9 Appendix A). Paragraph 2 of AASB 137 excludes from its scope financial instruments covered by AASB 9.

240. Paragraph 92 of AASB 137 provides for reduced disclosures for extremely rare cases where an entity is in a dispute with other parties; and where full disclosure is likely to seriously prejudice the entity. In such cases, ‘entity’ must be read to mean ‘entity, another Commonwealth entity or the Australian Government as a whole’.

5.3 Commitments

241. With a commitment, there is either no present obligation to make a payment for a past transaction or event, or a payment obligation is subject to the future performance by another party.

242. Generally, a commitment arises when an entity has entered into an agreement with an external party (eg through a purchase order or other contractual document) and this creates a future obligation for the outflow of resources. Without an agreement, there is no commitment (see AASB 137, paragraphs Aus26.1 and Aus26.2).

243. A commitment becomes a liability when a present obligation arises (eg the entity has little or no discretion to avoid payment for work or services completed by another party).

**Example 5.1: Agreement, commitment and liability**

If an entity decides to acquire equipment in the future and receives ministerial approval for the spending:

- an agreement would not exist until contracts are entered into
- a commitment would not be recognised until the agreement is in place
- no liability or asset would be recognised until performance by the entity or the other party has taken place.

244. An intention to make payments to other parties because of a government policy statement, an election promise or other public pronouncement does not, of itself, create a present obligation.

245. The following items are not commitments:
• **provisions**—these occur when an entity is already under an obligation to sacrifice future economic benefits but there is uncertainty about the timing or amount of the future expenditure required in settlement (see Example 5.2)

• **social benefit payments**—see Part 4.8 – Liabilities – general Information.

• future payment of GST revenue to the states and territories

• **undertakings where further approval is required or legislation needs to be enacted**—unilateral promises, intended to result in payments in future periods are not reported as undertakings, and, therefore, are not disclosed as commitments.

**Example 5.2: Provisions**

If a legal or constructive obligation requires an entity to restore a site or decommission an asset in the future but the timing of that event, or the amount of the obligation, is uncertain, the entity would record a provision.

246. Where there are no commitments in either the current or the immediately preceding reporting periods, this fact can be disclosed in the notes to the financial statements.
Part 6. Administered reporting

FRR extract:

9 Administered reporting

Administered reporting must:

(a) provide a brief description of the activities being administered on behalf of the Australian Government; and

(b) be in different background shading to ‘departmental’.

Note: The financial statements of reporting entities must also comply with all other AAS that relate to administered items (see paragraph 7(1)(b) of this rule.)

247. AAS and AASB interpretations apply to administered items or activities as if the administered reports were the financial statements of the Australian Government as a parent entity.

248. Disclosures in relation to accounting policies in accordance with the relevant AAS, such as AASB 1050 Administered Items (AASB 1050), and all applicable requirements of this guide need to be included.

249. Unless otherwise stated in this RMG:

- accounting policies for ‘administered’ are the same as those for ‘departmental’
- administered transactions between entities are accounted for in the same manner as departmental transactions (eg purchase of services may be recognised as income in one entity and an expense in the other).

250. A statement of changes in equity is not required for administered items or activities.

251. AASB 136 applies to administered assets that are not financial instruments. However, estimates, averages and shortcuts may be applied under paragraph 23 of AASB 136 for determining fair value less costs of disposal, or value in use.

252. The assessment can be made on a portfolio basis where appropriate (eg impairment of a large portfolio of statutory receivables).

253. The Australian Government as a whole is not considered a cash-generating operation. Therefore, the provisions of AASB 136 for cash-generating assets will apply to administered assets only where they are used to generate cash inflows primarily from outside the Australian Government economic entity.

254. For more information, see AASB 136 for impairment assessment of receivables for statutory charges and Part 4.1 - Receivables for Statutory Charges.

Transfer payments

255. Paragraph 22 of AASB 1050 requires entities to disclose ‘broad categories of recipients’ of transfer payments and amounts transferred to those recipients—however, ‘broad categories of recipients’ is not defined.
256. Entities are to determine the categories of recipients appropriate to their circumstances. Similar recipients or categories of recipients may be aggregated into broad categories for disclosure purposes.

257. Where an entity has discretion to determine the amount or timing of a payment, the identity of beneficiaries or conditions under which payments are to be made, judgement is necessary to establish whether or not the entity controls the payment.

Administered reconciliation schedule (in PRIMA)

258. The ‘adjustment for change in accounting policies’ and ‘adjustment for errors’ lines in the Administered Reconciliation Schedule are only for use in the comparative year, not the current year of the financial reports.

259. Transfers to the OPA of administered amounts are to be recognised in the line ‘Transfers to OPA’, not as administered expenses.

260. When an entity makes a payment to a corporate entity that is either an equity injection or a loan, that payment has a zero net change in the schedule of administered assets and liabilities of the entity.

Example 6.1: Administered reconciliation schedule

In the case of a loan, cash is reduced by the amount of the loan when it is paid to the corporate entity, and loan receivable is increased by the same amount.

Therefore, the payment of these amounts to a corporate entity is not reflected as an outgoing in the Administered Reconciliation Schedule.

The drawdown of these amounts is recorded in the ‘Annual appropriations - Payments to corporate Commonwealth entities’ line item.

‘Expenses - Payments to corporate Commonwealth entities’ includes only those payments that give rise to administered expenses.

6.1 Administered disclosures

261. The Note to the Rule 9(1)(b), means that the disclosure notes relating to administered items should include all notes that would have been required, if the disclosures were departmental items and in a similar format to the notes applying to departmental items. This requirement provides for complete information, to enable completion of the CFS.

6.2 Administered investments

FRR extract:

32 Administered investments

(1) This section only applies to administered investments where the Government’s interest is in the nature of:

(a) subsidiaries under AASB 10 Consolidated Financial Statements;
(b) associates under AASB 128 *Investments in Associates and Joint Ventures*; or
(c) joint operations or joint ventures under AASB 11 *Joint Arrangements*.

(2) Other investments (eg a one per cent shareholding in a listed company) are accounted for under section 16 (financial instruments).

(3) Administered investments:
   (a) are not considered controlled by the entities reporting them;
   (b) must be disclosed in the administered reports;
   (c) other than those held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, must be measured at fair value; and
   (d) must not be consolidated on a line-by-line basis into a reporting entity’s financial statements without approval from Finance.

262. Administered investments include Commonwealth controlled companies and corporate Commonwealth entities and are classified as:
   - fair value through profit and loss
   - fair value through other comprehensive income, or
   - amortised cost.

**Fair value measurement**

263. For consistency and comparability in fair value measurements and related disclosures, AASB 13 establishes a fair value hierarchy (see AASB 13 paragraphs 76–90) that categorises inputs to valuation techniques for measuring fair value:
   - level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
   - level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
   - level 3 inputs are unobservable inputs for the asset or liability—unobservable inputs are inputs for which market data is not available and are developed using the best information about assumptions that market participants would use when pricing the asset or liability.

264. Under paragraph 61 of AASB 13, entities can measure fair value using valuation techniques that are appropriate in the circumstances, for which sufficient data is available, that maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

265. Entities should consider industry practice when considering applicable valuation techniques (AASB 13.62). Common examples of valuation techniques used in practice where observable inputs are unavailable include but are not limited to:
   - discounted cash flows—this method needs to be considered when an entity invests in another entity that generates significant non-government cash inflows and those cash flows can be reliably predicted.
• **net assets**—this method needs to be considered when an entity invests in another entity that does not generate significant non-government cash inflows or those cash flows cannot be reliably predicted.

266. For more information on fair valuation of administered investments, see AASB 13, *AASB 1049 Whole of Government and General Government Sector Financial Reporting* (AASB 1049) and B5.1.1 to B5.1.2A of AASB 9.

### 6.3 Investments: held for sale

**FRR extract:**

#### 33 Administered investments held for sale

(1) Administered investments held for sale:

(a) are accounted for in accordance with section 16 (financial instruments);

(b) must be reported by the relevant portfolio department unless a formal agreement or decision has been made to transfer the investments to Finance; and

(c) must be transferred at net book value.

(2) The costs of sale of an administered investment:

(a) are expensed as incurred, regardless of whether the investment meets the criteria to be held for sale in AASB 5; and

(b) must not be added to the carrying amount of administered investments.

(3) Where the selling costs are expensed across a number of reporting periods, the total selling costs must be disclosed in a note to the administered reports.

(4) Reporting entities must disclose the following for each sale of an administered investment:

(a) proceeds from sale;

(b) written down value of the asset sold;

(c) recognised gain or loss on sale;

(d) selling costs incurred; and

(e) the net gain or loss after deducting selling costs incurred.

(5) Where a decision has been made to sell an administered investment, but the transfer date is not specified, the asset is deemed to have been transferred on the date of the sale decision.

267. Under AASB 5, administered investments that are held for sale are to be disclosed. However, as they are financial assets, they are measured under AASB 9.

268. Costs of sale (or selling costs) of an administered investment typically include:

- project management
- advisory services
- advertising and marketing
• legal fees
• scoping studies
• regulatory fees.

Sale of administered investments managed by Finance

269. AASB 5 does not apply to the restructuring of administrative arrangements (MoG changes). Finance has responsibility for the sale of assets under a MoG change but this does not mean that Finance needs to own the asset being sold. The:

• sale may be managed by Finance on behalf of the portfolio department, or

• asset may be transferred to Finance for sale.

270. Assets should only be transferred to Finance where there is a formal decision of the Australian Government or ministerial agreement to transfer the asset. Under paragraph 33(1)(b) of the FRR, if there is no formal agreement or decision to transfer the assets/investments to Finance, the administered investments ‘held for sale’ must be reported by the relevant portfolio department.
Part 7. Administrative arrangements restructures

FRR extract:

26 Restructures of administrative arrangements

(1) Where a restructure of administrative arrangements has occurred during the reporting period as per AASB 1004 Contributions, the relevant reporting entities must:

(a) disclose details of the restructure of administrative arrangements in a note in the financial statements; and

(b) recognise assets and liabilities transferred at their net book value immediately prior to transfer.

(2) For the purposes of this section, the terms:

(a) ‘government department’ in AASB 1004 means any Government controlled entity; and

(b) ‘legislation or other authority’ in the definition of a restructure of administrative arrangements in AASB 1004 means one of the following:

(i) a decision of the Cabinet or Prime Minister;
(ii) an Administrative Arrangements Order (AAO);
(iii) an Act of Parliament or a Regulation under an Act; or
(iv) a written agreement between the relevant portfolio minister(s) and the Finance Minister or the Prime Minister, as appropriate.

271. Restructures of administrative arrangements include a:

- transfer of responsibility for delivery of goods and services, including delivery of advice to the Australian Government
- transfer of responsibility for managing assets and liabilities
- reclassification between ‘departmental’ and ‘administered’ items.

272. Accounting entries do not need to be processed by the date of the transfer for an entity to make the disclosures required.

273. For more information on restructures of administrative arrangements, see Accounting for machinery of government changes (RMG 118).

274. For entities that are affected by the machinery of government changes, particularly in relation to the Administrative Arrangements Order made on 5 December 2019 with an effective date of 1 February 2020, see Additional guidance for machinery of government financial reporting.

Disclosures and notes for financial statements

275. In preparing financial statements to reflect a restructure of administrative arrangements:
• a transfer of appropriations representing prior years' unspent appropriations—is accounted for against equity in the same way as other assets transferred as part of the restructure of administrative arrangements. Section 75 determinations under the PGPA Act need to be in place to enable the receiving entity to access and spend annual appropriations. For more information, email Annual.Appropriations@finance.gov.au

• prior year disclosure—restructures that occurred in the current and previous financial reporting periods must be disclosed in the restructuring note. In the rare event that a single restructure crosses two consecutive financial reporting periods, comparative figures must also be disclosed

• assumed functions (disclosure of income and expenses)—the notes to financial statements must disclose the full annual expense/income of the functions, which have been transferred to the entity. The statement of comprehensive income recognises only those expenses/income incurred/earned whilst the functions were under the control of the reporting entity

• employee movements—under EM 2014/49: Transferring leave entitlements, an amount for accrued annual leave and accrued long service leave is be transferred with the employee. This EM applies where employees move from one non-corporate entity to another non-corporate entity, or to a corporate Commonwealth entity or to the High Court of Australia, but not if the move is as a direct consequence of the transfer of a government function.

Transfer of assets and/or liabilities

276. Transfers of assets and/or liabilities for no consideration to a wholly-owned Commonwealth entity, must be recognised by the transferee as a contribution by owners when, and only when, it satisfies the definition of contributions by owners in AASB Interpretation 1038. For more information, see Deeming or designating transfers of assets and liabilities as 'contributions by owners' (equity) (RMG 123).

277. For NFP entities, where an asset is acquired at no cost or nominal cost, the cost is its fair value as at the date of acquisition.
Part 8. Appropriations

FRR extract:

Division 2 – General Requirements
35 General requirements
(1) Reporting entities must account for and disclose appropriations (including special appropriations) in accordance with this rule, regardless of whether the relevant amounts are considered to be material, as appropriations are deemed material by nature.
(2) Appropriations disclosures must be prepared on a recoverable GST exclusive basis and a cash basis.

278. Compliance with section 35 of the FRR requires entities to recognise and apply the classification of annual appropriations—see the relevant annual appropriation Acts for the entity, for the classification and appropriation amounts for the reporting period.

279. Under section 83 of the Constitution, no money can be drawn from the CRF except under an appropriation made by law (eg an appropriation Act). Additionally, all spending from the CRF needs to be accordance with an authority given by parliament. For expenditure of an appropriation to be valid, there must be a:

- legally valid appropriation
- legislated purpose (eg legislation supporting a program), supported by a head of Commonwealth power or the Constitution.

280. Where an entity is concerned that appropriation may be or has been spent in breach of section 83 of the Constitution, an appropriate risk assessment must be conducted to determine if a section 83 disclosure required. A section 83 disclosure is generally required where an entity considers that there is a risk that a breach occurred, or an actual a breach has occurred, in the reporting period.

281. Annual appropriation Acts include a repeal date. See guidance on Lapsing appropriations.

Corporate entities - appropriations

282. Transferring cash from the OPA to a corporate entity’s bank account takes that money out of the CRF and reduces the available appropriation balance, except in cases where corporate entities handle public money.

283. The appropriation Act provides a portfolio department with the right to draw from the CRF to make payments to a corporate entity. As the corporate entity does not have the right to draw from the CRF, it should not recognise an appropriation. When the money is paid from the portfolio department to the corporate entity, the appropriation is considered to have been applied, the payment is not a transfer of the right to draw.'

284. Corporate entities are required to disclose these amounts in accordance with the nature of the payment—this must be by reference to the appropriation Acts (eg ordinary annual appropriations amounts recognised as revenue, amounts designated as equity disclosed as contributed equity).
Withholding and quarantining of appropriations

FRR extract:

36 Withholding and quarantining of appropriations

(1) Amounts withheld under section 51 of the PGPA Act represent a loss of control event by the entity (as outlined in subsection 40(2) of this rule) and should be adjusted against the appropriation receivable balance.

(2) Amounts quarantined by the Department of Finance are administrative in nature and do not result in the loss of control of the appropriation by the entity. Consequently, there is no impact on recognition or disclosure of the appropriation for financial reporting purposes.

285. Under section 51 of the PGPA Act, the Finance Minister may withhold or quarantine an amount of appropriation or administrative reasons, eg where there is:

- movement of funds requiring a reduction in one period and a reappropriation, withhold or reduce funding in a subsequent period
- a foreign exchange gain under the ‘no win/no loss’ arrangements, or
- a ‘net-negative’ appropriation (where there is an insufficient increase in an appropriation to cover a reduction in funds occurring at the same time).

286. Section 51 of the PGPA Act is not valid until the instrument is signed. Entities cannot adjust statements on the basis of an application to the Finance Minister. Entities should therefore consider making an application with sufficient time to allow for processing before the end of financial year.

287. Where a current year departmental appropriation is withheld under section 51 of the PGPA Act, entities are to reduce their appropriation revenue and appropriation receivable. The withholding of other appropriations (eg a prior year appropriation or equity contributions) results in a reduction to equity and appropriation receivable.

288. A withholding under section 51 does not automatically result in a movement of funds. A separate process for movement of funds or a policy proposal is required—see the Budget Process Operational Rules.

289. For more information, contact Annual.Appropriations@finance.gov.au.

Adjustments to appropriations

FRR extract:

37 Adjustments to appropriations

The following are adjustments to appropriation receivable under the PGPA Act and must not be recognised as appropriation revenue:

(a) PGPA Act section 74 (receipts of amounts by non-corporate Commonwealth entities);

(b) PGPA Act section 75 (transfer of functions between non-corporate Commonwealth entities) prior year appropriation only; and
290. Entity financial statements are to reflect adjustments to appropriations, including:

- **a repeal of an annual appropriation Act**—since 2014-15, each annual appropriation Act includes an automatic repeal clause, so the Act will be extinguished at the date specified in that Act (e.g. 2015-16 annual appropriation Acts contain a repeal date of ‘the start of 1 July 2018’). The repeal of a prior year’s unspent appropriation results in a reduction to equity as well as an adjustment to the appropriations note disclosure. For more information, contact Annual.Appropriations@finance.gov.au.

- **repayments by and to the Commonwealth**—for more information see EM 2017/53: Repayments made using the special appropriation in section 77 of the PGPA Act

- **receipt of amounts by non-corporate entities** under section 74 of the PGPA Act, see RMG 307

- **return of capital**—as the Australian Government establishes the entity’s capital, the entity’s portfolio minister needs to write to the Finance Minister for approval to reduce the entity’s capital (see section 39 of the FRR).

**Transfer of functions between non-corporate entities**

291. For PGPA Act section 75 transfers, control of appropriation is lost or gained at the later of the date of the determination, or the commencement date set out in the determination (note that subsection 75(8) of the PGPA Act allows the transfer to take effect before, or after, the day it is registered). For more information about PGPA Act section 75 transfers, contact Annual.Appropriations@finance.gov.au.

292. More information on AAO and MoG changes is included at Part 7. Administrative arrangement restructures.

293. Also see section 75 of the PGPA Act, *Accounting for machinery of government changes (RMG 118)* and *Machinery of Government (MoG) changes: A guide*.

**8.1 Departmental appropriations**

**FRR extract:**

<table>
<thead>
<tr>
<th>Division 3 (of Part 6) – Departmental appropriations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>38 Departmental appropriations</strong></td>
</tr>
<tr>
<td>(1) Reporting entities must recognise all departmental appropriations (including departmental special appropriations) for which they are responsible.</td>
</tr>
<tr>
<td>(2) The earliest point of recognition for accounting purposes is when the entity gains control of the appropriation, which is:</td>
</tr>
<tr>
<td>(a) for loans specified in the Appropriation Acts - when drawn down from the Official Public Account (OPA) for the amount to be received;</td>
</tr>
</tbody>
</table>
(b) for departmental special appropriations (except for special accounts) - when the obligation for which the special appropriation exists is incurred (up to the amount of the obligation);

(c) for special accounts - when the entity receives cash from an external partner or transfers amounts from a departmental appropriation (but should not be recognised twice);

(d) for Advance to the Finance Minister (AFM) or, for Parliamentary Departments, Advance to the responsible Presiding Officer - the commencement date of the determination;

(e) for departmental supplementation - the date of the approval; and

(f) for all other departmental appropriations specified in the Appropriation Acts - at the later of:
   (i) the commencement date of the Appropriation Act; and
   (ii) the commencement of the financial period the appropriation relates to (i.e. when the appropriation is effective).

(3) Departmental appropriations (except for special appropriations) must be recognised at the amounts specified in the Appropriation Acts in the year of appropriation, adjusted, where applicable, for formal additions and reductions. For departmental appropriations:

   (a) amounts designated as contribution by owners must be recognised as equity;

   (b) loan appropriations must be recognised as increases in borrowings (they are not revenue); and

   (c) all other amounts must be recognised as revenue.

Equity returns and adjustments

FRR extract:

39 Equity returns and adjustments

(1) Departmental equity returns must be recognised as a return of capital by adjusting contributed equity (not as a reduction in, or refund of, revenue).

(2) Departmental equity returns:
   (a) occur where an entity:
      (i) relinquishes control of funds which had been appropriation revenue or contributed equity in a previous reporting period; or
      (ii) makes a non-reciprocal payment to the OPA other than as a dividend referred to in section 23 (liabilities relating to dividends); and
   (b) are recognised in the financial statements at the earliest of:
Department of Finance
Commonwealth entities financial statements guide (RMG 125)

294. Departmental equity returns or injections can include restructurings of administrative arrangements agreements because of a transfer of function. For more information, see Part 7, Administrative arrangement restructures.

Lapsing appropriations

295. Annual appropriation Acts include a repeal date that give annual appropriations a life span of up to three years. Any unspent balance of an appropriation, will cease to be available for spending after the repeal date specified in the appropriation Act. Under section 39(2) of the FRR, lapsing appropriations are to be recognised as ‘departmental equity returns’.

296. If an appropriation Act automatically repeals on 1 July, the appropriation amount is legally available to entities as at 30 June of the previous financial year. In this case, entities should include the lapsing appropriation in the appropriation table as at 30 June and provide a footnote to disclose the amount that will lapse on 1 July.

297. Entities should recognise the reduction in appropriation receivable at each 30 June balance date and disclose this in the relevant note.

Formal additions or reductions

FRR extract:

40 Formal additions and reductions

(1) Formal additions or reductions necessitate adjustments to the recognition and disclosure of appropriations to the extent they have not already resulted in adjustments in previous years.

(2) To be a formal addition or reduction, the gain or loss of control event, as outlined below, must be evidenced in writing from the appropriate authority. Formal additions and reductions are as follows:

(a) transfers of current year appropriation under section 75 of the PGPA Act;

(b) departmental supplementation;

(c) adjustments as stipulated by any agreement that provides for additional funding for over-delivery or a reduction of funding for under-delivery (such as purchasing, workload or other agreements), as well as funding arrangements that are specifically designed to not financially advantage or disadvantage an entity (appropriation on a no-win/no-loss basis). The agreements, at a minimum, must:

(i) set out one or more quantifiable deliverable(s) and/or a specific amount of appropriation relating to each; and
(ii) be approved by, or arise from, Ministerial or Cabinet decisions prior to the funding being given;

(d) amounts determined by the Finance Minister under any legislation that allows for additions or reductions to appropriations;

(e) an Advance to the Finance Minister or Advance to the responsible Presiding Officer as per the Appropriation Acts;

(f) amounts withheld under section 51 of the PGPA Act; and

(g) all other adjustments made as a consequence of a decision of the Cabinet or the Prime Minister about the amount of appropriation or other funding available to a reporting entity.

(3) Unless there is a Government approved legal instrument that formally reduces or increases the appropriation for one of the gain or loss of control events in subsection (2), the reporting entity must still include that amount in their appropriation disclosure note as a legally available appropriation.

Departmental capital budgets

298. Departmental capital budgets (DCB) are designated as contributions by owners (ie equity) in accordance with paragraph 8(c) of [AASB Interpretation 1038 Contributions by Owners made to Wholly-Owned Public Sector Entities](https://www.aasb.org.au/standards/aasb-1038) (AASB Interpretation 1038).

299. Under section 12 of AASB Interpretation 1038, amounts already designated as equity cannot be redesignated.

300. However, where an entity seeks and receives policy approval to reclassify their departmental appropriation between operated funds and DCB, the following steps must be taken to ensure this reclassification is able to be reflected in the entity’s financial statements:

- policy approval for the reclassification, in most cases by the Finance Minister, includes specific reference to the amount being made available in a subsequent appropriation Bill

- a section 51 withholding of original amounts appropriated (ie under an appropriation Act 1, 3, 5 etc) has been actioned by Finance, where a section 51 instrument exists.

301. For guidance on redesignation/reclassifications between DCB and operating funding, see [EM 2019/02: Treatment of Reclassifications/ Redesignations between Departmental Operating and DCB in Appropriation Bill 3 in the Current Year](https://www.finance.gov.au/).

Timing for formal additions or reductions

302. The availability of an appropriation is determined by the enactment date of the appropriation Act (ie the funds do not become legally available until this date).

303. Appropriations for additional outputs subject to formal approval by parliament after the end of the reporting period (under section 40 of the FRR) must not be disclosed. The adjustment would be recognised in the period in which formal approval is given.
304. The timing for formal additions or reductions to be recognised in the statement of comprehensive income may differ from the reporting period in which they are disclosed in the appropriations note. For example, supplementary funding is reflected as revenue from government but not reflected in the appropriation note till the financial period after.

305. Publication of a budget measure in Portfolio Budget Statements (PB Statements), or entry in CBMS, by itself is not sufficient authority to support an adjustment to appropriation revenue. Under subsection 40(2) of the FRR, written evidence of authority is required by way of specific wording in a decision by Cabinet or the Prime Minister.

306. An adjustment is not to be disclosed in an appropriations note before the appropriation is legally adjusted. Subsection 40(2) of the FRR does not legally adjust the appropriation Act:

- for a formal addition:
  - debit—Receivable from Government (ie not appropriation receivable as there is no appropriation)
  - credit—Revenue from Government.
- when the appropriation subsequently becomes available:
  - debit—Appropriation receivable for amount provided in new Act
  - credit—Receivable from Government (amount of formal addition)
  - credit—Revenue from Government.

307. Where the reduction is:

- supported by a section 51 withholding, follow section 51 guidance
- against a future appropriation, for accounting purposes no reduction is recognised as the future year appropriations were never an asset to the entity (ie the current appropriation remains available to the entity so no adjustment is required to either revenue or appropriation receivable).

308. Where an adjustment meets the recognition criteria of formal addition or reduction in revenue but, at law, the appropriation was not amended before the end of the reporting period, the amount recognised in face statements for accounting purposes will differ to the amount available under law.

Departmental supplementation

309. For accounting purposes, departmental supplementation is accounted for as follows:

- recognition—the date of approval
- measurement—amounts designated as contribution by owners are recognised as equity and all other amounts are recognised as revenue from government (supplementation) and not as annual Appropriation in the appropriation note
- subsequent years—appropriations in subsequent years will be recognised, to the extent that they have not been previously recognised.
310. As a minimum, supplementation adjustments should be supported in a decision by Cabinet or the Prime Minister. The decision should include specific wording on both the timing and amounts.

311. The receivable must not be taken up as ‘appropriation receivable’ until such time as the appropriation is legally available. At the time the appropriation becomes legally available the entity should take up the appropriation receivable as per the appropriation Act, while reversing the receivable from government and reducing the revenue from government for the amount previously recognised as supplementation.

No-win/no-loss funding

312. For appropriations provided on a no-win/no-loss basis, the amount of additional funding to be recovered or the amount to be refunded is recognised in the financial statements in the current reporting period. This amount depends on the particular rules of the no-win/no-loss arrangement and may not be equivalent to the amount over or under spent.

313. No-win/no-loss funding amounts to be recovered or refunded are not disclosed in the appropriations note until the relevant appropriation is legally:

- increased—typically in the subsequent financial year
- decreased—made against forward estimates (ie there would be no transactions to be recognised as future appropriations are not assets and the current appropriation and revenue remain available in full).

Example 8.1: Appropriation adjustments due to agreements

While not a conclusive list, examples of agreements that might require an appropriation adjustment, as referenced at subsection 40(2)(c) of the FRR, include:

- Air Passenger Processing Workload Growth Agreement
- Cabinet directives relating to funding for Defence deployment
- Centrelink Funding Model Agreement.

8.2 Administered appropriations

FRR extract:

**Division 4 (of Part 6) – Administered appropriations**

41 Administered appropriations

(1) Reporting entities must recognise in their administered reconciliation schedule all administered appropriations (including administered special appropriations) for which they are the responsible entity.

(2) The earliest point of recognition for accounting purposes is:

(a) the date the amounts are drawn down to the entity’s bank account for payment against the appropriation for:

(i) administered annual appropriations; and
(ii) administered special appropriations; and

(b) the date stated in the determination (if not stated, then the date of the determination) for other administered amounts determined by:

(i) the Finance Minister (or delegate); or

(ii) the reporting entity’s Minister.

(3) Administered appropriations are not to be recognised as revenue in the administered schedule of comprehensive income.

314. Administered appropriations provide funding for activities administered by entities in their fiduciary capacity on behalf of the government. Consequently, administered appropriations are not revenues of the individual entity that oversees distribution or expenditure of the funds as directed. Amounts to be paid from the OPA for administered items do not give rise to administered appropriations receivable.

315. Drawdowns of administered appropriations can be daily as required and, where necessary and entities will be able to make additional drawdowns for amounts of recoverable GST.

316. Entities need to pass refunds of administered input tax credits received from the ATO back to the OPA. The payments of administered input tax credits received to the OPA are not payments by entities for appropriation purposes, as referred to in appropriation Acts.

Payments to corporate Commonwealth entities

FRR extract:

42 Payments to corporate Commonwealth entities

(1) An amount appropriated to a non-corporate Commonwealth entity for payment to a corporate Commonwealth entity (either through annual or special appropriations) is an administered appropriation to the non-corporate Commonwealth entity and is recognised and disclosed accordingly.

(2) Payments from a non-corporate Commonwealth entity to a corporate Commonwealth entity in the nature of:

(a) equity injections are an increase to the carrying amount of the administered investment of the non-corporate Commonwealth entity;

(b) loans to corporate Commonwealth entities must be accounted for as loans receivable by the relevant non-corporate Commonwealth entity regardless of whether the loan is made directly by the OPA or through the non-corporate Commonwealth entity;

(c) interest repayments must be recorded as revenue in the non-corporate Commonwealth entity’s administered accounts, regardless of whether the interest is paid directly to the OPA or through the non-corporate Commonwealth entity; and

(d) other payments (ie not in the nature of equity injections or loans) are recorded as expenses by the non-corporate Commonwealth entity.
317. Non-corporate entities (ie portfolio department) may receive appropriations for payment to corporate entities in annual appropriation Acts or other Acts, as special appropriations (not including amounts paid to corporate entities under other arrangements, such as contractual arrangements).

318. Upon receipt of the payment from the non-corporate entity, the corporate entity is to recognise the amount as ‘revenue from Government’, unless the funding is in the nature of an equity injection.

319. An equity injection received by a corporate Commonwealth entity, is to be recognised as 'contributions by owners', only where it has been deemed as a business transfer, or formally designated as such by the portfolio minister or Finance Minister in accordance with AASB 1004 and AASB Interpretation 1038.

320. For more information, see *Deeming or designating transfers of assets and liabilities as 'contributions by owners' (equity)* (RMG 123).

321. Equity injections paid to a corporate entity are recorded by the relevant non-corporate entity (ie portfolio department) as an adjustment to administered investments.

**Disclosure of appropriations**

**FRR extract:**

**Division 4 (of Part 6) – Disclosure of Appropriations**

**43 Annual appropriations**

(1) The amounts shown for Annual Appropriations must be the same as those set out in the relevant Appropriation Acts.

(2) The amounts disclosed must include the total of adjustments under the relevant legislative provisions:

   (a) AFM – appropriated in the current reporting period;

   (b) PGPA Act section 74 – receipts that have been recorded in the accounts and records of the responsible entity during the reporting period; and

   (c) PGPA Act section 75 – only current year appropriation increased or decreased by section 75 determinations.

(3) Appropriation applied must include:

   (a) cash payments made from appropriations; and

   (b) appropriations credited to special accounts for the reporting period.

   This is to include amounts from both current and prior year appropriations.

(4) The following information must be disclosed as footnotes:

   (a) an explanation for all appropriations that have been:

      (i) withheld under section 51 of the PGPA Act; and

      (ii) quarantined for administrative reasons;

   (b) an explanation of all material variances between:
(i) the appropriation applied in the reporting period; and
(ii) the amount appropriated (or otherwise authorised) for the current period; and
(c) any entities that spent money from the CRF on behalf of the reporting entity.

(5) All reporting entities that receive a Departmental Capital Budget and/or an Administered Capital Budget must disclose separately the total of these amounts as shown in the Portfolio Budget Statements and Portfolio Additional Estimates Statements.

322. The appropriations disclosure note is prepared on a recoverable GST exclusive basis and does not include:

- payments to the ATO of GST amounts collected on receipts (whether notional or actual), or
- actual payments of GST to the ATO and GST paid on supplies.

323. Payments from the CRF that are not authorised by appropriation are always ‘material in nature’ and an explanation is required irrespective of the amount.

324. Entities are to include details in a footnote (eg reason and amount) of appropriations that were withheld and/or quarantined.

8.3 Annual appropriations

Unspent annual appropriations

FRR extract:

45 Unspent annual appropriations

Reporting entities must disclose the following:

(a) all unspent departmental and administered annual appropriations by Appropriation Act (including current and prior years appropriations); and
(b) total unspent departmental annual appropriations and total unspent administered annual appropriations.

325. Unspent balances incorporate adjustments to appropriations under appropriation Acts and the PGPA Act (eg PGPA Act section 75 transfers).

Special appropriations

FRR extract:

46 Special appropriations

(1) Reporting entities must disclose the following for each special Appropriation:

(a) authority, including:

(i) for all special appropriations – the title of the legislation;
(ii) for special appropriations (limited amount) – limit for reporting period; and
(iii) for special appropriations (PGPA Act section 58) – total of prior year investments redeemed in current year and redemptions of current year investments (gross); and

(b) appropriation applied, including:
  (i) the total of cash payments, amounts credited to special accounts less repayments under subsection 74(1) of the PGPA Act; and
  (ii) the total investments made during the year under section 58 of the PGPA Act.

(2) Reporting entities must disclose all relevant money invested in authorised investments under section 58 of the PGPA Act.

(3) Where investments are made under an Act of Parliament other than section 58 of the PGPA Act, the name of the relevant Act and section under which the investments were made must be disclosed.

326. Disclosures are required for all special appropriations (ie whether or not the appropriation was drawn against). Where a special appropriation was not drawn against, during the reporting period and the comparative period, it should still be reported. It is up to each entity to determine the appropriate format of disclosure, eg table list or footnote.

327. Section 77 of the PGPA Act (Repayments by the Commonwealth) is a special appropriation. For special appropriations with ‘refund’ type, ‘appropriation applied’ is the total refund made under section 77 of the PGPA Act.

328. For more information on refunds, see EM 2017/53: Repayments made using the special appropriation in section 77 of the PGPA.

329. There may be more than one responsible entity for a special appropriation. Where this is the case, each entity must make disclosures of the amounts they have drawn on.

Acting as an agent

FRR extract:

47 Disclosures by agent in relation to annual and special appropriations

Where an entity (‘the spending entity’) has paid money out of the CRF on behalf of another entity (‘the responsible entity’):

(a) the spending entity must disclose the following for each responsible entity:
  (i) the name of the responsible entity;
  (ii) total receipts and total payments (include annual departmental and administered items, as well as special appropriations); and
  (iii) the relationship between itself and the responsible entity; and
(b) the responsible entity must:
  (i) apply the reporting requirements outlined in this rule; and
(ii) disclose the name of the spending entity as a footnote to the relevant appropriations note tables.

330. An entity is an agent for a responsible entity, where it has authority to make payments from the responsible entity’s appropriation (ie the spending entity is an agent).

331. Where an entity receives an amount from another entity, retains it by increasing its appropriation and then pays it to a third party, it is acting on its own behalf and is therefore not acting as an agent.

332. For cross-referencing purposes, where an entity appropriation related disclosures and one or more other entities have drawn from the same special appropriation the entity making the disclosures must name those other entities in a footnote to the table

Example: Cross-referencing footnote

[Disclose other entity/entities] also drew from [disclose special appropriation provision/s]
Part 9. Other disclosures

9.1 Special accounts

FRR extract:

**Division 6 (of Part 6) – Special Accounts**

**48 Special accounts**

(1) The special accounts note must be prepared on a recoverable GST exclusive basis and a cash basis.

(2) Reporting entities must disclose information on special accounts that existed in either the current year or comparative year regardless of whether they have been repealed or whether the relevant amounts are considered to be immaterial (appropriations are material by nature).

(3) If the status of a special account has changed during the reporting period (eg the account has been established, varied, or repealed), the nature and date of effect of each change must be disclosed as a footnote.

(5) Entities must disclose the opening balance, increases, decreases (classified as either departmental or administered) and the closing balance for each special account.

(6) If an amount standing to the credit of a special account is held by a reporting entity, the amount must be disclosed in the entity’s financial statement as cash.

(7) If an amount standing to the credit of a special account is held in the OPA, the amount must be disclosed in a reporting entity’s financial statement as cash held in the OPA.

(8) If a reporting entity holds part of the closing balance of a special account on trust, the reporting entity must:

   (a) disclose the amount so held as a footnote to the special accounts notes; and
   (b) not include that amount in the entity’s statement of financial position; and
   (c) not include that amount in any statements or notes required by AASB 7 Financial Instruments: Disclosures or AASB 9 Financial Instruments.

333. Investments made through a special account are not included in the balance for the purposes of disclosing the special accounts note.

334. Appropriations that have been received and recognised as income by an entity and are subsequently transferred to a special account of that entity, are not to be recognised again as income to that entity. These transfers are internal transfers.

335. Where a special account has not been used during the current and the comparative reporting periods, the entity may make footnote disclosures in the special accounts note, instead of disclosing that special account, including:

- the title of the special account
• the purpose of the special account
• the authority under which the special account was established
• a statement noting the fact that the special account has not been used during the current and the comparative reporting periods
• the balance of the special account.

336. For other items include:
• each special account—must have separate disclosure for expenditure that is departmental or administered in nature.
• Comcare receipts—amounts received from Comcare for workers compensation to be provided to employees can be retained. See RMG 307.
• assets held in trust and unidentified receipts—assets held in trust that form part of the balance of a special account, must also be reported in compliance with section 31 of the FRR. Information on this requirement, and for unidentified receipts is at Part 4.7 Assets held in trust.

Statutory credits

337. A statutory credit is a provision in an Act that allows the balance of a special account (and hence the associated appropriation) to be increased, provided certain conditions are met. A statutory credit does not usually involve the receipt of funds from another appropriation (annual appropriation or special appropriation), from outside the entity or from parties outside of government (including another government)—it is a self executing transaction.

338. A statutory credit provision is not:
• in itself a separate special appropriation
• a financial instrument and therefore not required in financial instrument disclosures.

339. The entity is to record the statutory credit received as cash in the OPA with the corresponding accounting entry against equity (administered) or appropriation receivable (departmental). There is no requirement to disclose appropriation increases that have resulted from the execution of a statutory credit provision, separately.

Disclosure of special account balances

340. Entities should record all special account related funds in their departmental receipts and payments bank account, as cash in their:
• statement of financial position
• cash flow statement
• financial assets note
• special accounts note.
341. Reporting entities should disclose all special account related funds held in their administered receipts and administered payments bank account as cash at bank in the:

- administered schedule of assets and liabilities
- administered cash flow statement
- administered reconciliation schedule
- administered – financial assets note
- special accounts note.

9.2 Reporting of outcomes

Note: Reporting of outcomes in the financial statements only applies to Tier 1 reporting entities.

342. Under AASB 108, reclassification of an item between outcomes may result in a change in accounting policy and require:

- restatement of comparative data
- disclosure in the notes of entities’ financial statements, in accordance with AASB 108.

Outcomes tables

343. AASB 1050 and AASB 1052 Disaggregated Disclosures (AASB 1052) use the term 'activities' that generally equates to the term 'outcomes' for departmental and administered items.

344. Paragraph 16 of AASB 1052 requires the disclosure of departmental assets and liabilities to each major activity where they are reasonably attributable—this guide includes the same disclosure for administered assets and liabilities. Where particular assets and liabilities cannot be reliably attributed, this matter is to be determined through professional judgement.

345. Accountable authorities are required to disclose the following information:

- expenses, income, assets and liabilities at the outcome level (however, entities may choose to report some or all of this information at a lower level)
- major classes applicable to the disclosing entity.

346. Administered income does not include administered appropriations.

347. Payments to corporate entities are not related to the paying entity’s outcomes and, therefore, these are not attributed. These need to be included in the disclosures for completeness.

348. Outcome disclosures need to agree to the:

- corresponding totals in the entity’s statement of comprehensive income
• statement of financial position and administered schedules.

349. This means the disclosure note may need to include items not allocated to an outcome.

Outcomes reporting for Tier 2 entities

350. Tier 2 entities are not required to present outcome reports in their financial statements. However, all entities are expected to present relevant disaggregated disclosures in the body of their annual report. See Annual report for non-corporate Commonwealth entities (RMG 135) for further details.

9.3 Regulatory charging

FRR extract:

34A Regulatory charging

(1) Where a reporting entity undertakes a regulatory charging activity (consistent with the Australian Government Charging Framework), the financial statements of the entity must include a note providing financial information for those regulatory activities at an aggregate level.

(2) The note must include:

(a) appropriations drawn down and applied to the regulatory activities;

(b) external revenue raised for the regulatory activities; and

(c) expenses related to the regulatory activities.

351. Since the introduction of the Australian Government Charging Framework, the note referred to in section 34A of the FRR relates to regulatory charging activities only. All regulatory charging activities must be reported, regardless of their financial value.

352. The FRR sets out the requirements for reporting regulatory charging activities. To provide users with further information, entities can also:

• provide information relating to amounts written off

• list all regulatory charging activities and provide link/s to the websites containing relevant cost recovery documentation.

353. Financial information:

• needs to be prepared as an aggregate (ie the total of the entity’s regulatory charging activities)

• is a subset of information contained elsewhere in the financial statements (eg the external revenue reported in this note is a subset of the entity’s total external revenue).

354. Where entities do not manage all parts of the regulatory charging activity (eg deliver the activity but do not collect receipts or vice versa), entities need to disclose those parts of the activity that they manage.

355. Resource and commercial charging activities do not need to be reported, nor do inter or intra-government charges.
Reference to other entities involved in the activity needs to be included in the ‘regulatory charging activities’. For more information, see PRIMA forms or contact Finance Charging Policy Team.

9.4 Guidance to assist in completing PRIMA form templates

The reporting of ‘appropriations applied’ (non-corporate entities) and ‘payments from portfolio bodies’ (corporate entities) is to provide a connection between the external receipts collected and the amount appropriated to the entity to undertake the regulatory charging activity:

- corporate entities need to complete the ‘payments from portfolio bodies’ line, as shown in PRIMA forms, to report any funding received via their portfolio department to undertake regulatory charging activities.
- non-corporate entities need to complete the relevant appropriation line/s.

Total amounts expensed and external revenue recognised:

- can be attributed to regulatory charging activities
- are split between departmental and administered items.

Revenue only relates to revenue that can be attributed to external sources (ie it does not include appropriation revenue).

Corporate entities need to complete the ‘payments to portfolio departments’ line, as shown in PRIMA forms, if they collect revenue on behalf of the Commonwealth and return receipts to their portfolio department.

‘Amounts written off’ allow entities to provide information about whether receivables are being recovered. Entities need to report any receivables that have been written off, consistent with PGPA Act requirements. Amounts written off comprise receivables only, and are split between departmental and administered items.

‘Regulatory charging activities’ allows entities to list the regulatory charging activities that are reported in the note and direct readers to more detailed information. All regulatory charging activities reported in this note are to be listed, accompanied by link/s to the web location of relevant documentation (e.g. a link to the entity’s published Cost Recovery Implementation Statement/s).

Entities need to exercise professional judgement in explaining variances, particularly where variance explanations are of a security or sensitive nature. Under paragraph 15 of AASB 1055, explanations are to focus on a high-level explanation of the cause, not merely the nature, of the major variance(s) and are not to simply focus on the numerical difference between the original budget and the actual amounts.

NFP entities in the GGS are to disclose:

- the original budgeted financial statement presented to parliament, with:
- explanations for major variances between the actual amounts presented in the financial statements that corresponds with information in the original Budget. Examples of appropriate working papers include:
365. Entity financial statements are subject to audit and require adequate working papers to support Budget information disclosed.

366. The ANAO audit variances between actual and original budget amounts only (ie not the budget amount). Reporting entities need to understand and explain the underlying basis of the budget amount to provide an appropriate explanation for any variance.

367. Budgetary reporting, under AASB 1055 can be presented in a note to the financial statements or on the face statements.

368. Explanations for major variances to be disclosed, particularly those relevant to performance analysis of a reporting entity and the use of resources entrusted to it.

369. Reporting entities need to consider the materiality of variances. As a general guide, a variance may be considered material or major if it is:

- more than +/- 10 per cent of the line item for both departmental and administered, or
- more than +/- 2 per cent of total expenses or total own-source revenue for departmental only
- more than +/- 2 per cent of the relevant sub-total for total expenses, revenue, assets or liabilities for administered only.

370. Reporting entities need to be aware that discussions with auditors may conclude that more or fewer variance explanations are required and entities will need to use judgement. For example, a line item budget might be so small, in the overall context of the financial statements, that explaining a variation above 10 per cent would not be useful in analysing the entity’s performance. Other factors to be considered could include:

- the sensitivity of particular line items and transaction, and/or
- large offsetting movements within a line item.

371. For more information on the:

- operating loss approval process, contact the entity's Finance Agency Advice Unit
- net cash appropriation arrangements, email BudgetFramework@finance.gov.au or Budget Framework.
9.5 Net cash appropriation arrangements

Capital budget appropriation arrangements

372. Net cash appropriation arrangements remove the tie between depreciation/amortisation expenses and asset replacement funding (for operational details, see the capital budgeting guidance in the knowledge management section of CBMS). These arrangements improve resource management by providing entities with the funding they require within a financial year (ie instead of providing funding for items that, at times, would not occur for many years).

373. These arrangements improve resource management, to provide entities with the funding they require within a financial year (ie instead of providing funding for items that, at times, would not occur for many years).

374. Under the net cash appropriation arrangements:

- non-corporate entities receive a separate DCB, provided as appropriation Acts (No. 1/3/5) equity injections in lieu of an appropriation for depreciation/amortisation (see Appendix E: Disclosure of capital budget funding for a list of affected entities)
- entities that are fully cost recovered or majority-funded from external revenue (e.g. the sale of goods/services) do not receive government funding for their assets, as they self-fund asset purchases and replacements through cost recovery.

375. DCB is to be used for minor asset replacement (ie assets worth $10 million or less), capitalised maintenance and make good costs. DCBs are disclosed separately as ‘contributions from owners’ in entity PB Statements, Portfolio Additional Estimates Statements (PAES) and annual reports, and are recorded separately in CBMS.

376. Major asset purchases/replacements are funded through appropriation Acts (No. 2/4/6) as equity injections, consistent with the agreement between the Senate and the government on the scope of appropriation Act (No. 1), commonly referred to as the Compact of 1965.

377. The corporate Commonwealth entities and non-corporate Commonwealth entities that are designated Collection Institutions (CIs) and receive separate Collection Development Acquisition Budgets (CDABs) are listed at E3 and E4 in Appendix E: Disclosure of capital budget funding.

378. CDABs differ from DCBs as they are provided to allow CIs to grow and maintain their heritage and cultural asset collections. CDABs are provided to designated CIs as appropriation Acts (No. 2/4/6) equity injections and are disclosed as ‘contributions from owners’ in entity PB Statements, PAES and annual financial statements.

379. For designated CIs that are corporate entities, this means that they do not receive funding for their heritage and cultural depreciation expenses but continue to receive funding for depreciation/amortisation expenses for their other assets (eg fit-outs, and infrastructure, plant and equipment).
Net cash arrangements for transition to *AASB 16 Leases*

380. The effect on an entity’s comprehensive income statement (surplus/loss) from the transition to *AASB 16* will be treated in accordance with per ‘net cash’ operating loss rules – in determining whether an entity has incurred an operating loss, depreciation from ROU assets will be reversed and principal repayments will be deducted from the operating result. For further information, see EM 2019-30 Implementation of AASB 16 Leases – Phase Three.

Disclosure requirements

381. Completion of the Net Cash Appropriation Arrangements note is voluntary in financial statements. However, entities that receive DCBs or have leasee transactions (including corporate entities) should include this note to provide a clear read with their PB Statements or PAES.

382. In preparing the Net Cash Appropriation Arrangements note, entities are required to disclose the following expenses:

- **entities with a DCB**—the note must show depreciation/amortisation expenses excluding amounts related to cost recovery-funded or externally-funded assets/functions
  
  - these entities need to include a footnote explaining the amount of depreciation/amortisation expenses that have been excluded from the note and the assets/functions they relate to

- **entities with a CDAB**—the note must show only heritage and cultural depreciation expenses
  
  - these entities need to include a footnote to explain which depreciation/amortisation expenses have been included and why.

- **entities with a leasee transactions (including corporate entities)**—the note must only show depreciation/amortisation expenses related to ROU leased assets and the lease liability principle repayment amount.

383. No other expenses must be shown in the note, as this would impair the use of the information for understanding an entity’s operating surplus or deficit.

384. For more information on operating losses refer to EM 2020-02 - Consideration of Op Loss applications.

385. See Appendix E: Disclosure of capital budget funding for entity disclosure requirements:

- **E1:** Non-corporate entities with full DCB funding
- **E2:** Non-corporate entities with partial DCB funding
- **E3:** Corporate entities that are Collection Institutions and receive a CDAB
- **E4:** Non-corporate entities that receive a CDAB
- **E5:** Non-corporate entities that receive an Administered Capital Budget (ACB)
Appendix A: Resources

This RMG provides extracts of relevant FRR legislative requirements with supporting guidance but does not duplicate or re-state accounting standards. It is important that users also refer to relevant resources, including:

Legislation:

- Public Governance, Performance and Accountability Act 2013
- Public Governance, Performance and Accountability (Financial Reporting) Rule 2015
- Corporations Act 2001
- entity-specific legislative requirements (eg High Court of Australia Act 1979 and Aboriginal and Torres Strait Islander Act 2005).

Australian Accounting Standards Board (AASB) documents:

- Australian Accounting Standards
- AASB interpretations
- AASB Framework for the Preparation and Presentation of Financial Statements (AASB Framework)
- Statement of Accounting Concepts (SAC) 1
- Objective of General Purpose Financial Reporting (SAC) 2

Other Finance guidance documents:

- List of RMGs — A-Z (including RMG’s on requirements for annual reports)
- Technical accounting policy and guidance (including Finance position papers)
- Primary reporting and information management aid (PRIMA) documents
- Standard Parameters for use in Financial Statements
- Estimates memorandum

Other Commonwealth guidance documents:

- Machinery of Government (MoG) changes: A guide
Appendix B: Entities required to apply Tier 1

FRR extract:

18 AASB 1053 Application of Tiers of Australian Accounting Standards and other reporting requirements

(2) The following reporting entities must apply Tier 1 reporting requirements in the preparation of their financial statements:

(a) Australian National University
(b) Australian Office of Financial Management
(c) Australian Postal Corporation
(d) Comcare
(e) Commonwealth Superannuation Corporation
(f) Defence Housing Australia
(g) Export Finance and Insurance Corporation
(h) Future Fund Management Agency
(i) Reserve Bank of Australia.

(3) A reporting entity mentioned in an item of the following table must, in preparation of the entity’s financial statements, apply Tier 1 reporting requirements when applying:

(a) an AAS (the listed AAS) listed in that item in relation to a matter (the listed matter) listed in that item

(b) any other AAS to the extent that it relates to the listed AAS.

Note: When applying AAS other than those mentioned in paragraphs (3)(a) and (b), the entity must comply with subsection (1).

<table>
<thead>
<tr>
<th>Tier 1 reporting requirements</th>
<th>Reporting entity</th>
<th>Listed matter</th>
<th>Listed AAS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Airservices Australia</td>
<td>Defined benefit superannuation</td>
<td>AASB 7 Financial Instruments: Disclosure</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Financial instruments</td>
<td>AASB 13 Fair Value Measurement</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fair value measurement</td>
<td>AASB 119 Employee Benefits</td>
<td></td>
</tr>
<tr>
<td>2 Clean Energy Finance Corporation</td>
<td>Financial instruments</td>
<td>AASB 7 Financial Instruments: Disclosure</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fair value measurement</td>
<td>AASB 13 Fair Value Measurement</td>
<td></td>
</tr>
<tr>
<td>2A</td>
<td>Department of Agriculture, Water and the Environment</td>
<td>Administered financial assets</td>
<td>AASB 7 Financial Instruments: Disclosure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Administered financial instruments</td>
<td>AASB 13 Fair Value Measurement</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Administered fair value measurement</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Department of Defence</td>
<td>Administered defined benefit superannuation</td>
<td>AASB 119 Employee Benefits</td>
</tr>
<tr>
<td>4</td>
<td>Department of Education, Skills and Employment</td>
<td>Administered financial assets</td>
<td>AASB 7 Financial Instruments: Disclosure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Administered financial instruments</td>
<td>AASB 13 Fair Value Measurement</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Administered fair value measurement</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Department of Finance</td>
<td>Administered defined benefit superannuation</td>
<td>AASB 7 Financial Instruments: Disclosure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Administered investments</td>
<td>AASB 13 Fair Value Measurement</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Administered financial instruments</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Administered fair value measurement</td>
<td>AASB 119 Employee Benefits</td>
</tr>
<tr>
<td>6</td>
<td>Department of Foreign Affairs and Trade</td>
<td>Administered financial assets</td>
<td>AASB 7 Financial Instruments: Disclosure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Administered financial instruments</td>
<td>AASB 12 Disclosure of Interests in Other Entities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Administered fair value measurement</td>
<td>AASB 13 Fair Value Measurement</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Non-financial assets</td>
<td>AASB 116 Property, Plant and Equipment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fair value measurement</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Department of Industry, Science, Energy and Resources</td>
<td>Administered financial assets</td>
<td>AASB 7 Financial Instruments: Disclosure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Administered financial instruments</td>
<td>AASB 13 Fair Value Measurement</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Administered fair value measurement</td>
<td></td>
</tr>
<tr>
<td>7A</td>
<td>Department of Infrastructure, Transport, Regional Development and Communications</td>
<td>Administered financial assets</td>
<td>AASB 7 Financial Instruments: Disclosure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Administered financial instruments</td>
<td>AASB 13 Fair Value Measurement</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Administered fair value measurement</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Department of the Treasury</td>
<td>Administered financial instruments</td>
<td>AASB 7 Financial Instruments: Disclosure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Administered investments</td>
<td>AASB 12 Disclosure of Interests in Other Entities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Administered fair value measurement</td>
<td>AASB 13 Fair Value Measurement</td>
</tr>
</tbody>
</table>
Appendix C: Prompts to user-focused presentation

It is important that financial statements comply with the AAS and FRR and that they are presented in a manner that is easy for users to read and navigate. The following are practical suggestions for enhancing the readability of disclosures.

<table>
<thead>
<tr>
<th>Topic / prompt</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial summary</strong></td>
<td>✓</td>
</tr>
<tr>
<td>● Would a brief financial summary in the annual report help end users to understand your financial results? Such a summary is to accompany, but not form part of, the financial statements.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Contents page</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>● Would grouping similar notes assist user’s navigation (eg employee information or funding)? While PRIMA contains an example of grouping, the appropriate order and grouping of notes varies between entities?</td>
<td></td>
</tr>
<tr>
<td>● Are subheadings for groupings (eg funding subheading for appropriations and special accounts notes) correct, clear, concise and in plain-English?</td>
<td></td>
</tr>
<tr>
<td>● Does the order of notes align with the most relevant items for your entity and end users (most important first), for assessing financial performance?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Presentation of primary statements, administered schedules or the notes</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>● For notes supporting primary statements or schedules that only include a few line items, would it be better to include these at the face of the statement or schedule, rather than including them as separate notes?</td>
<td></td>
</tr>
<tr>
<td>● Would combining line items in face statements/administered schedules (where appropriate) be helpful for users?</td>
<td></td>
</tr>
<tr>
<td>● Where there is flexibility in presenting disclosures in the primary statements/schedules or notes (eg AASB 1055 Budgetary Reporting), has the merits of both alternatives been considered?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Accounting policies</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>● Has each accounting policy description been reviewed to ensure they:</td>
<td></td>
</tr>
<tr>
<td>○ do not include superfluous information (eg a description for a policy for finance leases if the entity does not have finance leases)</td>
<td></td>
</tr>
<tr>
<td>○ are written in plain-English and relevant to end users?</td>
<td></td>
</tr>
<tr>
<td>● Would it help end-users if accounting policy text is co-located with relevant disclosures, rather than as a separate note (eg information on key assumptions and estimates)?</td>
<td></td>
</tr>
<tr>
<td>● Are disclosures specific to a particular reporting period and are they still relevant? If so, is the level of detail is appropriate (eg breaches of section 83 of the Constitution and budgetary reporting)?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Formatting</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>● Does the format of each numerical table assist readability and accessibility for users?</td>
<td></td>
</tr>
<tr>
<td>● Is the orientation (portrait or landscape) appropriate for users?</td>
<td></td>
</tr>
<tr>
<td>● Does the font (including its size) support readability and accessibility?</td>
<td></td>
</tr>
<tr>
<td>● Would the removal of zero line items improve readability?</td>
<td></td>
</tr>
<tr>
<td>Topic / prompt</td>
<td></td>
</tr>
<tr>
<td>-------------------------------------------------------------------------------</td>
<td>---</td>
</tr>
<tr>
<td>Would combining line items that are not material, with other line items (unless required by accounting standards) by helpful to users?</td>
<td></td>
</tr>
<tr>
<td>Would it be more helpful to include comparatives beside current year amounts, or in a separate table?</td>
<td></td>
</tr>
<tr>
<td>Can a graph be used to present information rather than a table?</td>
<td></td>
</tr>
<tr>
<td>Would combining tables improve presentation or save space (eg combining some tables for PPE and intangibles; combining some appropriation reporting requirements)?</td>
<td></td>
</tr>
<tr>
<td>Would co-locating departmental and administered information improve presentation? NB—there are also practical considerations to ensure clear delineation between departmental and administered items and for readability, where departmental rounding differs to administered rounding.</td>
<td></td>
</tr>
</tbody>
</table>
Appendix D: Disclosure of trust moneys

Figure D1: Recognition of administered and departmental trust money and note requirements

Departmental and administered trust moneys are recognised** in the:

<table>
<thead>
<tr>
<th>Administered</th>
<th>Departmental</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Statement of comprehensive income (PRIMA:AdminIS)</td>
<td>• Statement of comprehensive income (PRIMA:DeptIS)</td>
</tr>
<tr>
<td>• Administered reconciliation schedule (PRIMA:AdminCE)</td>
<td>• Statement if changes in equity (PRIMA:DeptCE)</td>
</tr>
<tr>
<td>• Administered schedule of assets and liabilities (PRIMA:AdminBS)</td>
<td>• Statement if financial position (PRIMA:DeptBS)</td>
</tr>
<tr>
<td>• Administered cash flow statement (PRIMA:AdminCF)</td>
<td>• Cash flow statement (PRIMA:DeptCF)</td>
</tr>
</tbody>
</table>

** Assets held in trust are **not** recognised in primary statements and relevant notes (FRR:s31).

Notes for departmental and administered trust moneys

<table>
<thead>
<tr>
<th>Assets held in trust note (held in special account)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• include trust amounts held in a special account (see FRR:s31 and PRIMA:O18.2)</td>
</tr>
<tr>
<td>• include a cross reference to the special account note.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Special account note</th>
</tr>
</thead>
<tbody>
<tr>
<td>• include all amounts making up special account balances, including trust moneys (see FRR:s48 and PRIMA:F5.2)</td>
</tr>
<tr>
<td>• include a footnote disclosing special accounts that hold trust moneys, including the value of trust moneys</td>
</tr>
<tr>
<td>• include a cross reference to the assets held in trust note.</td>
</tr>
</tbody>
</table>

Notes for departmental only trust moneys

<table>
<thead>
<tr>
<th>Assets held in trust note (see PGPA:s74)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• include trust amounts credited to a departmental appropriation under PGPA:s74</td>
</tr>
<tr>
<td>• include a cross reference to the appropriation note.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Appropriation note</th>
</tr>
</thead>
<tbody>
<tr>
<td>• include trust moneys received as retainable receipts should be included in adjustments to appropriations (see FRR:s31 and PRIMA:F5.1)</td>
</tr>
<tr>
<td>• include a footnote disclosing trust amounts</td>
</tr>
<tr>
<td>• include a cross reference to the assets held in trust note.</td>
</tr>
</tbody>
</table>
Appendix E: Disclosure of capital budget funding

E1: Non-corporate entities with full DCB funding

The following entities receive full DCB funding for asset replacement (i.e., they do not have any significant cost recovery activities). Entities choosing to prepare a Net Cash Appropriation Arrangements note need to disclose full depreciation/amortisation expenses in their note.

Table E1: Entities with full DCB funding for asset replacement

<table>
<thead>
<tr>
<th>Non-corporate Commonwealth entities with full DCB funding (as at 1 March 2020)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Administrative Appeals Tribunal</td>
</tr>
<tr>
<td>• Aged Care Quality and Safety Commission</td>
</tr>
<tr>
<td>• Asbestos Safety and Eradication Agency</td>
</tr>
<tr>
<td>• Australian Building and Construction Commission</td>
</tr>
<tr>
<td>• Australian Bureau of Statistics</td>
</tr>
<tr>
<td>• Australian Centre for International Agricultural Research</td>
</tr>
<tr>
<td>• Australian Commission for Law Enforcement Integrity</td>
</tr>
<tr>
<td>• Australian Communications and Media Authority</td>
</tr>
<tr>
<td>• Australian Competition and Consumer Commission (also has body corporate status)</td>
</tr>
<tr>
<td>• Australian Criminal Intelligence Commission</td>
</tr>
<tr>
<td>• Australian Electoral Commission</td>
</tr>
<tr>
<td>• Australian Federal Police</td>
</tr>
<tr>
<td>• Australian Institute of Criminology</td>
</tr>
<tr>
<td>• Australian Institute of Family Studies</td>
</tr>
<tr>
<td>• Australian Law Reform Commission</td>
</tr>
<tr>
<td>• Australian National Audit Office</td>
</tr>
<tr>
<td>• Australian Office of Financial Management</td>
</tr>
<tr>
<td>• Australian Radiation Protection and Nuclear Safety Agency</td>
</tr>
<tr>
<td>• Australian Research Council</td>
</tr>
<tr>
<td>• Australian Secret Intelligence Service</td>
</tr>
<tr>
<td>• Australian Securities and Investments Commission (also has body corporate status)</td>
</tr>
<tr>
<td>• Australian Security Intelligence Organisation</td>
</tr>
</tbody>
</table>
• Australian Signals Directorate
• Australian Sports Anti-Doping Authority
• Australian Taxation Office
• Australian Trade and Investment Commission (Austrade)
• Australian Transaction Reports and Analysis Centre
• Australian Transport Safety Bureau
• Cancer Australia
• Clean Energy Regulator
• Commonwealth Grants Commission
• Department of Communications and the Arts
• Department of Education, Skills and Employment
• Department of Employment, Skills, Small and Family Business
• Department of Home Affairs
• Department of Industry, Science, Energy and Resources (excluding any depreciation/amortisation expenses related to the Australian Astronomical Observatory)
• Department of Infrastructure, Transport, Regional Development and Communications
• Department of Parliamentary Services
• Department of Social Services
• Department of the House of Representatives
• Department of the Prime Minister and Cabinet
• Department of the Senate
• Department of the Treasury
• Department of Veterans’ Affairs
• Digital Transformation Agency
• Fair Work Commission
• Fair Work Ombudsman and Registered Organisations Commission Entity
• Federal Court of Australia
• Geoscience Australia
- Great Barrier Reef Marine Park Authority
- High Court of Australia
- Infrastructure and Project Financing Agency
- Inspector-General of Taxation
- National Archives of Australia
- National Capital Authority
- National Drought and North Queensland Flood Response and Recovery Agency
- National Health and Medical Research Council
- National Indigenous Australians Agency
- National Mental Health Commission
- Office of National Intelligence
- Office of Parliamentary Counsel
- Office of the Auditing and Assurance Standards Board
- Office of the Australian Accounting Standards Board
- Office of the Australian Information Commissioner
- Office of the Commonwealth Ombudsman
- Office of the Director of Public Prosecutions
- Office of the Inspector-General of Intelligence and Security
- Office of the Official Secretary to the Governor-General
- Organ and Tissue Authority
- Parliamentary Budget Office
- Productivity Commission
- Professional Services Review
- Safe Work Australia
- Tertiary Education Quality and Standards Agency
- Workplace Gender Equality Agency
E2: Non-corporate entities with partial DCB funding

The listed entities receive partial DCB for asset replacement (i.e., they have significant functions/activities that are cost recovered or externally funded from sales of goods/services). Asset replacements for these functions/activities are to be self-funded from cost recovery charges or external revenue earned. Entities choosing to prepare a Net Cash Appropriation Arrangements note need to exclude depreciation/amortisation expenses relating to these assets in their note.

Table E2: Non-corporate entities with partial DCB funding for asset replacement

<table>
<thead>
<tr>
<th>Non-corporate Commonwealth entities with partial DCB funding (as at 1 March 2020)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Attorney-General’s Department – exclude depreciation/amortisation expenses related to Australian Government Solicitor’s function.</td>
</tr>
<tr>
<td>• Australian Financial Security Authority – exclude depreciation/amortisation expenses related to the Personal Property Securities Register and other cost-recovered activities.</td>
</tr>
<tr>
<td>• Australian Fisheries Management Authority – exclude depreciation/amortisation expenses related to internally developed software for its licensing function.</td>
</tr>
<tr>
<td>• Australian Public Service Commission – exclude depreciation/amortisation expenses related to assets purchased using external revenue.</td>
</tr>
<tr>
<td>• Australian Skills Quality Authority – exclude depreciation/amortisation expenses related to assets purchased using external revenue.</td>
</tr>
<tr>
<td>• Bureau of Meteorology – exclude depreciation/amortisation expenses related to assets purchased for the provision of aviation and Defence weather services.</td>
</tr>
<tr>
<td>• Department of Agriculture, Water and the Environment – exclude depreciation/amortisation expenses relating to its biosecurity activities.</td>
</tr>
<tr>
<td>• Department of Finance – exclude depreciation/amortisation expenses relating to the Property Special Account.</td>
</tr>
<tr>
<td>• Department of Foreign Affairs and Trade – exclude depreciation/amortisation expenses related to the Overseas Property Special Account.</td>
</tr>
<tr>
<td>• Department of Health – exclude depreciation/amortisation expenses related to the National Industrial Chemicals Notification and Assessments Scheme and the Therapeutic Goods Administration.</td>
</tr>
<tr>
<td>• National Blood Authority – exclude depreciation/amortisation expenses relating to assets purchased using funding from the States and Territories.</td>
</tr>
<tr>
<td>• Services Australia – exclude depreciation/amortisation expenses related to assets purchased using external revenue.</td>
</tr>
</tbody>
</table>
E3: Corporate entities that are Collection Institutions and receive a CDAB

The following corporate Commonwealth entities are CIs and receive a CDAB. Entities choosing to prepare a Net Cash Appropriation Arrangements note need to only disclose their heritage and cultural depreciation expenses in their note — no depreciation/amortisation expenses for other categories of assets, nor other expenses, need to be shown.

Table E3: Corporate entities that are CIs and receive a CDAB

<table>
<thead>
<tr>
<th>Corporate Commonwealth entities that receive a CDAB (as at 1 March 2020)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Australian Institute of Aboriginal and Torres Strait Islander Studies</td>
</tr>
<tr>
<td>• Australian National Maritime Museum</td>
</tr>
<tr>
<td>• Australian War Memorial</td>
</tr>
<tr>
<td>• National Film and Sound Archive of Australia National Gallery of Australia</td>
</tr>
<tr>
<td>• National Library of Australia</td>
</tr>
<tr>
<td>• National Museum of Australia</td>
</tr>
<tr>
<td>• National Portrait Gallery of Australia</td>
</tr>
<tr>
<td>• Old Parliament House (excluding any H&amp;C building depreciation)</td>
</tr>
</tbody>
</table>

E4: Non-corporate entities that receive a CDAB

The following non-corporate Commonwealth entities are designated CIs and receive a CDAB. As they also receive a DCB, entities choosing to prepare a Net Cash Appropriation Arrangements note need to disclose their full depreciation/amortisation expenses in their note.

Table E4: Non-corporate entities that receive a CDAB

<table>
<thead>
<tr>
<th>Non-corporate Commonwealth entities that receive a CDAB (as at 1 March 2020)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• National Archives of Australia</td>
</tr>
</tbody>
</table>

E5: Non-corporate entities that receive an Administered Capital Budget

The following non-corporate Commonwealth entities receive an Administered Capital Budget (ACB). Administered appropriation items are not subject to the operating loss arrangements.
### Table E5: Non-corporate entities that receive an ACB

<table>
<thead>
<tr>
<th>Non-corporate entities that receive an ACB (as at 1 March 2020)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Department of Finance</td>
</tr>
<tr>
<td>• Department of Foreign Affairs and Trade</td>
</tr>
<tr>
<td>• Department of Home Affairs</td>
</tr>
<tr>
<td>• Department of Infrastructure, Transport, Regional Development and Communications</td>
</tr>
<tr>
<td>• Department of the Prime Minister and Cabinet</td>
</tr>
<tr>
<td>• National Capital Authority</td>
</tr>
<tr>
<td>• Office of the Official Secretary to the Governor-General</td>
</tr>
</tbody>
</table>
# Appendix F: Glossary

Subject to key terms defined in this appendix, all other key terms have the same definition as specified in the *AASB Glossary of Defined Terms* issued by the AASB.

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accountable authority</strong></td>
<td>Under section 12 of the PGPA Act, the person or group of persons responsible for, and control over, each Commonwealth entity's operations.</td>
</tr>
<tr>
<td><strong>Administrative Arrangements Order (AAO)</strong></td>
<td>An instrument issued by the Governor-General that formally establishes the matters dealt with by each department of state and the legislation for which each minister of state administering a department of state is responsible.</td>
</tr>
<tr>
<td><strong>Administered investments</strong></td>
<td>Defined for the purpose of this guide as an interest by the Australian Government in a subsidiary, associate or joint operation or joint venture disclosed in the financial statements of an entity on behalf of the Australian Government.</td>
</tr>
<tr>
<td><strong>Administered</strong></td>
<td>Are those administered by a non-corporate entity on behalf of the Government (eg certain grants, benefits and transfer payments). These payments are usually made pursuant to eligibility rules and conditions established by the government or the parliament. Specifically, administered items are tied to outcomes (departmental items are not).</td>
</tr>
<tr>
<td><strong>Annual appropriations</strong></td>
<td>Annual funding, provided by annual appropriation Acts, to Commonwealth entities to carry out Commonwealth outcomes and programmes and also for investment in assets or reduction in liabilities.</td>
</tr>
<tr>
<td><strong>Appropriation</strong></td>
<td>A law of the Australian Parliament that provides authority for Commonwealth entities to spend money from the CRF for a particular purpose. Entities may not spend money without an appropriation authorising that expenditure and, where necessary, other legislation authorising the specified purpose.</td>
</tr>
<tr>
<td><strong>Australian Accounting Standards (AAS)</strong></td>
<td>Accounting standards are technical pronouncements that set out the required accounting measurements and disclosures for particular types of material transactions and events. The accounting requirements affect the</td>
</tr>
</tbody>
</table>
preparation and presentation of an entity’s financial statements.

**(in relation to financial statements)** For Commonwealth entities, accounting standards have the force of law through section 42(2)(a) of the PGPA Act. Further, accounting standards have the force of company law for entities preparing financial reports under that law.

**(in relation to budgeting)** Section 12(3)(a) of the *Charter of Budget Honesty Act 1998* requires that the budget is based on accounting standards.

| **Australian Accounting Standards Board** | As established under the *Australian Securities and Investments Commission Act 2001* |
| **Australian Government** | All bodies that comprise the public sector at the national level. This includes the Commonwealth, office holders, statutory corporations, Commonwealth companies and their subsidiaries. |
| **Australian National Audit Office** | A specialist public sector practice providing a range of audit and assurance services to the parliament and Commonwealth entities. |
| **Authority** | The legal authority (whether express or implied) to exercise a power or function that can be given directly through legislation (for example, an accountable authorities’ powers under section 23 of the PGPA Act, section 32B of the FFSP Act or other specific legislation) or through a delegation or authorisation. |
| **Central Budget Management System (CBMS)** | The ICT system used to manage the flow of financial information between Finance and Commonwealth entities to facilitate cash and appropriations management, the preparation of budget documentation and financial reporting. |
| **Chief Financial Officer (CFO)** | Generally has primary responsibility for the preparation of the financial statements and is a co-signatory, with the accountable authority, to the financial statements. |
| **Collection Development Acquisition Budget (CDAB)** | Funding provided to designated Collection Institutions, as an equity injection through Appropriation Act (No. 2/4/6) and recognised as contributions of equity in the entity’s accounts, to allow them to grow and develop |
their heritage and cultural asset collections, rather than for asset replacement.

| Commitments | An activity or decision of an NCE that results in an obligation on the Commonwealth to pay relevant money. This may involve entering into an arrangement. Commitments include obligations that are contingent upon certain events occurring, such as indemnities, guarantees and warranties. Accountable authorities of NCEs may approve commitments, or delegate or authorise in writing another person to do so. |
| Commonwealth | The legal entity of the Commonwealth of Australia, created by the Australian Constitution. The term may also be used to differentiate the Australian Government from state and territory governments. |
| Commonwealth entities | A department of state or: |
| | • a parliamentary department or |
| | • a listed entity or |
| | • a body corporate that is: |
| | established by a law of the Commonwealth or established under a law of the Commonwealth (other than a Commonwealth company) and is prescribed by an Act or the PGPA Rule to be a Commonwealth entity. |
| | The definition of Commonwealth entities in the PGPA Act does not cover: |
| | • bodies corporate that are established under, but not by, a law of the Commonwealth (such as Commonwealth companies) |
| | • the High Court and the Future Fund Board of Guardians. |
| Concessional loans | A loan provided on more favourable terms than the borrower could obtain in the market place. The concession provided may be in the form of lower than market interest rates, longer loan maturity or grace periods before the payment of the principal or interest. |
| Consolidated Financial Statements (CFS) | The annual, end-of-year financial statements for the Commonwealth public sector as required by section 48 of the PGPA Act, and prepared in accordance with AAS and audited |
by the ANAO. They present the consolidated results for the Commonwealth as well as disaggregated information on the general government sector.

**Constructive obligation**

An obligation that derives from an entity’s actions where: (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

**Cost recovery**

Charging the non-government sector some or all of the costs of a specific government activity. This may include the provision of goods, services or regulation, or a combination of these. The government must direct that the activity be cost recovered, there must be a statutory basis to charge the non-government sector and alignment between expenses and revenue.

**Departmental items**

Involve costs over which a non-corporate entity has control. Departmental appropriations can be used to make any payment related to the functions of the non-corporate entity including on purposes covered by other items whether or not they are in the Act for an entity. Expenditure typically covered by departmental items includes:

- employee expenses, suppliers and other operational expenses (eg interest and finance expenses)
- the acquisition and capitalised maintenance of departmental assets valued at $10 million or less.

**Departmental Capital Budget (DCB)**

Funding provided, as an equity injection through Appropriation Act (No. 1/3/5) and recognised as contributions of equity in the entity’s accounts, to prescribed non-corporate Commonwealth entities to meet:

- costs associated with replacement of minor assets (valued $10 million or less)
- costs that are eligible to be capitalised, the capital repayment component of finance leases and make good costs.

<table>
<thead>
<tr>
<th><strong>Department of State</strong></th>
<th>Established by the Governor-General under section 64 of the Constitution.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Departmental supplementation</strong></td>
<td>Supplementation for entities where directed by government to undertake in a financial year but after the last date for inclusion in the last set of appropriation Acts prepared for the financial year. Entities are expected to meet the cost of these activities from their existing appropriations, which will then be replenished by a departmental appropriation in the following financial year.</td>
</tr>
<tr>
<td><strong>Designated collection institution</strong></td>
<td>An entity whose primary function and/or primary purpose under their enabling legislation is to develop and maintain collections of heritage and cultural assets.</td>
</tr>
<tr>
<td><strong>Enabling legislation</strong></td>
<td>For a Commonwealth entity, the Act or legislative instrument that establishes the entity.</td>
</tr>
<tr>
<td><strong>Entity</strong></td>
<td>A non-corporate Commonwealth entity or corporate Commonwealth entity as defined by the PGPA Act.</td>
</tr>
<tr>
<td><strong>Employee</strong></td>
<td>An individual who renders personal services to an entity and for legal or tax purposes is either:</td>
</tr>
<tr>
<td></td>
<td>• regarded as an employee</td>
</tr>
<tr>
<td></td>
<td>• works for an entity under the direction of the entity in the same way as an individual who is regarded as an employee, or</td>
</tr>
<tr>
<td></td>
<td>• renders services in a similar way to individuals regarded as employees (derived from Appendix A of AASB 2 Share-based Payment).</td>
</tr>
<tr>
<td><strong>Fee-for-service arrangement</strong></td>
<td>Where key management personnel employed by a corporate Commonwealth entity are formally subcontracted to another Commonwealth entity (eg under a memorandum of understanding), and charges for contracted/aarranged services are calculated using a fixed rate (eg hourly/daily/monthly).</td>
</tr>
<tr>
<td><strong>Financial report/statements</strong></td>
<td>Financial report, as used in this guide, is taken to have the same meaning as the term 'financial statement' applied in the PGPA Act.</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Financial Reporting Rule (FRR)</strong></td>
<td>Made under the PGPA Act setting out the requirements for the preparation of financial statements under:</td>
</tr>
<tr>
<td></td>
<td>(a) subsection 42(2) of the PGPA Act</td>
</tr>
<tr>
<td></td>
<td>(b) subsection 47(1) of the <em>High Court of Australia Act 1979</em> in relation to how financial statements must be prepared by the High Court of Australia</td>
</tr>
<tr>
<td></td>
<td>(c) subsection 193H of the <em>Aboriginal and Torres Strait Islander Act 2005</em> in relation to how the accounts and financial statements must be prepared for the Land Account</td>
</tr>
<tr>
<td></td>
<td>(d) subsection 50B(2) and (4) of the <em>Defence Service Homes Act 1918</em> in relation to how financial statements must be prepared by the Defence Service Homes Corporation, and</td>
</tr>
<tr>
<td></td>
<td>(e) subsection 43(1) and (3) of the <em>Natural Heritage Trust of Australia Act 1997</em> in relation to how financial statements must be prepared for the Natural Heritage Trust of Australia Account.</td>
</tr>
<tr>
<td></td>
<td>Some provisions of the FRR are made under subsection 102(1)(b) of the PGPA Act..</td>
</tr>
<tr>
<td><strong>For-profit entity</strong></td>
<td>Any entity that does not meet the definition of a NFP entity.</td>
</tr>
<tr>
<td><strong>General government sector (GGS)</strong></td>
<td>Institutional sector comprising all government units and non-profit institutions controlled and mainly financed by government (<em>Australian System of Government Finance Statistics</em>).</td>
</tr>
<tr>
<td><strong>Grants</strong></td>
<td><em>(in relation to accounting)</em> A payment made by a Commonwealth entity for the purpose of distributing government financial assistance to persons outside the public sector. Grants also include non-monetary distribution of benefits.</td>
</tr>
</tbody>
</table>
## Heritage and cultural asset

Are used for the community’s benefit and represent, in part, Australia’s cultural and historic background, and are primarily used for purposes that relate to their cultural, environmental or historical significance. Heritage and cultural assets do not include structures constructed to assist with the display, transport or storage of the item, unless the structure has such heritage value in its own right or is an integral part of the asset.

The asset definition and recognition criteria set out in AASB 116 Property, Plant and Equipment or AASB 138 Intangible Assets.

## Indefinite useful life

Where there is no foreseeable end to the period over which future economic benefits are expected to be generated by the asset for the entity. This does not mean the asset has an infinite useful life, but that the entity has the ability and intention to maintain the asset indefinitely in close approximation to its present state.

## International financial reporting standards

Set common rules so that financial statements can be consistent, transparent and comparable around the world.

## Key management personnel

As applied in AASB 124 Related Party Disclosure.

## Not-for-profit (NFP) entity

An organisation that is operating for its purpose and not for the profit or gain (either direct or indirect) of its individual members.

Commonwealth entities are not principally established to generate a profit. Therefore, by default Commonwealth entities are considered to be NFP.
<table>
<thead>
<tr>
<th><strong>An NFP entity</strong></th>
<th>can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls.</th>
</tr>
</thead>
</table>
| **Own-source income** | Consists of all income except:  
• annual appropriations  
• special appropriations and  
• amounts appropriated to the relevant portfolio entity for payment to the corporate Commonwealth entity (corporate Commonwealth entity payment item).  
It includes PGPA Act section 74 retained prescribed receipts and is adjusted for any repayments made under section 77 of the PGPA Act. |
| **Performance guarantee** | A guarantee of another entity’s performance of services to a third party, which may or may not create a financial obligation for the guarantor in the event of non-performance. A performance guarantee is not a financial guarantee (see section 60 of the PGPA Act). |
| **Personal benefit payments** | Current transfers for the benefit of individuals or households (e.g., child care and family tax benefits), directly or indirectly, that do not require any economic benefit to flow back to Government (see definition for transfer payments and ABS Government Financial Statistics Manual). |
| **Portfolio Budget Statements (PB Statements)** | Inform parliamentarians and the public of the proposed allocation of resources to government outcomes. They also assist the Senate standing committees with their examination of the government's Budget. The Statements are tabled in parliament on Budget night and published as budget-related papers. |
| **Primary financial statements** | The statement of comprehensive income, statement of financial position, statement of changes in equity and cash flow statement (excludes notes to the accounts and administered schedules—which are considered notes to the accounts) |
| **Public financial corporations** | Government controlled corporations and quasi-corporations mainly engaged in financial intermediation or provision of auxiliary financial services (see ABS Government Financial |
Statistics Manual and the *Flipchart of PGPA Act Commonwealth entities and companies*).

**Public non-financial corporations**

Resident government controlled corporations and quasi-corporations mainly engaged in the production of market goods and/or non-financial services (see ABS Government Financial Statistics Manual and the *Flipchart of PGPA Act Commonwealth entities and companies*).

**Recoverable GST exclusive**

The following amounts are excluded from any relevant amounts:

- GST on payments that is recoverable from the ATO
- GST received on taxable supplies that is payable to the ATO
- Payments to/refunds from the ATO of GST amounts.

**Regulatory charging activity**

Generally those activities where the government is seeking to control or influence behaviour, manage risk and/or protect the community. They usually involve an enforcement or compliance element and may not involve user discretion. Regulatory charging activities involve charging for part or all of the costs of the activity on a cost recovered basis. See Australian Government Charging Framework for further information.

**Reporting entity**

An applicable entity as defined in section 6(1) of the FRR (see Part 3 – Authoritative Requirements and Materiality) for which financial statements must be prepared.

**Reporting period**

A Commonwealth entity, a Commonwealth company, or a subsidiary of a Commonwealth entity or Commonwealth company, must produce reports within:

- the period of 12 months commencing on 1 July, or
- any other period prescribed by the rules for the entity, company or subsidiary.

**Resources received free of charge**

In the context of AASB 124, services received for no or nominal consideration that would otherwise have been purchased and can be reliably measured.
<table>
<thead>
<tr>
<th><strong>Responsible entity</strong></th>
<th>The entity named in the relevant legislation or if not named, the portfolio department, unless determined otherwise by the relevant Minister—see the latest Administrative Arrangement Orders.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Right-of-use (ROU) asset</strong></td>
<td>An asset that represents a lessee’s right to use an underlying asset for the lease term.</td>
</tr>
</tbody>
</table>
| **Special account** | A type of special appropriation, limited by amount, criteria or time, which may be established under sections 78 and 80 of the PGPA Act.  
A special account establishes a ledger, in law, that allows relevant money to be drawn from the Consolidated Revenue Fund for specified purposes, up to the special account's balance. It enables separate accounting to support an identified activity, including within a department. |
| **Special appropriation** | Authority within an Act (other than an annual Appropriation Act) to spend money from the CRF for particular purposes. The Social Security (Administration) Act 1999, for example, contains several special appropriations to make social security payments. Special appropriations support around 80 per cent of all government expenditure each year. |
| **Standard Parameters for use in Financial Statements** | A document containing specified rates and amounts to be used by an entity in the preparation of their financial statements. |
| **Statement of accounting concepts** | As issued by the AASB (or predecessor). |
| **Statutory charges** | Non-reciprocal charges imposed by government including, for example, taxes, fees and fines. |
| **Subsidies** | As defined in the Australian System of Government Finance Statistics (Australian Bureau of Statistics). |
| **Transaction price (for a contract with a customer)** | The amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. |
| **Transfer payments** | Payments that an entity does not control, but is responsible for transferring to eligible |
recipients, under legislation or some other authority, including:

(a) personal benefit payments such as unemployment benefits; family tax benefits and age and invalid pensions

(b) disaster relief

(c) grants and subsidies made to other entities.

### Appendix G: Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full title or term</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAO</td>
<td>Administrative Arrangements Order</td>
</tr>
<tr>
<td>AAS</td>
<td>Australian Accounting Standards</td>
</tr>
<tr>
<td>AASB</td>
<td>Australian Accounting Standards Board</td>
</tr>
<tr>
<td>AASB 5</td>
<td>AASB 5 Non-current Assets Held for Sale and Discontinued Operations</td>
</tr>
<tr>
<td>AASB 7</td>
<td>AASB 7 Financial Instruments: Disclosures</td>
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<tr>
<td>AASB 9</td>
<td>AASB 9 Financial Instruments</td>
</tr>
<tr>
<td>AASB 10</td>
<td>AASB 10 Consolidated Financial Statements</td>
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<td>AASB 13</td>
<td>AASB 13 Fair Value Measurement</td>
</tr>
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<td>AASB 15</td>
<td>AASB 15 - Revenue from Contracts with Customers</td>
</tr>
<tr>
<td>AASB 16</td>
<td>AASB 16 Leases</td>
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<td>AASB 101</td>
<td>AASB 101 Presentation of Financial Statements</td>
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<tr>
<td>AASB 107</td>
<td>AASB 107 Statement of Cash Flows</td>
</tr>
<tr>
<td>AASB 108</td>
<td>AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors</td>
</tr>
<tr>
<td>AASB 110</td>
<td>AASB 110 Events after the Reporting Period</td>
</tr>
<tr>
<td>AASB 116</td>
<td>AASB 116 Property, Plant and Equipment</td>
</tr>
<tr>
<td>AASB 117</td>
<td>AASB 117 Leases</td>
</tr>
<tr>
<td>AASB 119</td>
<td>AASB 119 Employee Benefits</td>
</tr>
<tr>
<td>Acronym</td>
<td>Full title or term</td>
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<td>------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>AASB 120</td>
<td>AASB 120 Accounting for Government Grants and Disclosure of Government Assistance</td>
</tr>
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<td>AASB 121</td>
<td>AASB 121 The Effects of Changes in Foreign Exchange Rates</td>
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<td>AASB 123</td>
<td>AASB 123 Borrowing Costs</td>
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<td>AASB 124</td>
<td>AASB 124 Related Party Disclosure</td>
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<td>AASB 136</td>
<td>AASB 136 Impairment of Assets</td>
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<tr>
<td>AASB 137</td>
<td>AASB 137 Provisions, Contingent Liabilities and Contingent Assets</td>
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<td>AASB 138</td>
<td>AASB 138 Intangible Assets</td>
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<td>AASB 139</td>
<td>AASB 139 Financial Instruments: Recognition and Measurement</td>
</tr>
<tr>
<td>AASB 1004</td>
<td>AASB 1004 - Contributions</td>
</tr>
<tr>
<td>AASB 1048</td>
<td>AASB 1048 Interpretation of Standards</td>
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<tr>
<td>AASB 1049</td>
<td>AASB 1049 Whole of Government and General Government Sector Financial Reporting</td>
</tr>
<tr>
<td>AASB 1050</td>
<td>AASB 1050 Administered Items</td>
</tr>
<tr>
<td>AASB 1051</td>
<td>AASB 1051 Land Under Roads</td>
</tr>
<tr>
<td>AASB 1052</td>
<td>AASB 1052 Disaggregated Disclosures</td>
</tr>
<tr>
<td>AASB 1053</td>
<td>AASB 1053 Application of Tiers of Australian Accounting Standards</td>
</tr>
<tr>
<td>AASB 1054</td>
<td>AASB 1054 Australian Additional Disclosures</td>
</tr>
<tr>
<td>AASB 1055</td>
<td>AASB 1055 Budgetary Reporting</td>
</tr>
<tr>
<td>Acronym</td>
<td>Full title or term</td>
</tr>
<tr>
<td>-----------------------</td>
<td>-----------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>AASB 1058</td>
<td>AASB 1058 Income of Not-for-Profit Entities</td>
</tr>
<tr>
<td>AASB 2016-8</td>
<td>AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities</td>
</tr>
<tr>
<td>AASB Framework</td>
<td>AASB Framework for the Preparation and Presentation of Financial Statements</td>
</tr>
<tr>
<td>AASB Interpretation 1038</td>
<td>AASB Interpretation 1038 Contributions by Owners made to Wholly-Owned Public Sector Entities</td>
</tr>
<tr>
<td>AFM</td>
<td>Advance to the Finance Minister</td>
</tr>
<tr>
<td>ANAO</td>
<td>Australian National Audit Office</td>
</tr>
<tr>
<td>APS</td>
<td>Australian Public Service</td>
</tr>
<tr>
<td>ATO</td>
<td>Australian Taxation Office</td>
</tr>
<tr>
<td>Aus</td>
<td>Australia (to reference paragraphs in the AAS or AASB interpretations)</td>
</tr>
<tr>
<td>CBMS</td>
<td>Central Budget Management System</td>
</tr>
<tr>
<td>CDAB</td>
<td>Collection Development Acquisition Budgets</td>
</tr>
<tr>
<td>CFO</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td>CFS</td>
<td>Consolidated Financial Statements (for the Australian Government)</td>
</tr>
<tr>
<td>CI</td>
<td>Collection Institutions</td>
</tr>
<tr>
<td>CRF</td>
<td>Consolidated Revenue Fund</td>
</tr>
<tr>
<td>CSS</td>
<td>Commonwealth Superannuation Scheme</td>
</tr>
<tr>
<td>Acronym</td>
<td>Full title or term</td>
</tr>
<tr>
<td>---------</td>
<td>-------------------</td>
</tr>
<tr>
<td>Entities</td>
<td>Commonwealth entities as defined by the <em>Public Governance, Performance and Accountability Act 2013</em></td>
</tr>
<tr>
<td>EM</td>
<td>Estimates memorandum</td>
</tr>
<tr>
<td>Finance</td>
<td>Department of Finance</td>
</tr>
<tr>
<td>Finance Minister</td>
<td>Minister for Finance</td>
</tr>
<tr>
<td>FRR</td>
<td><em>Public Governance, Performance and Accountability (Financial Reporting) Rule 2015</em></td>
</tr>
<tr>
<td>FTE</td>
<td>Full-time equivalent</td>
</tr>
<tr>
<td>FVTPL</td>
<td>Fair value through profit and loss</td>
</tr>
<tr>
<td>GGS</td>
<td>General government sector</td>
</tr>
<tr>
<td>GST</td>
<td>Goods and Services Tax</td>
</tr>
<tr>
<td>Interpretation 1031</td>
<td><em>Interpretation 1031 Accounting for the Goods and Services Tax (GST)</em></td>
</tr>
<tr>
<td>KMP</td>
<td>Key management personnel</td>
</tr>
<tr>
<td>LSL</td>
<td>Long service leave</td>
</tr>
<tr>
<td>MoG</td>
<td>Machinery of Government</td>
</tr>
<tr>
<td>MSBS</td>
<td>Military Superannuation and Benefits Scheme</td>
</tr>
<tr>
<td>NCE</td>
<td>Non-corporate Commonwealth entity</td>
</tr>
<tr>
<td>OPA</td>
<td>Official Public Account</td>
</tr>
<tr>
<td>PAES</td>
<td>Portfolio Additional Estimates Statements</td>
</tr>
<tr>
<td>PB Statements</td>
<td>Portfolio Budget Statements</td>
</tr>
<tr>
<td>Acronym</td>
<td>Full title or term</td>
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<tr>
<td>PGPA Act</td>
<td><em>Public Governance, Performance and Accountability Act 2013</em></td>
</tr>
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<td>PGPA Rule</td>
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<tr>
<td>PPE</td>
<td>Property, plant and equipment</td>
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<td>PRIMA</td>
<td>Primary Reporting and Information Management Aid</td>
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<td>PRIMA forms of financial statements</td>
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<td>PS Act</td>
<td>Public Service Act 1999</td>
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<td>PSS</td>
<td>Public Sector Superannuation Scheme</td>
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<td>PSSap</td>
<td>Public Sector Superannuation accumulation plan</td>
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<td>ROU asset</td>
<td>Right-of-use asset (see Appendix A of AASB 16)</td>
</tr>
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<td>SAC 1</td>
<td><em>Statement of Accounting Concepts (SAC 1) - Definition of the Reporting Entity</em></td>
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<td>SoR</td>
<td><em>Statement of Risk</em></td>
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<tr>
<td>SRP</td>
<td>Supplementary Reporting Pack</td>
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