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The words ‘must’, ‘required’, ‘requires’ and ‘requiring’ denote mandatory compliance by accountable authorities/officials. The use of the words ‘could’, ‘may’, ‘encouraged’ or ‘consider’ convey non-mandatory guidance. The guidance to which these words relate may or may not be applied by accountable authorities/officials in their approach to resource management, depending on the operating circumstances of the entity and its appetite for risk.
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Audience


Key points

- All Commonwealth entities are required to prepare annual financial statements, by either the Public Governance, Performance and Accountability Act 2013 (PGPA Act) or by other legislation that establishes particular entities.

- All Commonwealth reporting entities are required to prepare their financial statements in accordance with the FRR and Australian Accounting Standards (AAS).

- From 2016-17, tiered reporting arrangements were adopted for general-purpose financial statements for most reporting entities. Primary Financial statements and supporting notes will continue to be prepared and audited, but Tier 2 reporting entities are able to reduce the disclosure of certain technical information to shorten the length of statements and enhance readability of the financial statements.

- Although the Tier 2 reporting entities are required to prepare a minimum set of disclosures, some Tier 2 reporting entities are required to include additional information for specific notes or full disclosure. This requirement is specified in the FRR (section18).

- Tier 2 reporting entities are required to ensure that their financial statements disclose all relevant material information (AASB 1053 paragraph 16).

- This guide:
  - Assists reporting entities to comply with AAS and the FRR;
  - Provides information relevant to the preparation of annual financial statements (e.g. definitions, rounding and materiality policies);
  - Provides information relevant to the specific requirements of the FRR, including disclosure of individual remuneration for senior executives of reporting entities and other additional disclosures not covered by AAS;
  - For consistency, explains accounting treatment mandated by the FRR where AAS allows a choice (e.g. use of the valuation method for material property, plant and equipment and administered disclosures).

- The Department of Finance has also produced the Primary Reporting and Information Management Aid (PRIMA Forms) to assist entities to prepare financial statements.

- Entities preparing financial statements need to apply professional judgement to ensure financial statements present fairly the entity's financial position, financial performance and cash flows.
• All annual financial statements must be subject to an independent auditor’s report by the Australian National Audit Office (ANAO), an assessment of whether the financial statements of an entity have been prepared in accordance with the FRR and AAS.

Replaces:
Resource Management Guide No. 125 March 2018

Resources

This guide is available on the Department of Finance website at www.finance.gov.au.

Relevant publications include:

• Public Governance, Performance and Accountability Act 2013;


• Certain entities may also need to reference other legislative requirements (e.g. High Court of Australia Act 1979 and Aboriginal and Torres Strait Islander Act 2005).

• Additional references include:
  • Financial reporting and accounting policy homepage (incl. Standard Parameters for use in Financial Statements and PRIMA on the Finance website);
  • Australian Accounting Standards issued by the Australian Accounting Standards Board (AASB);
  • AASB Interpretations;
  • AASB Framework for the Preparation and Presentation of Financial Statements;
  • Statement of Accounting Concepts (SAC) 1;
  • Objective of General Purpose Financial Reporting (SAC) 2;
  • Finance Resource Management Guides;
  • Estimates Memoranda issued by Finance;
  • Australian System of Government Finance Statistics (Australian Bureau of Statistics);
  • Requirements for Annual Reports issued by the Department of Finance;
  • Implementing Machinery of Government Changes: A Good Practice Guide (Australian Public Service Commission); and
  • Finance position papers
Introduction

1. The guide:
   - will not duplicate or re-state accounting standards;
   - is not a “training tool”;
   - aligns with PRIMA for ease of use; and
   - is written as close to “plain English” as is feasible for a technical document.

2. The guide is not a step-by-step “how-to” guide for preparing financial statements, but rather aims to explain the reporting requirements provided in the FRR. This guide includes:
   - extracts of relevant legislative requirements from the FRR; and
   - additional ‘guidance’ paragraphs to assist in applying the FRR and supporting policies.

3. Extracts from the FRR are clearly marked in greyed out boxes in this guide and the guidance paragraphs appear as paragraphs outside the grey boxes.

4. The content of the guide is as follows:
   - guidance on the application of AAS in a public sector context including changes applicable in the current reporting period;
   - general information relevant to the development of financial reports (e.g. definitions, rounding and materiality policies);
   - additional disclosures specific to the public sector not covered by AAS; and
   - statement of the option to apply where AAS provide choice.

5. The structure of the guide follows these conventions:
   - major components are parts, denoted by a black shaded heading; and
   - parts are broken into headings, sub-headings and paragraphs denoted by a number. Headings are separately identified in the contents page.
Part 1 – Introduction

Overview

Part 1 sets out the purpose, authority and structure of this guide and assists entities by providing references to further information. Part 1 comprises the following:

Chapter 1: Legislative Authority – outlines how the Financial Reporting Rule (FRR) applies to Commonwealth entities subject to the Public Governance, Performance and Accountability Act 2013 (PGPA Act) and other Commonwealth entities who are not subject to the PGPA Act; and


Legislative Authority

Extract from Public Governance, Performance and Accountability (Financial Reporting) Rule 2015

3 Authority

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

(2) For reporting periods ending on or after 1 July 2018, 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.

Financial Reporting Rule

6. The purpose of setting out common financial reporting requirements for all reporting entities is to promote consistency in financial reporting across the Commonwealth to facilitate comparison between entities’ financial statements, assist the preparation and auditing process and allow for the preparation of the Australian Government’s Consolidated Financial Statements (CFS) as required under the PGPA Act.
Financial Reporting Requirements

General

7. Consistent with paragraph 15 of AASB 101 *Presentation of Financial Statements*, entities are responsible for the information presented in those statements so as to present fairly the entity’s financial position, financial performance and cash flows.

The Australian Government Financial Reporting Framework (Annual Reporting)

8. The FRR sets out the financial reporting requirements for reporting entities to provide for consistency in the preparation of financial statements across the Commonwealth and to enable the preparation of the Australian Government CFS.

9. This guide, developed to support the FRR, provides guidance to assist the preparers of financial statements. Users need to be familiar with the requirements of AAS and how to apply them.

10. The *Public Governance, Performance and Accountability Act 2013* (PGPA Act), the FRR and AAS provide the legislative authority for entities to prepare their annual (general purpose) financial statements. The Independent Auditor’s Report, issued by the ANAO, is an assessment of whether the financial statements of an entity have been prepared in accordance with the FRR and AAS.

11. From 2016-17, Tiers of AAS apply for most reporting entities in preparing their financial statements. Although Tier 2 reporting requires minimum reporting, entities must comply with reporting requirements in the CFS Supplementary Reporting Pack (SRP). The CFO of the entity must certify that the information is based on properly maintained financial records as per subsection 41(2) of the PGPA Act, to provide assurance on the completeness and accuracy of the information. Entities are also required to comply with end of year financial reporting requirements outlined in relevant Estimates Memorandum issued by Finance.

Professional judgement

12. If a reporting entity encounters an issue that requires professional judgement (e.g. whether reclassification of a comparative amount is impracticable as per AASB 101 *Presentation of Financial Statements*), the reporting entity is encouraged to develop a formal position on the issue and inform their auditors as early as possible.

13. Preparers of reporting entity financial statements are encouraged to apply professional judgement when preparing their financial statements.

Cross referencing

14. Each disclosure required by this guide must be cross-referenced with other relevant notes, and/or schedules in accordance with the requirements of AAS (e.g. paragraph 113 of AASB 101 *Presentation of Financial Statements*). Any other cross-referencing is required to be included where it provides useful additional information.
Consolidated accounts

15. The financial report of an entity must encompass all entities controlled by the entity and must be accounted for in accordance with the consolidation standard AASB 10 Consolidated Financial Statements. Subsidiaries of the entity must be consolidated to present the financial performance and position of the consolidated entity.

Comparatives

16. Comparatives must be disclosed for the reporting period unless specified elsewhere in the FRR or an applicable AAS (e.g., AASB 1055 Budgetary Reporting). This includes narrative information if it is relevant to the understanding of the financial statements.

17. If the presentation or classification of items is amended, comparatives must be re-presented or reclassified unless it is impracticable and the nature and amount of, and reason for, the re-presentation or reclassification must be disclosed.

18. For entities that have switched from non-corporate to corporate, administered comparatives 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.

Events after the Reporting Period

19. AASB 110 Events after the Reporting Period 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.

20. If an entity receives information after the reporting date about conditions that existed at the reporting date, it shall update disclosures that relate to those conditions, in light of the new information.

21. If non-adjusting events after the reporting date are material, non-disclosure could influence the economic decisions of users taken on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting date:

• the nature of the event; and
• an estimate of its financial effect, or a statement that such an estimate cannot be made.

New accounting standards impact disclosure

22. Although Tier 2 entities are not required to disclose in their own financial statements the impact caused by any new accounting standards that have been issued by the Australian Accounting Standards Board (AASB) but are not yet effective, the impact will be required for CFS purposes. The information required for CFS will be specified in the SRP.
Net cost of services vs profit or loss

23. Where not restricted by AAS, all references to the AASB's 'Profit or Loss' have been replaced by 'Net Cost of Services' (or 'surplus or deficit') in PRIMA to better reflect the operating environment and reporting format adopted by not-for-profit Commonwealth entities. For-profit Commonwealth entities need to adjust the disclosure to reflect their circumstances.

Part 2 – Definitions and Abbreviations

Overview

Part 2 defines key terms and abbreviations used throughout this document.

Definitions

**Accountable Authority**
Each Commonwealth reporting entity has an accountable authority as defined in section 12 of the PGPA Act.

**Administrative Arrangements Order (AAO)**
The AAO, issued from time to time by the Governor-General, establishes the matters to be dealt with by each Department of State, and the Acts of Parliament to be administered by each Minister.

**Administered Investments**
An administered investment is defined for the purpose of this guide as an interest by the Australian Government in a subsidiary, associate or joint operation or joint venture that is disclosed in the financial statements of an entity on behalf of the Australian Government.

**Administered**
Those items that an entity does not control but over which it has management responsibility on behalf of the Government and which are subject to prescriptive rules or conditions established by legislation, or Australian Government policy, in order to achieve Australian Government outcomes. Typical examples include taxes, levies and fines plus grants, subsidies and personal benefit payments.

Refer to Part 3 - *Departmental and Administered: Classification and Reporting* for further information.

**Appropriation**
For the purposes of this guide, an authority under any Act or law to draw money from the Consolidated Revenue Fund (CRF), whether or not the law concerned used the word appropriation or appropriated.

**Australian Accounting Standards (AAS)**
AAS are released by the *Australian Accounting Standards Board* (AASB).
**Australian Government**

All Commonwealth entities and Commonwealth companies, as defined by the PGPA Act, and their subsidiaries. The Australian Government also includes the High Court of Australia and the Future Fund Board of Guardians.

**Authority**

The legal authority (whether express or implied) to exercise a power or function that can be given directly through legislation (e.g., Accountable Authorities’ powers under section 23 of the PGPA Act).

**Collection Development Acquisition Budget (CDAB)**

Funding provided to Designated Collection Institutions to allow them to grow and develop their heritage and cultural asset collections, rather than for asset replacement. CDAB is provided as an equity injection through Appropriation Act (No. 2/4/6) and recognised as contributions of equity in the entity’s accounts.

**Commitments**

Commitments are defined as:

(a) intentions to create liabilities or assets for the receiving entity, as evidenced by undertakings or agreements to make/obtain future payments to/from other entities; and

(b) are executory contracts that are not recognised under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* (i.e., not onerous); but

(c) do not include future appropriations.

**Commonwealth**

The legal entity of the Commonwealth of Australia, created by the Australian Constitution.

**Commonwealth Entities**

As defined in subsection 10 and section 11 of the PGPA Act.

**Concessional Loan**

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 CFS for the Australian Government are the annual, end-of-year financial statements prepared under section 48 of the PGPA Act and in accordance with AAS. The CFS present the consolidated results for the Australian Government as well as disaggregated information on the various sectors of government (General Government Sector (GGS), Public Non-Financial Corporations (PNFCs) and Public Financial Corporations (PFCs)).
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

As defined in Resource Management Guide 304 – Australian Government Cost Recovery Guidelines. (See also Regulatory charging activity)

Departmental

Those items that the entity has control over. They include the ordinary operating costs and associated funding of Commonwealth entities, and typically include salaries, accruing employee entitlements and operational expenses including depreciation.

Refer to Part 3 - Departmental and Administered: Classification and Reporting for further information.

Departmental Capital Budget (DCB)

Funding provided to prescribed non-corporate Commonwealth entities to meet the costs associated with the replacement of minor assets (valued at $10 million or less) as well as costs that are eligible to be capitalised, the capital repayment component of finance leases and make good costs. DCB is provided as an equity injection through Appropriation Act (No. 1/3/5) and recognised as contributions of equity in the entity’s accounts.

Departmental supplementation

Supplementation for work 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.

Designated Collection Institution

An entity whose primary function and/or primary purpose under their enabling legislation is to develop and maintain collections of heritage and cultural assets. See Part 10 – Net Cash Appropriation Arrangements.
Employee

An individual who renders personal services to an entity and is either regarded as an employee for legal or tax purposes, works for an entity under the direction of the entity in the same way as an individual who is regarded as an employee for legal or tax purposes, or renders services in a similar way to individuals regarded as employees for legal or tax purposes.

(derived from Appendix A of AASB 2 Share-based Payment)

Finance Minister

Minister for Finance.

Financial Report/Statements

Comprises:

(a) the primary financial statements, schedules and notes required by the FRR and this guide; and

(b) other certificates, reports and notes which are:

(i) prepared in relation to the non-corporate or corporate entity (where the entity is a parent entity, the economic entity comprising the non-corporate or corporate entity and its subsidiaries); and

(ii) attached to or intended to be read with the statements and notes in (a);

but not including the:

(i) auditor’s report;

(ii) annual report; or

(iii) additional supplementary information that is not audited.

Financial report as used in this guide is taken to have the same meaning as the term financial statements applied in the PGPA Act.

For-Profit Entity

Any entity that does not meet the definition of a not-for-profit entity.

General Government Sector

Institutional sector comprising all government units and non-profit institutions controlled and mainly financed by government.

(Australian System of Government Finance Statistics)
| **Grants (from Government)** | Contributions of Government resources to or from a unit of Government for specific or general purposes where there is no expectation that the amount will be repaid in equal value, either by money or goods/services. Grants can take the form of money, property or technical assistance and subsidies.  
(See also paragraph 3 of AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*) |
|-----------------------------|---------------------------------------------------------------------------------------------------|
| **Heritage and Cultural Assets** | Assets that are:  
(a) used for the community’s benefit;  
(b) represent, in part, Australia’s cultural and historic background; and  
(c) 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. |
| **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. |
| **Not-For-Profit Entity (NFP Entity)** | AASB 102 *Inventories* defines a NFP entity as an entity whose principle objective is not the generation of profit. 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. |
| **Own-Source Income** | Consists of all income except:  
(a) annual appropriations;  
(b) special appropriations; and  
(c) 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 PGPA Act section 77. |
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.

Personal Benefit Payments

Current transfers for the benefit of individuals or households (for example, child care and family tax benefits), directly or indirectly, that do not require any economic benefit to flow back to Government. See also definition of ‘Transfer Payments’.

PRIMA

Primary Reporting and Information Management Aid (PRIMA).

Primary Financial Statements

The statement of comprehensive income, statement of financial position, statement of changes in equity and cash flow statement.

Public Financial Corporations

Comprises government controlled corporations and quasi-corporations mainly engaged in financial intermediation or provision of auxiliary financial services. These entities are listed in the flipchart of PGPA Act Commonwealth entities and companies available from Finance’s website.

Public Non-Financial Corporations

Comprises government controlled corporations and quasi-corporations mainly engaged in the production of market goods and/or non-financial services. These entities are listed in the flipchart of PGPA Act Commonwealth entities and companies available from Finance’s website.

Recoverable GST exclusive

Means that the following amounts are excluded from any relevant amounts:

(a) GST on payments that is recoverable from the ATO;

(b) GST received on taxable supplies that is payable to the ATO; and

(c) payments to/refunds from the ATO of GST amounts.

Refer to Part 9 - Appropriations – General Requirements and Part 10 - Special Accounts.

Regulatory charging activity

Regulatory charging activities are 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 RMG 302 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.

**Resources Received Free of Charge**

Goods or services received for no or nominal consideration that would otherwise have been purchased and can be reliably measured.

**Responsible entity**

The entity named in the relevant legislation or if not named, the portfolio department, unless determined otherwise by the relevant Minister. Please also refer to the latest *Administrative Arrangement Orders* for further information.

**Standard Parameters**

A document containing specified rates and amounts to be used by an entity in the preparation of their financial statements. It is available from Finance’s [website](#).

**Statutory charges**

Non-reciprocal charges imposed by Government.

**Subsidies**


**Transfer Payments**

Payments that an entity does not control, but is responsible for transferring to eligible recipients (under legislation or some other authority). Transfer payments may include:

(a) personal benefit payments such as:

   (i) unemployment benefits;

   (ii) family tax benefit; and

   (iii) age and invalid pensions;

(b) disaster relief; and

(c) grants and subsidies made to other entities.
AASB glossary

24. Subject to key terms defined in this topic, all other key terms have the same definition as specified in the ‘AASB Glossary of Defined Terms’ issued by the AASB as updated from time to time.

Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AAO</td>
<td>Administrative Arrangements Order</td>
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<td>AAS</td>
<td>Australian Accounting Standards (issued by the AASB or its predecessor bodies)</td>
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<tr>
<td>AASB</td>
<td>The Australian Accounting Standards Board established under the Australian Securities and Investments Commission Act 2001, or the AAS issued by the Board, as the case requires.</td>
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<tr>
<td>AFM</td>
<td>Advance to the Finance Minister</td>
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<tr>
<td>ANAO</td>
<td>Australian National Audit Office</td>
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<tr>
<td>APS</td>
<td>Australian Public Sector (or Service)</td>
</tr>
<tr>
<td>ATO</td>
<td>Australian Taxation Office</td>
</tr>
<tr>
<td>Aus</td>
<td>Paragraphs in the AAS or AASB Interpretations that do not appear in the text of the IASB Framework or Standards are identified with the prefix Aus, followed by the number of the relevant AASB paragraph.</td>
</tr>
<tr>
<td>CFO</td>
<td>Chief Financial Officer or Chief Finance Officer</td>
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<td>CFS</td>
<td>Consolidated Financial Statements (for the Australian Government)</td>
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<td>CRF</td>
<td>Consolidated Revenue Fund</td>
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<td>CSS</td>
<td>Commonwealth Superannuation Scheme</td>
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<tr>
<td>EM</td>
<td>Estimates Memorandum</td>
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<tr>
<td>Finance</td>
<td>Department of Finance</td>
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<tr>
<td>FRR</td>
<td>The Financial Reporting Rule, made under the Public Governance, Performance and Accountability Act 2013, setting out the requirements for the preparation of financial statements under:</td>
</tr>
<tr>
<td></td>
<td>(a) subsection 42(2) of the Public Governance, Performance and Accountability Act 2013;</td>
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<td></td>
<td>(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;</td>
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<td>(c) subsection 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;</td>
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<td></td>
<td>(d) subsection 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</td>
</tr>
</tbody>
</table>
(e) subsection 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.

Some provisions of the Financial Reporting Rule are made under subsection 102(1)(b) of the *Public Governance, Performance and Accountability Act 2013*.

**FTE**
Full-time Equivalent

**FVTPL**
Fair Value Through Profit and Loss

**GFS**

**GGS**
General Government Sector

**GST**
Goods and Services Tax

**KMP**
Key management personnel

**LSL**
Long Service Leave

**MSBS**
Military Superannuation and Benefits Scheme

**OPA**
Official Public Account

**PFC**
Public Financial Corporation

**PGPA Act**
*Public Governance, Performance and Accountability Act 2013*

**PGPA Rule**
*Public Governance, Performance and Accountability Rule 2014*

**PNFC**
Public Non-Financial Corporation

**PRIMA Forms**
PRIMA Forms of Financial Statements. PRIMA Forms assist Commonwealth reporting entities in preparing financial statements.

**PS Act**
*Public Service Act 1999*

**PSS**
Public Sector Superannuation Scheme

**PSSap**
Public Sector Superannuation accumulation plan

**SAC**
Statement of Accounting Concepts issued by the *AASB* (or predecessor)
Part 3 – Application and Presentation

Overview

Part 3 outlines how this guide assist entities to meet requirements for particular aspects of presentation under the FRR and AAS.

Applicable Entities

Extract from Public Governance, Performance and Accountability (Financial Reporting) Rule 2015

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 Entity and Not-For-Profit Entity

25. Under paragraph 8 of AASB 1054 Australian Additional Disclosures, an entity is required to disclose whether it is a for-profit or a not-for-profit entity.

26. The distinction between for-profit and not-for-profit (NFP) entities is significant as it has implications for the accounting policies which an entity can adopt.

27. Commonwealth entities are not principally established to generate a profit. Therefore, by default Commonwealth entities are considered to be NFP. The onus is on an entity to make the case to be classified as a for-profit entity.

28. The primary indication that an entity is NFP would be the statements about the objectives of the entity (for example, if the legislation, regulations or constitution of the entity explicitly states that the ‘principal’, ‘main’ or ‘sole’ objective of the entity is other than the generation of a profit, then there is a presumption that the entity is NFP).

29. The five secondary criteria outlined below assist in classifying entities as for-profit or NFP in situations where the principal objective is not explicitly stated:
   - Nature of funding;
• Whether financial targets of the entity reflect profit concepts or an objective to be commercially successful;
• Whether the entity has an obligation to pay income tax or income tax equivalents;
• Whether the entity intends to distribute a surplus; and/or
• GFS Classification.

Authoritative Requirements and Materiality

Extract from *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*

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.

Materiality

30. Unless otherwise stated in the FRR or the applicable AAS, all disclosures are subject to materiality. In addition to the requirements of this topic, entities need to disclose information required by the following parts of this guide, regardless of materiality:

• Part 9 Appropriations; and

• Part 10 Other Disclosures - Special Accounts;

31. The requirements of the FRR apply where information resulting from their application is material. This guide requires the same materiality consideration as applies elsewhere to financial statements and disclosures.

32. Assessments of materiality are required to be performed at the level of the entity preparing the financial statements, not GGS or whole-of-government level.

33. Entities need to be aware that auditors will determine their own level of materiality in accordance with the auditing standards made by the Auditor General under the *Auditor-General Act 1997*.

34. Generally, transactions and items need to be considered in context of an appropriate measurement base (unless an item is deemed to be material by this guide). An appropriate measurement base could be all items in the financial statements, relative items, or classes of items. For example:

• 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; and

- statement of comprehensive income items could be assessed against total own-source revenue and total expense figures.

35. Professional judgement is critical to this assessment process.

**PRIMA Forms**

**General**

36. The PRIMA Forms of Financial Statements (PRIMA Forms) detail the common disclosures required in financial statements of reporting entities, in accordance with the FRR and AAS. The Department of Finance produces PRIMA Forms to enable reporting entities to prepare financial statements.

37. Reporting entities are encouraged to follow the overall format and structure of PRIMA Forms to prepare financial statements. However, the use of PRIMA Forms is non mandatory and entities are encouraged to use professional judgement to modify disclosures to best suit the circumstances of their entity, including the needs of users. The use of PRIMA Forms will aid entities in meeting appropriate disclosures in the financial statements and related notes as per the FRR and AAS.

38. 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 would need to modify their disclosures accordingly.

39. The information disclosures contained in PRIMA Forms present the common information required to be reported and disclosed by reporting entities. Entities can disclose additional information as deemed relevant in helping users understand the information presented. Reporting entities can modify PRIMA Forms to suit their and users’ needs as follows:

- include further disclosures as they deem appropriate to meet their stakeholders’ information needs and be reflective of their operations. Any additional information or further disclosures must not contravene AAS;

- exclude components of the PRIMA Forms that are not relevant to their operations or where no activity in either the current or previous financial reporting period has taken place, unless inclusion is mandatory under another part of this guide;

- alter or amend the numbering of notes to the financial statements as set out within the PRIMA Forms to ensure the contextual and logical flow of information for stakeholders;

- alter the format such as changes to font (e.g., size and use of italics), using graphs and tables to communicate key results, movements or variances, and altering the orientation of a table from portrait to landscape or vice versa.

- aggregate line items that are not material; and
• amend disclosures such that they reflect the nature of the entity, its activities, financial results and position as at the reporting date.

40. Reporting entities are also encouraged to use professional judgement and apply the following principles to improve their presentation of their financial statements:

• use the primary statements rather than the notes (e.g., an entity might not want to include information in a note if the note simply restates information from the primary statements);

• consider the format of note disclosures, particularly the formatting of tables to make information more understandable;

• review the Overview (the Summary of Significant Accounting Policies note has been renamed as the ‘Overview’ note in PRIMA Forms) to ensure that the note does not contain unnecessary information or simply repeat accounting standard information. The note needs to explain how the requirements relate to the entity; and

• remove information that is not material.

• provide information/disclosure to support the CFS where it is required by Finance at the time and in the format requested.

41. Where appropriate, entities may wish to discuss the above principles with their auditors when preparing the entity’s financial statements.

42. PRIMA Forms is only intended to cover common AAS disclosure requirements for reporting entities. PRIMA Forms does not cover disclosures for the entire set of AAS, AASB Interpretations or other reporting obligations (e.g. Corporations Act 2001).

Tier 1 and Tier 2 information in this guide

43. This guide contains information that may only be relevant to Tier 1 Reporting entities.

Other Reporting Requirements

General

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

• Statement of Accounting Concepts (SAC) 1 Definition of the Reporting Entity;

• Interpretations issued by the AASB;

• The AASB Framework for the Preparation and Presentation of Financial Statements; and

• Other guidance issued by Finance relevant to the preparation of financial statements.

45. The principles contained in the above relevant documents, although not set out explicitly in the FRR, are of such importance that they need to be considered in the financial reporting preparation process.
46. Reporting entities are required to demonstrate, if required, that they have considered the principles outlined in the above documents, provided them due weight, and determined their situation. Entities are required to document their reasoning for discussion with their auditors.

**SAC and Framework for the Preparation and Presentation of Financial Statements**

47. By themselves the SAC and the Framework for the Preparation and Presentation of Financial Statements are not mandatory in the preparation or presentation of a reporting entity’s financial statements. The SAC and the Framework are sources of guidance to which entities may make reference if there is no AAS or Interpretation (refer to AASB 1048 *Interpretation of Standards*) dealing with an accounting treatment or disclosure issue.

**Changes in accounting policies**

48. Each change in accounting policy must be disclosed separately in the financial statements.

**Accounting estimates**

49. The process for making accounting estimates involves best estimates based on the latest information available. As a result of the uncertainties inherent in business and other activities, many items cannot be measured precisely but can only be estimated. An entity is encouraged to document the basis for any accounting estimate (e.g., judgements, assumptions, data sources and sensitivity analysis) and, where relevant (e.g., fair value), the application of methodologies provided for in AAS.

**Retention and Maintenance of Accounting Records**

**General**

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

51. Proper accounting records of all transactions must be maintained in accordance with applicable legal requirements, which in addition to the above requirement include:
   - sections 9 and 12 of the *Electronic Transactions Act 1999*; and
   - section 24 of the *Archives Act 1983*. 
Application of Tiers of Australian Accounting Standards

Extract from Public Governance, Performance and Accountability (Financial Reporting) Rule 2015

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).

[subsection (2) and (3): refer to the Appendix 2 – subsection 18 (2) and (3) of the FRR]

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.

(4) 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.

Application of Tiers

52. As per subsection 18(4) of the FRR, entities must make available to the Department of Finance any information that is not reported in their financial statements but is required for the purpose of preparing the Australian Government CFS. Entities are required under subsection 18(5) to ensure that, where directed, any additional information that is provided has first been subject to a quality assurance process including similar governance processes adopted for preparing entity financial statements.

53. Section 18 of AASB 1053 explains that reporting entities which are able to apply Tier 2 reporting requirements, may elect to apply Tier 1 reporting requirements or include additional disclosures using Tier 1 reporting requirements as a guide if, in their
judgement, such additional disclosures are consistent with the objective of general purpose financial statements.

54. Subsection 18(1) of the FRR enables Commonwealth entities not listed in subsections 18(2) and 18(3), to prepare financial statement disclosures that meet the minimum requirements for disclosure under the relevant accounting standards.

55. Tier 2 entities should make a statement in their notes about their compliance with Australian Accounting Standards - Reduced Disclosure Requirements (as required by AASB 1054 RDR7.1). This would include those entities listed in the FRR that prepare some disclosure notes above the minimum required.

56. Those Commonwealth entities required to prepare disclosure notes using Tier 1 disclosure requirements, under the relevant the accounting standards, are listed in subsection 18(2) and subsection 18(3) of the FRR.

**Early adoption of Accounting Pronouncements**

<table>
<thead>
<tr>
<th>Extract from Public Governance, Performance and Accountability (Financial Reporting) Rule 2015</th>
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</thead>
<tbody>
<tr>
<td>19 Early adoption of accounting pronouncements</td>
</tr>
<tr>
<td>(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.</td>
</tr>
<tr>
<td>(2) The accountable authority of the Department of Finance may instruct one or more entities to early adopt an AAS or AASB Interpretation.</td>
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</tbody>
</table>

57. Entities must seek approval from the accountable authority of the Department of Finance for early adoption of a new AAS or AASB Interpretation due to the potential effect on the preparation of the CFS.

**Rounding Off**

**General rounding rules**

58. Subject to the exceptions listed below, amounts in the financial statements may be rounded off as follows:

- to the nearest dollar;

- where a reporting entity has assets, liabilities, expenses, income, commitments or contingencies in excess of $10 million, to the nearest $1,000, or if less than $500, rounded to zero; or

- where a reporting entity has assets, liabilities, expenses, income, commitments or contingencies in excess of $1 billion, to the nearest $1 million, unless the amount is less than $500,000, in which case the amount needs to be rounded to zero.

59. Subject to the exceptions listed below, the rounding thresholds listed above:
• may be applied separately for departmental and administered reporting; and
• need to be consistently applied within departmental and administered reporting regardless of whether rounding is different between departmental and administered disclosures.

Exceptions to the general rounding rules

60. For Part 9 Appropriations, Part 10 Special Accounts and Reporting of Outcomes, the following guidelines apply:

• they are not to be rounded to the nearest $1 million; and
• rounding needs to be consistent between departmental and administered reporting (where the application of the above paragraph results in different levels of rounding to departmental and administered reporting, the lower level of rounding needs to be applied).

Rounding Off

61. The level of rounding needs to be prominently displayed and repeated so that a proper understanding of the information presented can be attained.

62. These rounding provisions apply only to the preparation of financial statements and not to supporting accounting records.

63. Materiality needs to be considered prior to rounding to ensure rounding does not affect whether or not the item is considered material.

64. Where the following items are disclosed as a nil balance due to rounding, that fact needs to be disclosed:

• Appropriations under Part 9; and
• Special Accounts under Part 10.
Certificates and Assurance

Extract from Public Governance, Performance and Accountability (Financial Reporting) Rule 2015

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.

Certification

65. The accountable authority may state ‘signed for and on behalf of and in accordance with a resolution of the directors’.

66. An entity is required to disclose additional information as necessary so as 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.

Non-corporate Commonwealth entities and payment of debts

67. Under section 15 of the PGPA Act, the accountable authority of a Commonwealth entity is responsible for the overall financial management of the entity, including the proper use and management of public resources in a way that promotes the financial sustainability of the entity (i.e., managing the risks, obligations and opportunities of the entity).

68. It is not necessary that a non-corporate Commonwealth entity continue in its current form to enable a statement to be made about payment of debts. If the non-corporate Commonwealth entity is abolished or substantially restructured, an alternate entity would be responsible for paying remaining debts.
Departmental and Administered: Classification and Reporting

Extract from *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*

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.

General

69. Corporate entities are legally separate from the Commonwealth. As such, corporate entities have control of all of their assets and liabilities, income received and expenses incurred and therefore undertake departmental reporting only.

70. Departmental appropriations provide money for the annual operating cost of entities. Administered appropriations items are those administered by the entities on behalf of the Government. RMG 100 *Guide to appropriations* and EM 2012/41 *Classification of Administered and Departmental Items* provide guidance on categories of appropriations and the criteria for classifying expenditure.

Reclassification between Departmental and Administered items

71. The reclassification of existing expenses/ assets between administered and departmental are subject to the written approval of the Finance Minister according to the criteria listed in the EM 2012/41 *Classification of Administered and Departmental Items*.

72. In the case of a MoG, where an asset or liability is classified as departmental in one entity and treated as administered in another entity (or vice versa), the reclassification needs to be agreed by the two departments and the reclassification has to be completed before the transfer. Also, the transactions need to be identified as a related party transaction for consolidation purpose.
Exemptions from the FRR

Extract from *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*

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.

Exemptions from the FRR

73. In accordance with this topic, reporting entities may apply to the Finance Minister for an exemption from specific FRR requirements. Exemptions may be granted subject to conditions, including a requirement for alternative forms of disclosure. However, requests for an exemption will not be granted by the Finance Minister if they would result in potential breaches of the FRR or PGPA Act or non-compliance with an AAS. Entities must be aware that material non-compliance with AAS could also breach the PGPA Act.

74. An exemption that has been applied, should be disclosed in accordance with section 10(e) of the FRR.

75. An exemption that has been granted but not applied by the entity does not have to be disclosed.

Process to apply for an exemption

76. Reporting entities seeking an exemption from specific FRR requirements must provide a written request to Accounting and Frameworks Branch (Department of Finance) at accountingpolicy@finance.gov.au. Requests must be approved by an entity’s CFO (or another Senior Executive responsible for the preparation of financial statements) and include:

- a rationale for the exemption;
- an indication of the time period for which the exemption is required (e.g. current reporting period only or ongoing); and
- the relevant section(s) of the FRR.

77. Finance will review the request and then if appropriate seek approval from the Finance Minister on behalf of an entity. Entities must demonstrate a genuine need for an exemption.

Location of approved exemptions

78. A list of approved exemptions is available on the Department of Finance website.
Part 4 – Statement of Comprehensive Income (excluding Appropriations)

Overview

Part 4 focuses on reporting requirements relating to the statement of comprehensive income and related notes, including general requirements in regards to income and expenses and specific requirements applying to borrowing costs and operating lease disclosures, as well as disclosure of senior management personnel remuneration.

Appropriations are addressed in Part 9.

Statement of Comprehensive Income

Extract from Public Governance, Performance and Accountability (Financial Reporting) Rule 2015

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.

Single statement of comprehensive income

79. AASB 101 Presentation of Financial Statements requires income and expenses to be presented in:

- a single statement of comprehensive income; or
- two statements: a statement displaying components of profit or loss (separate income statement) and a second statement beginning with profit or loss and displaying components of other comprehensive income (statement of comprehensive income).

80. Section 12 of the FRR removes the two statements option for reporting entities.

81. Not-for-profit entities need to adopt the Net Cost of Services (NCOS) format for the statement of comprehensive income consistent with PRIMA Forms.

Separate disclosures

82. When items of income and expense are material, their nature and amount are to be disclosed separately. Paragraph 98 of AASB 101 lists examples of circumstances that would give rise to the separate disclosure of items (either on the statement of comprehensive income or in the notes).
Extraordinary items

83. As per paragraph 87 of 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.

Losses/gains from asset sales

84. Proceeds from disposal of assets and the carrying amount of assets sold are netted off as a gain/loss on disposal. A gain is presented as a separate class of income from revenue.

85. Where material, gains and losses on the disposal of non-current assets, including investments and operating assets, are reported in the notes by deducting the carrying amount of the asset and related selling expenses from the proceeds on disposal. PRIMA Forms does not show this disclosure, however entities must separately disclose this information where it is material for the entity (in accordance with the relevant AAS).

Accounting for the GST

86. As required in the Interpretation1031 Accounting for the Goods and Services Tax (GST), the net amount of GST recoverable from, or payable to the ATO, shall be included as part of a receivable or payable in the statement of financial position. Receivables and payables shall be stated as inclusive of GST. Revenues and expenses must be recognised net of the amount of GST, except:

- where the amount of GST incurred is not recoverable from the taxation authority, the GST must be recognised as part of the expense.

Other comprehensive income note – reclassification adjustments

87. Various Australian Accounting Standards specify whether and when amounts previously recognised in other comprehensive income are reclassified to net cost of services. Such reclassifications are referred to as reclassification adjustments (refer to paragraphs 92 to 96 of AASB 101 Presentation of Financial Statements).

88. A reclassification adjustment is included with the related component of other comprehensive income in the period that the adjustment is reclassified to net cost of services. For example, gains realised on the disposal of available-for-sale financial assets are included in net cost of services of the current period. These amounts may have been recognised in other comprehensive income as unrealised gains in the current or previous periods. Those unrealised gains must be deducted from other comprehensive income in the period in which the realised gains are reclassified to net cost of services to avoid including them in total comprehensive income twice.

89. Reclassification adjustments may arise, for example:

- on disposal of a foreign operation (see AASB 121 The Effects of Changes in Foreign Exchange Rates); and

- where an asset is reclassified from fair value through other comprehensive income to amortised cost or vice versa (see AASB 9 Financial Instruments).
90. Reclassification adjustments do not arise on, for example:
   - changes in revaluation surplus recognised in accordance with AASB 116 *Property, Plant and Equipment* or AASB 138 *Intangible Assets*; or
   - remeasurements of defined benefit plans recognised in accordance with AASB 119 *Employee Benefits*.

### Income (Excluding Appropriations)

<table>
<thead>
<tr>
<th>Extract from <em>Public Governance, Performance and Accountability (Financial Reporting) Rule 2015</em></th>
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</thead>
<tbody>
<tr>
<td>14 AASB 120 Accounting for Government Grants and Disclosure of Government Assistance</td>
</tr>
<tr>
<td>(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:</td>
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<tr>
<td>(a) recognise non-monetary government grants at fair value and not at nominal amount;</td>
</tr>
<tr>
<td>(b) present government grants related to assets as deferred income and not as a deduction to the carrying amount of the asset; and</td>
</tr>
<tr>
<td>(c) present government grants related to income as income in the statement of comprehensive income and not deduct them from the related expense.</td>
</tr>
<tr>
<td>(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.</td>
</tr>
</tbody>
</table>

### Grants

91. AASB 120 Accounting for Government Grants and Disclosure of Government Assistance provides a number of options in accounting for government grants. Section 14 of the FRR removes the alternative options for for-profit entities, except in respect of Paid Parental Leave transactions.

92. AASB 120 paragraph10A requires the benefit of a government loan at a below-market rate of interest to be treated as a government grant. The loan shall be recognised and measured in accordance with AASB 9 *Financial Instruments*.

### Paid Parental Leave Scheme

93. Payments under the Paid Parental Leave Scheme are taxable and subject to income and residency tests. Payments are not salary for workers compensation purposes and this leave is not counted as paid leave.

94. Employers are not obliged to make payments unless they have received funding from the government prior to payroll cut off.
95. Section 27 of the PGPA Rule provides that amounts receipted by employers under the scheme are ‘relevant non-corporate entity receipts’ and may be retained and used by non-corporate Commonwealth entities in accordance with section 74 of the PGPA Act.

96. Entities are responsible for determining the payroll, accounting, recording and reconciliation processes relating to receipt and payment of parental leave.

97. Non-corporate Commonwealth entities are to disclose paid parental leave receipts in their financial statements as ‘relevant non-corporate Commonwealth entity receipts’ (section 74 of the PGPA Act).

**Paid Parental Leave Scheme – accounting treatment for Statement of Comprehensive Income**

98. Amounts received by employers under the scheme are not revenue for the purposes of AASB 118 *Revenue*. Consequently, payments to employees for parental leave are not expenses.

**Paid Parental Leave Scheme – accounting treatment for Statement of Financial Position**

99. Where employers have received amounts at balance date that have not yet been paid to employees, they must be accounted for as cash and a liability (i.e., payable).

**Paid Parental Leave Scheme – accounting treatment for Statement of Cash Flows**

100. For the purposes of AASB 107 *Statement of Cash Flows*, receipts and payments must be accounted for as operating cash flows (refer to paragraphs 13 to 15 of AASB 107).

101. Cash flows associated with the scheme can either be reported on a gross basis, or a net basis in accordance with paragraph 22(b) of AASB 107.

**Expenses – General Information**

**Reimbursements**

102. Subject to the following paragraph, where an amount that has been expensed is refunded back to the entity it is appropriate to treat this amount as a reduction in the expense, unless the amount is received in a subsequent year in which case it is recorded as income. See RMG 307 *Retainable Receipts* on the Finance website for guidance on retainable receipts under the provisions of PGPA Act (section 74) and section 27 of the PGPA Rule.

103. Where an expense has been incurred by the Department of Foreign Affairs and Trade (DFAT) on behalf of another Commonwealth entity, and DFAT has subsequently been reimbursed by that entity, DFAT may record the reimbursement as a reduction in the applicable expense item irrespective of which year the reimbursement is received.

104. The treatment for accrual accounting purposes may not be the same as treatment for appropriations. Regardless of the accounting treatment, those refunded amounts can be added to an entity’s most recent departmental appropriation item, if the receipt is of a kind prescribed in PGPA Rule subsection 27(4) for the purpose of PGPA Act subsection 74(1).
Transfer of annual and long service leave entitlements

105. Paragraph 42(b) of AASB 1004 *Contributions* requires that when a payment is made or is to be made in consideration for the assumption of the liability, the receiving entity recognises the liability assumed and an increase in assets (cash or cash receivable).

106. Where the payment is less than the total amount of the liability for employee entitlements assumed, the receiving entity recognises 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.

Employee benefits expenses

107. Employee benefits expenses include employee remuneration, both monetary and non-monetary, but do not include payments or reimbursements of out-of-pocket expenses.

Separation and redundancy/termination benefits expenses

108. Separation and redundancy/termination benefits payments do not include any benefits that would have been accrued and payable if redundancy had not occurred (e.g., accrued leave entitlements and lump sum superannuation payments). Termination benefits also do not include any benefits resulting from termination of employment at the request of the employee without an entity’s offer, or as a result of mandatory retirement requirements, because those benefits are post-employment benefits.

Depreciation

109. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall 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.

110. Depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset recognised in accordance with AASB 138 *Intangible Assets*.

111. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* and the date that the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use.

Write-down and impairment of assets

112. In respect of not-for-profit 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 and accumulated in equity under the heading of asset revaluation surplus. A net revaluation increase shall be 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.

113. Under AASB 136 *Impairment of Assets*, entities are required to assess at each reporting date whether 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 carrying amount to recoverable amount.

Borrowing Costs

Extract from Public Governance, Performance and Accountability (Financial Reporting) Rule 2015

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.

General

114. Paragraph Aus8.1 of AASB 123 Borrowing Costs allows not-for-profit Commonwealth entities to elect to recognise borrowing costs as an expense in the period in which they are incurred regardless of how the borrowings are applied.

115. Section 15 of the FRR removes the option to apply the alternative treatment under AASB 123 Borrowing Costs.

Leases

Disclosure of leases

116. Paragraph 35 of AASB 117 Leases requires minimum lease payments, sublease payments and contingent rents to be separately disclosed for operating leases in the notes to the financial statements.

117. In relation to accounting treatment by the lessee, refer to RMG 110 - Accounting for operating lease expenses and incentives.

118. AASB 16 Leases applies for the financial reporting periods beginning on or after 1 January 2019. This standard removes the distinction between operating and finance leases for lessees. The transition choices are outlined in Finance position paper - implementation Options for AASB 16 published on the Finance website.

Lease incentives

119. In relation to lease incentives, refer to RMG 110 - Accounting for operating lease expenses and incentives.

Identifying leases

120. Further guidance on how to determine if an arrangement constitutes or contains a lease can be found in Interpretation 4 Determining whether an Arrangement contains a Lease issued by the AASB.
Classifying leases

121. A finance lease transfers substantially all the risks and rewards incidental to ownership. An operating lease does not transfer substantially all the risks and rewards incidental to ownership. Paragraphs 7 to 13 of AASB 117 provide further information about the classification of leases.

Classifying leases with a land component for accounting purposes

122. AASB 117 requires leases to be classified as either ‘operating’ or ‘finance’ leases at the inception of the lease irrespective of whether the entity is the lessee or the lessor (paragraph 13). Where a lease contains both land and buildings each component must be assessed separately (paragraph 15A).

123. The land component of a lease can be considered a finance lease if substantially all of the risks and rewards are transferred to the lessee, even if title to the land does not transfer to the lessee at the end of the lease term.

124. As AASB 117 specifically considers land to normally have an indefinite economic life, the following principles should assist entities in classifying leases:

- leases with a lease term < 50 years conducted on an arm’s length basis are unlikely to transfer substantially all of the risks and rewards of land ownership to the lessee.
- where the present value of the lease residual is > 5% of the land fair value it is unlikely that substantially all of the rewards of ownership have transferred.

125. When classifying leases, entities must also take into account any specific circumstances affecting the risks and rewards. These include, but are not limited to:

- lease terms imposing unusual obligations or restrictions on the lessee or lessor;
- lease terms providing unusual rights to the lessee or lessor;
- non-commercial arrangements; and/or
- options for title transfer or bargain purchase.

126. There may be specific issues involved with identifying and classifying the land component of a lease, including:
Identifying the land component

Generally, leases of premises will contain a land component, even where the premises are above or below the ground (excluding community land).

The land is immaterial

Where the land component is immaterial, entities should refer to paragraph 17 of AASB 117 and are allowed to treat the land and buildings as a single unit for the purpose of lease classification.

Cannot reliably allocate lease payments

Where lease payments cannot be allocated reliably between the land and building elements, paragraph 16 of AASB 117 allows the entire lease to be classified as a finance lease unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

The building is an operating lease

Where a lease has both land and building components and the building is classified as an operating lease, it is highly unlikely the land lease could be a finance lease.

Key Management Personnel Remuneration

Extract from Public Governance, Performance and Accountability (Financial Reporting) Rule 2015

27 Key management personnel remuneration

(1) The key management personnel remuneration disclosure note for reporting entities must be prepared using actual key management personnel remuneration 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 key management personnel remuneration disclosure note.

(5) Reporting entities must disclose:

a. The total remuneration of their key management personnel; and

b. The amount of each of the following for their key management personnel:

   i. Short-term employee benefits
   ii. Post-employment benefits
   iii. Other long-term employee benefits; and
   iv. Termination benefits.
Definitions

Definitions for the purpose of this topic are as follows:

**Fee-for-service arrangement**
Where a key management personnel of a corporate Commonwealth entity employed by one Commonwealth entity is subcontracted out under a formal contract or arrangement (e.g. a memorandum of understanding) to a second Commonwealth entity and the charges for the services under the contract or arrangement are calculated using a fixed rate (e.g., hourly/daily/monthly).

**Key management personnel**
Has the same meaning as in AASB 124 *Related Party Disclosures*.

**Secondment**
An arrangement entered into where the employee remains an employee of the home APS entity or an outside employer but is lent for a period, by:

- (a) an APS entity to another APS entity;
- (b) an outside employer to an APS entity; or
- (c) an APS entity to an outside employer.

Measurement

127. KMP remuneration is defined in AASB 124 as consideration paid, payable or provided by the entity and is to be measured in accordance with AASB 119 *Employee Benefits* with the exception of superannuation which is to be measured as follows:

- individuals in a defined superannuation contribution scheme (e.g., PSSap) - superannuation includes defined superannuation contribution amounts typically located on payslips of individuals; and.
- individuals in a defined superannuation benefit scheme (e.g., PSS and CSS) - superannuation includes the Notional Employer Contribution Rate (NECR) amount and the Employer Productivity Superannuation Contribution (also known as the Productivity Component).

Promotion during the reporting period

128. Where an individual is promoted to a KMP position during the reporting period, all remuneration earned prior to the promotion is excluded from calculations for the purpose of this topic.

Disclosure - total number of key management personnel

129. The total number of KMP to be included in the KMP remuneration note (subsection 27(4) of the FRR) is 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 (e.g., the reporting entity had a high number of part-time Directors or many KMPs were promoted during the year).

Secondment arrangements

130. The essence of a secondment arrangement is that:

- in the case of an APS employee, they formally remain an employee of the home entity but are assigned duties in another APS entity or with an outside employer (host employer); and
- if the employee is a non-APS employee, they are directed by their home employer to perform duties in an APS entity while continuing to be an employee of the home employer.

131. Typically, the home employer remains responsible for the payment of salary and nearly all terms and conditions of employment although the host employer may, for practical reasons, pay the employee or reimburse the home entity for the costs of the employee. For the purposes of this note these amounts are to only be reported by the host employer.

132. For the KMP remuneration note, the expense is measured as follows:

- Where a formal written agreement for secondment exists, the amount of remuneration disclosed would be as per the formal agreement.
- Where no formal written agreement for secondment exists, the remuneration expense relating to the secondee is to be obtained from the home entity.

Part-time KMP

133. KMPs who work part-time and who meet the relevant inclusion criteria are included in the disclosures in this topic.

Acting Arrangements

134. The period of acting by itself is not a reliable indicator that a person would be considered KMP. Entities need to exercise professional judgement in line with the definition of KMP in AASB 124 in determining whether acting arrangements should be included in the KMP remuneration disclosure. For example, considerations may include:

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

KMP remuneration note

135. As per subsection 27(1) of the FRR, the note is to include the accrued leave expenses for the period.
136. Leave balances transferred from other entities are not to be included where they only impact on the provision rather than the expense in accordance with AASB 1004 paragraph 42.

137. ‘Performance bonuses’ are the expenses incurred during the reporting period (i.e., not the cash paid).

138. Leave paid out on separation is excluded from the note as this is reported when individuals accrue the entitlement.

139. Reporting entities are required to disclose remuneration using the following four major categories:
   - short-term employee benefits (includes salary, annual leave expense and performance bonus);
   - other long-term employee benefits (includes long-service leave expense, long-term disability benefits, profit-sharing, and bonuses);
   - post-employment benefits (includes superannuation, post-employment life insurance and post-employment medical); and
   - termination benefits, other than accrued leave entitlements.

Other Disclosures

KMP services from another entity

140. AASB 124 Related Party Disclosures provides that disclosure of KMPs compensation by category (per paragraph 17) is not required where KMP services are provided by a separate management entity (paragraph 17A).

141. If an entity obtains KMP services from another entity on a fee-for-service contract arrangement, it is not required to include the breakup of amounts in the disclosure of remuneration for KMPs. However, the amount in total needs to be disclosed.

Ministers’ remuneration

142. The implementation guidance (paragraph IG7 and IG8) applies to all KMPs including ministers.

143. Entities are not required to disclose ministers’ remuneration in their financial statements.

144. Entities may, at their discretion, include a note to disclose the fact that ministers’ remuneration is met by APSC and Finance through special appropriations.

Secondment arrangements

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

146. 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:

- the economic entity; and
- 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

147. The objective of AASB 124 is to draw attention to the possibility that an entity’s financial position and profit or loss may have been affected by transactions with related parties (AASB 124 paragraph 1).

148. Criteria that are relevant when assessing materiality for disclosing transactions between an entity and its KMP related parties are discussed in the AASB 124 Agenda Decision (April 2017) and the 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.

Remuneration of Auditors

General

149. The general requirement to disclose remuneration of auditors is contained in paragraphs 10 and 11 of AASB 1054 Australian Additional Disclosures.

150. A separate note is not required where audit services have been provided free of charge. The fair value of audit services provided free of charge is to be shown under the ‘Other Revenue’ item in the Statement of Comprehensive Income with a corresponding expense.

151. Performance audits conducted by the ANAO are not services provided to the reporting entity.
Part 5 – Statement of Financial Position

Overview

Part 5 sets out the reporting requirements for general and specific disclosures in the statement of financial position of entities and related note disclosures. Both financial and non-financial assets and liabilities are addressed in this part.

Financial Assets - General Information

Appropriations receivable

152. Appropriations receivable are measured at their nominal amounts. Being non-contractual, they are not financial instruments under AASB 9 Financial Instruments. Therefore, the fair value measurement and disclosure requirements in AASB 13 Fair Value Measurement do not apply to appropriations receivable.

153. Appropriations receivable must be assessed for impairment using AASB 136 Impairment of Assets. However, impairment expenses are unlikely to occur since amounts not expected to be available would normally be addressed by applying section 40 of the FRR.

Receivables for Statutory Charges

Extract from Public Governance, Performance and Accountability (Financial Reporting) Rule 2015

20 Receivables for statutory charges

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

General

154. Receivables for statutory charges (such as taxes) are assessed for impairment under AASB 136 Impairment of Assets.

155. Receivables for statutory charges are normally assessed for impairment on an individual asset basis as they generate cash flows that are largely independent of those from other assets or groups of assets.

156. In some cases, due to the number of receivables for statutory charges, it is not practicable to assess all receivables individually. Paragraph 23 of AASB 136 Impairment of Assets allows the use of estimates, averages and computational shortcuts. These approaches can be used to approximate individual assessments using a group methodology. Nonetheless, significant receivables may be assessed on an individual basis.

157. Entities will need to apply the initial recognition and measurement to statutory receivables, including taxes, rates and fine as if those receivables are financial instruments under AASB 9 from 2019-20 reporting as per AASB 2016-8. However if the
impact is material, initial recognition should be disclosed in 2018-19 financial reporting but the disclosure of subsequent measurement is not required yet.

Valuation of Non-Financial Assets

Extract from Public Governance, Performance and Accountability (Financial Reporting) Rule 2015

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

(1) When applying 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.

(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.

(7) 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

158. Either the gross or net approach to disclosing revalued assets may be used as permitted by paragraph 35 of AASB 116 Property, Plant and Equipment.

159. For more guidance on assets held for sale as defined in AASB 5 Non-current Assets Held for Sale and Discontinued Operations, refer to RMG 111 – Accounting for non-current assets held for sale.

160. For information on accounting for subsequent expenditure on property, plant and equipment, refer to RMG 113 – Accounting for subsequent expenditure on property, plant and equipment.

161. A class of assets is defined by AASB 116 Property, Plant and Equipment as a grouping of assets of a similar nature and use in an entity’s operations. If an asset that is 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.

162. Internally developed software is separable as defined by AASB 138 *Intangible Assets* and hence can be recognised as an asset when it meets the criteria under paragraphs 21 and 57 of AASB 138 Intangible Assets. For more guidance on accounting for internally developed software refer to Resource Management Guide 109 – Accounting for internally developed software.

163. Expenditure on research and development costs related to intangible assets that are not capitalised, need to be disclosed under AASB 138.126.

164. 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. If there is a material difference, then not only the individual assets need to be revalued but also the entire class.

165. Where valuation is at fair value, AASB 13 *Fair Value Measurement* sets out the requirements for such measurement. Each entity is responsible for arranging the appropriate valuations for assets that they control or administer on behalf of the Commonwealth, on a timely basis for inclusion in financial statements. Where an asset is subject to a restrictive lease arrangement with another Commonwealth entity, the entity that controls or administers the asset on behalf of the Commonwealth must consider an appropriate valuation for inclusion in the Australian Government’s CFS.

166. Subsection 17(3) of the FRR allows an entity to measure immaterial other property, plant and equipment at cost in accordance with paragraph 29 of AASB 116. This would then require those assets to be disclosed as a separate class of non-financial assets (e.g. minor property, plant and equipment).

167. In choosing the valuation model for immaterial property, plant and equipment, consideration needs to be given to the cost of valuations against the benefit of doing so. An entity will also need to exercise professional judgement to assess whether immaterial property, plant and equipment at an individual item remains immaterial for the total class of assets.

168. A change of valuation of immaterial (or minor) other property, plant and equipment from fair value to cost is a change in accounting policy, this would require the entity to return the item to original cost less accumulated depreciation and amortisation, not simply a cessation of revaluation.

**Property, plant and equipment: fair value measurement of Asset under Construction/Work In Progress (WIP) Assets**

169. In order to recognise WIP as an asset, entities need to satisfy the recognition test under AASB 116.7, ie, that the expenditure on WIP is probable to realise future economic benefits.

170. The FRR requires the use of the revaluation model under AASB 116 Property, Plant and Equipment for the valuation of property, plant and equipment (PPE). Where the entity includes WIP assets within a PPE class, WIP must be measured at fair value.
171. Generally, it can be considered there is no active market place 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.

172. A number of techniques such as an indexation test (see example below) 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.

<table>
<thead>
<tr>
<th>Simple example of PPE WIP assets indexation test</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Age of WIP as at 30 June 201X</strong></td>
</tr>
<tr>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td>&lt; 1 yr</td>
</tr>
<tr>
<td>1 - 2 yrs</td>
</tr>
<tr>
<td>2 - 3 yrs</td>
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<tr>
<td>3 - 4 yrs</td>
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<tr>
<td>4 - 5 yrs</td>
</tr>
<tr>
<td></td>
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</tbody>
</table>

* In this example, CPI is assumed to be 3% pa compounded (i.e. Indexed Amount = Cost Amount X (1+r)^n where r is CPI and n is number of years).

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.

In this example, 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.

173. While the FRR does not mandate WIP to be at fair value, (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 the case where the construction period is extended over several years and there is a risk that WIP expenditure includes items that are unlikely to meet AASB 116 asset recognition requirements, for example, discontinued project elements and significant rework.

**Accounting for land under roads**

174. Under AASB 1051 *Land Under Roads*, land under roads is defined as ‘land under roadways, and road reserves, including land under footpaths, nature strips and median strips’.
175. Land under roads acquired on or after 1 July 2008 is required to be recognised per AASB 116 *Property, Plant and Equipment*. The Department of Finance has elected that land under roads acquired before this date continues to not be recognised.

176. The road constructed on the land is recognised and measured per AASB 116.

177. 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 not-for-profit 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;
  - Whilst the Framework is silent in regards to the degree of the 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 will need to assess land under roads contribution to their objectives regularly;
- the cost or fair value can be reliably measured; and
  - Fair value is determined in accordance with AASB 13 *Fair Value Measurement*. Therefore, the valuation of the land under roads would be based on its potential rather than as a road, where physically possible, legally permissible and financially feasible. For example, if the land on which the roads in the Parliamentary triangle is zoned as commercial it would be valued based on its potential to put an office building upon it, rather than as a road. However, in many cases the dimensions of the road, the need for continued road access and planning restrictions on surrounding areas will mean that the land under the roads cannot be applied to alternative uses;
  - Given the difficulties in reliably measuring land under roads, entities may email *accountingpolicy@finance.gov.au* to assist in the determination of whether the land under roads can be reliably measured;
- 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).
Impairment of Non-Financial Assets

Extract from *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*

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

178. Entities, or parts of entities, other than those whose predominant purpose is to generate net cash inflows, are not cash-generating units for the purpose of AASB 136 *Impairment of Assets*.

179. Non-corporate Commonwealth entity receipts retained under section 74 of the PGPA Act are included for the purpose of determining whether entities are cash-generating units under AASB 136.

Impairment process

180. Not-for-profit entities must refer to paragraph Aus32.1 of AASB 136 *Impairment of Assets* in respect of non-cash generating assets whose economic benefits would be replaced if the entity was deprived of them.

181. Impairment under AASB 136 *Impairment of Assets* is a two-step process that involves:

- testing assets for indications of impairment; and

- only where indications of impairment have been established for an asset/s, performing the recoverable amount test and making any required adjustment for impairment loss/es.

Indicators of Impairment

182. 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 *Impairment of Assets*.

183. Where an asset is assessed for impairment, some of the minimum impairment indicators specified in AASB 136 *Impairment of Assets* will be more relevant than others. For example, an entity may consider that physical damage or obsolescence is the most significant factors relevant to assessing whether or not a $5,000 computer is impaired. However, additional factors may also be taken into account when determining if an impairment assessment is required. The consideration of indicators of impairment is to be documented.
Analysis of Non-Financial Assets

General

184. Notes to the financial statements need to include the following:

- Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment and Intangibles; and
- Reconciliation of the Opening and Closing Balances of Investment Property.

185. Sufficient information and sub-total columns need to be disclosed to enable reconciliation of amounts to the corresponding line items disclosed on the statement of financial position.

Heritage and Cultural Assets

**Extract from Public Governance, Performance and Accountability (Financial Reporting) Rule 2015**

**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*.

**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.

Definition

186. Heritage and cultural assets are defined in Part 2 - *Definitions*. Heritage and cultural items do not include structures constructed to assist with the display, transport or storage of the asset.

187. Examples of items not captured by the definition are backdrops, hanging apparatus, storage racks or protective cases, unless the item has such value in its own right or is an integral part of the heritage and cultural item.
188. An example of an asset being an integral part of a heritage and cultural asset might be the original frame surrounding a painting that is classified as a heritage and cultural asset.

Asset recognition criteria

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

190. Heritage and cultural assets acquired at no cost, or for a nominal cost, are required to be initially recognised at fair value as at the date of acquisition. Entities will need to exercise professional judgement in determining whether it is possible to reliably measure the fair value as at the date of acquisition of a heritage or cultural asset.

Useful lives

191. The AAS contemplate indefinite useful lives for some assets and non-depreciation in circumstances where assets have indefinite useful lives.

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

Primary use of assets

193. One 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.

194. Heritage and cultural items are buildings, other structures, works of art, artefacts, collectables, historical treasures, nature reserves, national parks, or similar items, which 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.

Curatorial and preservation policies

195. When disclosing the 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.

196. For the purposes of this topic, the term ‘government department’ referred to in the statement listing pertinent entities in Australian Implementation Guidance to AASB 116 Property, Plant and Equipment means a reporting entity as defined in the FRR.
Assets Held in Trust

Extract from *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*

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 disclosure

197. This topic applies to agreements that constitute a legal trust (including for charitable purposes under trust law). An entity is encouraged to obtain legal advice if they are unsure as to whether or not an asset is held in trust.

198. 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

199. 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 10 - Special Accounts). Entities are to make cross reference to monetary assets held in trust 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.

200. Trust moneys may be received as retainable receipts under s74 of the PGPA Act. These amount will increase the departmental appropriation and will be disclosed in the appropriation table amounts, with an appropriate footnote.

201. Trust moneys may be credited to an entity’s special account (either to the special account held in OPA or the special account held in an entity’s bank account). The amount will be included in the special account balance and will be disclosed with an appropriate footnote (see Part 10 – Special Accounts).

202. 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 3 illustrates reporting and disclosure requirements for trust moneys.
Unidentified receipts

203. Money found on Australian Government premises and other unidentified receipts are to be accounted for as administered receipts. These receipts must not be treated as assets held in trust, as there is no beneficiary or third-party purpose.

204. Contact Financial Management Branch within the Department of Finance via receipts@finance.gov.au for additional information and guidance.

Other CRF money held by persons outside the Commonwealth

205. Other CRF money is not trust money. An amount of money that is in the physical possession of, or in the bank account of, a person other than the Commonwealth, who is acting on behalf of the Commonwealth in relation to that money, will be other CRF money. The guidance in Part 5 - Financial Instruments contains further information in relation to other CRF money held by persons outside the Commonwealth.

Liabilities – General Information

Liabilities

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

207. 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; and
- when the invoice is due to be paid under the terms of the contractual arrangement for insurance coverage.

208. Another example is employee benefit liability, such as for unpaid salary or superannuation. It is to be recognised at the earlier of:

- when service is provided by the employee; and
- the time of obligation specified in the employment agreement.

Obligations

209. The existence of an obligation does not require the identity of the party to whom an obligation is owed to be known. This party may be different from the party that will receive goods and services in satisfaction of the obligation.

210. While most obligations are legal, others are constructive. A constructive obligation is defined in paragraph 10 of AASB 137 Provisions, Contingent Liabilities and Contingent Assets. A constructive obligation is created, inferred or construed from the facts in a particular situation rather than contracted by agreement or 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 of performing such work; and

• the general public has a reasonable expectation that the entity will fulfil its commitment.

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

211. For guidance on accounting for decommissioning, restoration and similar provisions (‘make good’), refer to RMG 114 – Accounting for decommissioning, restoration and similar provisions (‘make good’).

Recognition of grant liabilities

212. Grant liabilities to State, Territory and Local Governments are recognised only to the extent that grant conditions such as grant eligibility criteria have been met by the grantee Government entity, or those governments have provided services or facilities required by the grant agreement. In such cases, only amounts outstanding in relation to current or previous periods satisfy the definition of liabilities.

Social benefit payments

213. Social benefits are typically, though not exclusively, provided by Budget funded agencies in the form of a regular (e.g., fortnightly) cash payment. Examples include Newstart allowance, pensions and paid parental leave.

214. However, there may be circumstances in which non-cash benefits are provided and/or the paying entity is not Budget funded. For example, the National Disability Insurance Agency, a corporate Commonwealth entity, provides cash and in-kind benefit to National Disability Insurance Scheme recipients.

215. 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 codified in the legislation authorising the payment.

216. 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 when the recipient meets the eligibility requirements.

217. Consequently, social benefits payments will not give rise to a constructive obligation under AASB 137 Provisions, Contingent Liabilities and Contingent Assets 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.
218. 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 Accounting Policies, Changes in Accounting Estimates and Errors requiring entities to consider accounting standards dealing with similar issues, would reasonably extend the ambit of paragraph Aus 26.1 to include corporate entities.

219. 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.

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

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

222. Entities should review existing social benefits payments to confirm they are accounted for on a ‘due and payable’ basis. Where a different accounting treatment is identified, entities can e-mail accountingpolicy@finance.gov.au to determine if a change in accounting treatment is required.

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

224. 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.

**Accounting for social benefit expense**

225. Fortnightly payments are recognised as an expense when they are made. Any amounts that are unpaid at year end should be accrued and where there is any uncertainty over the number of claimants, amount or timing, can be recorded as a provision.
Liabilities Relating to Dividends

**Extract from Public Governance, Performance and Accountability (Financial Reporting) Rule 2015**

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.

**General**

226. 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.

227. In some cases, legislation or Government policy provides for a dividend to be paid of:

- 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.

228. In accordance with paragraphs 12 and 13 of AASB 110 *Events after the Reporting Period*, if an entity declares dividends to holders of equity instruments after the reporting date, no liability is recognised at reporting date. Rather, such dividends are disclosed in the notes to the financial statements in accordance with AASB 101 *Presentation of Financial Statements*. 
Employee Benefits

Extract from Public Governance, Performance and Accountability (Financial Reporting) Rule 2015

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 (e.g., 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 (e.g., workers’ compensation insurance and payroll tax) are not employee benefits.
Measurement

Additional costs

- Entities need to make an allowance for additional costs (e.g., 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 with 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

**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; and
  - (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; and
  - (b) are not within range of the rates presented in table, entities are required to consult with Budget Estimates and Accounting in the Department of 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.
The shorthand method

229. The shorthand method, in this topic, was developed by the Australian Government Actuary in the mid-1990s and last reviewed in July 2010. The method is still considered to be acceptable for application by entities as the weighting factors are not expected to have materially changed.

Sick leave

230. Where sick leave (referred to as ‘personal/carer’s leave’ within the Fair Work Act 2009) is non-vesting and the 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

231. The LSL – Table of Probability Factors (referred to above) and the LSL – Table of Discount Factors (referred to above) are available in the Standard Parameters for use in Financial Statements.
Measurement and Disclosure of Post Employment Plans

Extract from *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*

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.

(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.

**PSS accumulation plan disclosures**

232. The PSS Accumulation Plan is a defined contribution plan for both the reporting entity and the whole-of-Government.

**Discount rate**

233. Consistent with AASB 119 *Employee Benefits*, for-profit entities are required to use the market yield on high quality corporate bonds when discounting employee benefit obligations. Not-for-profit entities are required to use the market yields on government bonds to discount employee benefits.
Financial Instruments

Extract from *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*


(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.

Market risk sensitivity analysis

(8) Where sensitivity analysis is required, entities must use the standard rates referenced in the Standard Parameters issued by Finance, unless Finance approves otherwise.
Definitions and measurement

234. AASB 7 Financial Instruments: Disclosures applies to recognised and unrecognised financial instruments. Recognised financial instruments include financial assets and financial liabilities that are within the scope of AASB 9 Financial Instruments. Unrecognised financial instruments include some financial instruments that, although outside the scope of AASB 9, are within the scope of AASB 7. Examples of unrecognised financial instruments requiring disclosure under AASB 7 include:

- the credit risk disclosure requirements in paragraphs 35A – 35N (apply to those rights that AASB 15 Revenue from Contracts with Customers specifies) (paragraph 5A of AASB 7).

235. Disclosures are made under AASB 7 Financial Instruments: Disclosures by class of financial instrument. Classes of financial instruments are smaller units than categories. For example, the loans and receivables category of financial instruments would contain classes such as cash at bank and trade receivables.

236. Appropriations receivable and statutory charges (receivable or payable) are not financial instruments. Examples of statutory charges are GST receivable from or payable to the ATO. Notwithstanding this, amounts payable to, or receivable from, other entities need to be disclosed inclusive of GST.

237. Financial guarantee contracts as defined in AASB 9 Financial Instruments do not include performance guarantees.

238. AASB 13 Fair Value Measurement and Chapter 5 of AASB 9 Financial Instruments provide guidance on the fair value measurement considerations for recognition and measurement of financial instruments.

239. When financial instruments are required to be disclosed by classes, reporting entities need to ensure they have appropriate classes to meet the disclosure requirements of AASB 7 Financial Instruments: Disclosures.

240. Trust amount and statutory credits received in the special account will be excluded from the financial instrument disclosure table. For further information, please refer to Part 10 – Special Accounts.

Initial measurement

241. AASB 9 Financial Instruments outlines that the fair value of a financial instrument is normally the transaction price except in some circumstances, such as a loan issued on favourable terms. In this case a valuation technique is employed to determine fair value. In accordance with AASB 13 Fair Value Measurement, a valuation technique must use prevailing market data for identical or comparable (i.e., 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.

242. 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.
243. 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 with the difference likely to be recognised as an expense unless upfront compensation is received for the discount.

**Subsequent measurement**

244. Requirements of subsequent measurement of financial assets and liabilities are provided in paragraph 5.2.1 to 5.3.2 of AASB 9 *Financial Instruments*.

**Disclosure**

245. The disclosure requirements of AASB 13 *Fair Value Measurement* apply to financial instruments where AASB 7 *Financial Instruments: Disclosures* requires or permits fair value disclosures.

**Classification of financial instruments**

246. Classification (designation) of financial instruments for an entity has the effect of designating those instruments in the whole of Government CFS.

**Concessional loans**


**Market risk sensitivity analysis**

248. AASB 7 *Financial Instruments: Disclosures* 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 to which the entity is exposed, based on changes in the risk variable that are considered ‘reasonably possible’; or
- an analysis that takes into account the interdependencies between market risk variables, if it is used to manage the entity’s financial risks.

249. Entities are encouraged to adopt the disclosures in PRIMA Forms as part of their market risk sensitivity analysis.

250. 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 it believes that.

**Market risk sensitivity – Standardised Rates**

251. 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.

252. The statistical analysis for the IR Sensitivity Analysis Rate (IRSA Rate) has been based on the cash rate for the past five years issued by the Reserve Bank of Australia as the
underlying dataset. This information is then revised and adjusted for reasonableness under the current economic circumstances.

253. The statistical analysis for the FX Sensitivity Analysis Rate (FXSA Rate) has been 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. This information is then revised and adjusted for reasonableness under the current economic circumstances.

**Market risk sensitivity – Alternative Rates**

254. Reporting entities are required to use the rates referenced in the Standard Parameters for use in Financial Statements document issued by Finance unless otherwise agreed with Finance.

255. Reporting entities that hold financial instruments for which they consider the underlying risk profiles to be substantially different from the assumptions used in this Guide 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**

256. 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. Consequently, other CRF money would not be reported as cash held in the financial statements of a reporting entity and need to be managed in accordance with an arrangement (section 23 of the PGPA Act) which is compliant with the requirement of section 29 of the PGPA Rule.

257. Additional information can be found in *Resource Management Guide 303 – Other CRF money*. Contact pmra@finance.gov.au for queries on the management of other CRF money.

**GST treatment in the Statement of Financial Position**

258. Receivables and payables in the Statement of Financial Position should be inclusive of GST subject to paragraph 8 and 9 of Interpretation 1031 *Accounting for the Goods and Services Tax (GST)*.
Part 6 – Cash Flow Statement, Contingencies and Commitments

Overview

Part 6 outlines the reporting requirements for the cash flow statement, contingencies and commitments.

Cash Flow Statement

Extract from *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*

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.

Cash Flow

259. Section 13 of the FRR formalises the requirements and includes appropriations drawn down from the OPA for payment to entities.

Transfers of section 74 of the PGPA Act to the OPA

260. Transfers of PGPA Act section 74 receipts to the OPA are disclosed as operating cash flows.

261. Where relevant non-corporate entity receipts are returned to the OPA, and subsequently redrawn as departmental appropriation, they are disclosed as a separate operating cash outflow and inflow, respectively (and should not be netted off).

Cash flows in a foreign currency

262. Cash flows arising from transactions in a foreign currency are recorded in Australian dollars. This is done by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow. Refer to paragraphs 25 to 28 of AASB 107 *Statement of Cash Flows* for further information.

Restrictions on use of cash balances

263. The amount of significant cash and cash equivalents held by the entity that are not available for use by the group (parent and other subsidiaries) are to be disclosed, together with explanatory commentary by management on restrictions of use.
264. Entities need to consider other CRF money in the context of paragraph 48 of AASB 107 Statement of Cash Flows.

Appropriation designated as contributions by owners

265. Cash flow activities relating to appropriation amounts that have been designated as contributions by owners are required to be disclosed under financing activities for the purpose of the cash flow statement.

GST

266. Cash flows shall be included in the cash flow statement on a gross basis, subject to paragraph 11 of Interpretation 1031 Accounting for the Goods and Services Tax (GST) and AASB 107.

Cash flow reconciliation – disclosure

267. Details of transactions, which do not result in cash flows but affect assets and liabilities, must be disclosed. Examples of non-cash financing and investing transactions and other events include:

- conversions of liabilities to equity;
- acquisitions of entities by means of an equity issue;
- acquisitions of assets by assumption of directly related liabilities, such as a 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; and
- a transfer of assets as a result of restructuring.

268. 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 needed.

269. The amount of significant cash and cash equivalents held by the entity that are not available for use by the group (parent and other subsidiaries) are to be disclosed, together with explanatory commentary by management on restrictions of use.

270. Disclosure of additional information that may be relevant to users in understanding the financial position and liquidity of an entity, together with a commentary by management, 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; and
- the aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity.
Contingencies

Extract from *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*

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.

Contingencies

271. Paragraph 92 of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* provides for reduced disclosures in the rare cases where there is an expectation that full disclosure would seriously prejudice the Commonwealth.

272. The reference in paragraph 92 of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* to ‘entity’ must be read as the entity, another Commonwealth entity or the Australian Government as a whole.

273. 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 have been considered for disclosure in the statements. Entities need to ensure that contingencies disclosed in the SoR are consistent with their annual financial statements (including whether the contingency is quantifiable or unquantifiable). Entities may need to consider the timing of when the SoR is prepared (i.e., at Budget or at Mid-Year Economic and Fiscal Outlook) to determine details of relevant contingencies. Disclosure requirements for the SoR may differ from those of this topic (e.g., the threshold applied for the SoR may be different to the materiality level applied for entity financial statements).

274. 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.

275. Paragraph 2.1 (e) AASB 9 *Financial Instruments* includes financial guarantee contracts in its scope (as defined in AASB 9 Appendix A). Paragraph 2 of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* excludes from its scope those financial instruments that are covered by AASB 9 *Financial Instruments*.
Commitments

Leases

276. Operating lease disclosures, in relation to the disclosure of future minimum lease payments or sublease payments expected to be received as required by AASB 117 Leases, must be included in the notes to the financial statements. These disclosures apply equally to sale and leaseback transactions which are classified as operating leases.

277. Finance lease disclosures in relation to future minimum lease payments required by paragraph 47 of AASB 117 Leases must also be disclosed in notes to the financial statements.

Commitments and liabilities

278. Commitments differ from liabilities in that there is no present obligation arising from a past transaction or event, or such an obligation is subject to future performance of another party, e.g., obligations that are executory contracts. A commitment becomes a liability when a present obligation arises (e.g., there is very little or no discretion to avoid payment for work that has been completed or a service has been provided by another party).

279. Generally, a commitment arises when an entity enters into an agreement with an external party that will result in a future obligation to make an outflow of resources. The agreement would usually be in the form of a purchase order or other contractual documentation.

280. Where the entity intends to make payments to other parties, whether as a result of a government policy statement, election promises or other public pronouncement, this does not of itself create a present obligation.

281. Provisions are not commitments because the entity is already under an obligation to sacrifice future economic benefits. An example is where an entity is required to restore a site or decommission an asset in the future. Where this requirement arises from either a legal or constructive obligation, but the timing of the event or amount of the obligation is uncertain, a provision is recorded.

282. 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.

Agreements

283. An agreement or contract requires parties to make future sacrifices of economic benefits. However, until performance by the entity or the other party takes place no liability or asset is recognised. Instead, the future sacrifice is reported as a commitment.

284. An example of a relevant agreement is a contract for the construction of an asset. The reporting point for a commitment in this case is the entering into of the contract. A liability/asset would not be recognised until construction of the asset has commenced.

285. Without an agreement, there is no commitment. For example, if an entity decided to acquire equipment in the future and received ministerial approval for spending, an
agreement would not exist until contracts had been entered into and a commitment would not be recognised until that point. Refer to paragraphs Aus 26.1 and Aus26.2 of AASB 137 Provisions, Contingent Liabilities and Contingent Assets for further information.

Commitments evidenced by undertakings

286. Undertakings are unilateral promises that are intended to result in payments in future periods. Where further approval is required or legislation needs to be enacted to fulfil the undertaking, unilateral promises are not reported as undertakings, and, therefore, not disclosed as commitments.

Social benefit payments

287. Social benefit payments are not commitments. Further information about social benefit payments can be found in Part 5 – Liabilities – General Information.

Future payment of GST

288. The future payment of GST revenue to the States and Territories is not a commitment.
Part 7 – Administered Reporting

Overview

Pat 7 outlines the requirements for administered reporting.

Administered Reporting - General Information

Extract from Public Governance, Performance and Accountability (Financial Reporting) Rule 2015

9 Administered reporting

(1) 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.)

General

289. AAS and AASB Interpretations are to be applied to administered items or activities as if the administered reports were the financial statements of the Australian Government as a parent entity.

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

291. Accounting policies for 'administered' are the same as those for 'departmental', unless stated otherwise in this guide.

292. Further, unless otherwise stated in this guide, administered transactions between entities are accounted for in the same manner as departmental transactions. For example, a purchase of services may be recognised as income in one entity and an expense in the other.

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

294. The relevant AAS for impairment assessment of receivables for statutory charges is AASB 136 Impairment of Assets (see Part 5 - Receivables for Statutory Charges).

295. 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 Impairment of Assets for determining fair value less costs of disposal or value in use and this assessment can be made on a portfolio basis where this is appropriate (e.g., impairment of a large portfolio of statutory receivables).

296. The Australian Government as a whole is not considered a cash-generating operation. Therefore, the provisions of AASB 136 Impairment of Assets in respect of 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.

**Transfer payments**

297. Paragraph 22 of AASB 1050 *Administered Items* requires entities to disclose the 'broad categories of recipients' of transfer payments and amounts transferred to those recipients. 'Broad categories of recipients' is not defined in AASB 1050 *Administered Items*. Entities are required 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.

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

**Administered reconciliation schedule (in PRIMA)**

299. 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.

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

301. When an entity makes a payment to a corporate Commonwealth 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. For example, in the case of a loan, cash is reduced by the amount of the loan when it is paid to the corporate Commonwealth entity, and loan receivable is increased by the same amount. Therefore, the payment of these amounts to a corporate Commonwealth 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.

**Administered Disclosures**

302. 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

303. The purpose of this requirement is to provide complete information to enable completion of the Australian Government CFS.
Administered Investments

<table>
<thead>
<tr>
<th>Extract from Public Governance, Performance and Accountability (Financial Reporting) Rule 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>32 Administered investments</td>
</tr>
<tr>
<td>(1) This section only applies to administered investments where the Government's interest is in the nature of:</td>
</tr>
<tr>
<td>(a) subsidiaries under AASB 10 Consolidated Financial Statements;</td>
</tr>
<tr>
<td>(b) associates under AASB 128 Investments in Associates and Joint Ventures; or</td>
</tr>
<tr>
<td>(c) joint operations or joint ventures under AASB 11 Joint Arrangements.</td>
</tr>
<tr>
<td>(2) Other investments (e.g., a one per cent shareholding in a listed company) are accounted for under section 16 (financial instruments).</td>
</tr>
<tr>
<td>(3) Administered investments:</td>
</tr>
<tr>
<td>(a) are not considered controlled by the entities reporting them;</td>
</tr>
<tr>
<td>(b) must be disclosed in the administered reports;</td>
</tr>
<tr>
<td>(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</td>
</tr>
<tr>
<td>(d) must not be consolidated on a line-by-line basis into a reporting entity’s financial statements without approval from Finance.</td>
</tr>
</tbody>
</table>

Administered investments

304. Administered investments include companies and corporate Commonwealth entities.

Fair value hierarchy

305. To increase consistency and comparability in fair value measurements and related disclosures, AASB 13 Fair Value Measurement establishes a fair value hierarchy that categorises the inputs used to measure fair value.

306. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities that a reporting entity can assess at the measurement date and the lowest priority to unobservable inputs. 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. Refer to paragraphs 72-90 of AASB 13 Fair Value Measurement for further information about the application of the fair value hierarchy.

Valuation techniques

307. As per paragraph 61 of AASB 13 Fair Value Measurement, entities can use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Entities should consider industry practice when considering applicable valuation techniques (AASB 13.62).

308. 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; and

• 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.

309. For further information on fair valuation of administered investments, refer to:

• AASB 13 *Fair Value Measurement*;

• Appendix B paragraph B5.1.1 to 5.1.2A of AASB 9 *Financial Instruments*; and


**Classification**

310. Classifying administered investments as available for sale does not imply they are held for sale. Entities with financial assets classified as available for sale are required to disclose movements (e.g., movements in fair value) in the administered reconciliation schedule (administered assets less administered liabilities) rather than administered income or expense.
Administered Investments Held for Sale

Extract from Public Governance, Performance and Accountability (Financial Reporting) Rule 2015

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.

General

311. AASB 5 Non-current Assets Held for Sale and Discontinued Operations does not apply to the restructuring of administrative arrangements (e.g., AAO changes). It only applies where an asset is being sold.

312. Finance has responsibility for the sale of assets under an AAO; this does not mean that Finance needs to own the asset being sold. Finance may manage the sale on behalf of the portfolio department or the asset may be transferred to Finance for sale.

313. Where there is no formal agreement or decision as outlined in paragraph 33(1)(b) of the FRR, the portfolio department must report the investment, even when the sale process is managed by Finance.

314. For an asset to be transferred to Finance there needs to be a clear intention to transfer the asset, supported by a formal decision of the Australian Government or Ministerial agreement.
315. While administered investments held for sale are disclosed under AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, they are measured under AASB 139 *Financial Instruments: Recognition and Measurement* because they are financial assets.

**Costs of sale of an administered investment - examples**

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

- project management;
- advisory services;
- advertising and marketing;
- legal fees;
- scoping studies; and
- regulatory fees.
Part 8 – Restructures

Overview

Part 8 identifies the reporting treatments to be applied when a reporting entity has been involved in a restructuring of administrative arrangements during the reporting period. This part addresses valuation of assets and liabilities under a restructure of administrative arrangements and the appropriate accounting treatment to be applied for presentation of items in the financial statements.

Restructures of Administrative Arrangements

Extract from Public Governance, Performance and Accountability (Financial Reporting) Rule 2015

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.

General

317. Restructures of administrative arrangements apply to government controlled not-for-profit entities and for-profit government departments. Subsection 26(2)(a) of the FRR means that paragraphs 54-59 of AASB 1004 Contributions apply to all Government controlled entities.

318. Accounting entries are not required to be processed by the date of the transfer for a reporting entity to make the disclosures required by this topic as of that date.

319. Some examples of situations which may meet the definition of a restructure of administrative arrangements include:

- 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; and
• a reclassification between ‘departmental’ and ‘administered’.

320. Resource Management Guide 118 Accounting for Machinery of Government Changes
for further information about restructures of administrative arrangements.

Commonwealth entity ceases to exist

321. If a Commonwealth entity (the old entity) ceases to exist, then the accountable authority
of another Commonwealth entity nominated by the Finance Minister must prepare the
annual financial statements for the old entity, that the accountable authority of the old
entity would have been required to prepare under the PGPA Act if the old entity had not
ceased to exist.

Transfer of a Commonwealth entity’s function(s)

322. If a function of a Commonwealth entity (the old entity) is transferred to one or more other
Commonwealth entities, either because the old entity ceases to exist or for any other
reason, then the accountable authority of a Commonwealth entity nominated by the
Finance Minister in relation to that function must prepare the annual financial statements
for the old entity that relate to that function that the accountable authority of the old entity
would have been required to prepare under the PGPA Act if the function had not been
transferred.

Transfer of appropriations representing prior years’ unspent appropriations

323. PGPA Act section 75 determinations will need to be in place to enable the receiving
entity to access and spend annual appropriations. Transfers of appropriations
representing prior years’ unspent appropriations are accounted for against equity in the
same way as other assets transferred as part of the restructure of administrative
arrangements. Entities can contact Financial Management Branch in Finance via
Annual.Appropriations@finance.gov.au for further information.

Transfer of assets and/or liabilities – restructure of administrative arrangements

324. A transfer of assets and/or liabilities for no consideration to a wholly owned public sector
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 1004 Contributions.
The transfer is a contribution by owners where its equity nature is evidenced by formal
designation of the transfer (or a class of such transfers) by the parent entity of the
transferor as forming part of the transferee’s capital (either before the transfer occurs or
at the time of the transfer). Refer to RMG 123 - Deeming or designating transfers of
assets and liabilities as 'contributions by owners' (equity).

325. For not-for-profit entities, where an asset is acquired at no cost, or for a nominal cost,
the cost is its fair value as at the date of acquisition.

326. The transfer of assets and liabilities between Commonwealth entities as a result of a
restructuring of administrative arrangements is designated as an owner transaction.
Prior year disclosure

327. Restructures that occurred in the current and previous financial reporting periods must be disclosed in the restructuring note. In the rare circumstances where a single restructure crosses two consecutive financial reporting periods, comparative figures must also be disclosed.

Assumed functions – disclosure of income and expenses

328. 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

329. Estimates Memorandum 2014/49: Transferring leave entitlements - payments when employees move between entities applies in respect of employees moving from one non-corporate Commonwealth entity to another non-corporate Commonwealth entity or to a corporate Commonwealth entity or to the High Court of Australia. This Estimates Memorandum requires that an amount in respect of accrued annual leave and accrued long service leave be transferred with the employee. This Estimates Memorandum does not apply if the move is as a direct consequence of the transfer of a Government function.
Part 9 – Appropriations

Overview

Part 9 comprises:

- Chapter 41: Appropriations – General Requirements outlines when and how appropriations are recognised.
- Chapter 42: Departmental Appropriations outlines the recognition and measurement of departmental appropriations.
- Chapter 43: Administered Appropriations outlines the recognition and measurement of administered appropriations.
- Chapter 44: Disclosure of Appropriations outlines the specific disclosure requirements for the appropriation tables.

Appropriations - General Requirements

Extract from *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*

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.

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.

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
- (c) PGPA Act section 74A (appropriations to take account of recoverable GST).
Return of capital

330. The Australian Government establishes the entity’s capital therefore the Portfolio Minister of the entity needs to write to the Finance Minister requesting approval to reduce the entity’s capital. See section 39 of the FRR for further information.

Recognition and classification

331. The authoritative source for information about the classification and amount of annual appropriations for the financial reporting period are the relevant annual Appropriation Acts.

Withholding and quarantining of appropriations

332. An amount of appropriation may be withheld under section 51 of the PGPA Act or quarantined for administrative reasons.

333. An amount of appropriation withheld under section 51 of the PGPA Act results in an entity losing control of the amount of appropriation from an accounting perspective, however, the entity retains legal control of the amount of appropriation. The relevant amount remains legally available to the entity and must be included and disclosed in the Appropriations note.

334. Where a current year departmental appropriation is withheld under section 51, entities are required to reduce their appropriation revenue and appropriation receivable. The withholding of other appropriations (e.g., a prior year appropriation) results in a reduction to equity and appropriation receivable. Releases of amounts originally withheld under section 51 of the PGPA Act will reverse all or part of the original entry. The CBMS Appropriation Hard Limit Reconciliation report will show the net amount withheld.

335. An amount of appropriation quarantined for administrative reasons does not result in an entity losing control of the appropriation from an accounting perspective, unless it is later subject to a section 51 adjustment.

336. Entities are required to disclose an explanation for all appropriations that have been withheld under section 51 or quarantined for administrative reasons in a footnote to the Annual Appropriations Table in the Appropriations note.

337. Examples of amounts affected by section 51 of the PGPA Act include:
   - where there is a government decision to reappropriate, withhold or reduce funding;
   - an approved movement of funds request;
   - a foreign exchange gain under the ‘no win/no loss’ arrangements; or
   - a ‘net-negative’ appropriation occurs (where there is an insufficient increase in an appropriation to cover a reduction in funds occurring at the same time).

338. Entities need to allow sufficient time for the approval process for section 51 adjustments. Contact the Appropriations Management Team in Finance via Annual.Appropriations@finance.gov.au for further information about amounts of appropriation withheld under section 51 of the PGPA Act.
339. 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 and this is outlined in the Budget Process Operating Rules.

**PGPA Act section 75 transfers**

340. In relation to Machinery of Government and restructuring of administrative arrangements changes, refer to:

- AAO;
- PGPA Act section 75;
- RMG 118 *Accounting for Machinery of Government Changes*;
- Part 8 - *Restructures of Administrative Arrangements* of this guide; and

341. For the PGPA Act section 75 transfers, control of appropriation is lost or gained at the later of:

- the date of the determination; and
- the commencement date set out in the determination (note that the Act subsection 75(8) allows the transfer to take effect before or after the day it is registered).

342. Contact the Appropriations Management Team in Finance via Annual.Appropriations@finance.gov.au for further information about PGPA Act section 75 transfers.

**Repayments by and to the Commonwealth**


344. For further information on repayment under PGPA Act section 77, please refer to *Estimates Memorandum 2017/53: Repayments made using the special appropriation in section 77 of the PGPA Act*.

**Receipt of amounts by non-corporate Commonwealth entities (PGPA Act section 74)**

345. Refer RMG 307 *Retainable Receipts* for further guidance associated with increasing appropriations for certain receipts collected by non-corporate Commonwealth entities.

**Repeal of annual Appropriation Acts**

346. From 2014-15 onwards, each annual Appropriation Act includes an automatic repeal clause, whereby the Act will be extinguished as at the date specified in that Act. For example, the 2015-16 annual Appropriation Acts contain a repeal date of 'the start of 1 July 2018'.
347. The repeal of a prior year unspent appropriation results in a reduction to equity as well as an adjustment to the appropriations note disclosure.


Breach of Section 83 of the Australian Constitution

349. Section 83 of the Constitution provides that no money can be drawn down from the Treasury of the Commonwealth except under an appropriation made by law. Additionally, all spending from the Consolidated Revenue Fund needs to be accordance with an authority given by Parliament.

350. Each entity needs to determine, after conducting an appropriate risk assessment, whether a disclosure is required with respect to Section 83 of the Constitution. As a general guide, a section 83 disclosure would be required if it was considered that there was a risk of/or actual breach for the reporting period.
Departmental Appropriations

Extract from Public Governance, Performance and Accountability (Financial Reporting) Rule 2015

Division 3 (of Part 6) – Departmental Appropriations

38 Departmental appropriations

(1) Reporting entities must recognise all departmental appropriations (including departmental special appropriations) for which they are responsible.

(2) The earliest point of recognition for accounting purposes is when the entity gains control of the appropriation, which is:

(a) for loans specified in the Appropriation Acts - when drawn down from the Official Public Account (OPA) for the amount to be received;

(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.

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:

   (i) the date the appropriation amount is reduced as a consequence of Government policy;

   (ii) the date of effect of a Ministerial direction; and

   (iii) where (i) and (ii) are not applicable, the date of transfer to the OPA.

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
Office 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), then the reporting entity must still include that amount in their
appropriation disclosure note as a legally available appropriation.

Equity injections and returns

351. Departmental equity injections or returns can include restructuring of administrative
arrangement agreements resulting from a transfer of function (refer to Part 8 -
Restructures of Administrative Arrangements.

Appropriations – adjustments due to agreements

352. While not a conclusive list, agreements referenced in subsection 40(2)(c) of the FRR
that might require adjustments to appropriation include:

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

No-win/no-loss funding

353. 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.

354. 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/decreased, which
is typically in the subsequent financial year.

Formal additions or reductions - timing difference

355. This topic determines when formal additions or reductions are recognised in the
statement of comprehensive income. This may differ from the reporting period in which
they are disclosed in the appropriations note.

356. Publication of a budget measure in a PBS or entry in CBMS by itself is not sufficient
authority to support an adjustment to appropriation revenue. As per subsection 40(2) of
the FRR, the authority must be evidenced by specific wording in a Cabinet decision or a
decision made by the Prime Minister. The adjustment is not disclosed in the appropriations note until the appropriation is legally adjusted.

**Departmental capital budgets**

357. Departmental capital budgets (DCB) are designated as contributions by owners (i.e., equity) in accordance with paragraph 8(c) of AASB Interpretation 1038 *Contributions by Owners made to Wholly-Owned Public Sector Entities*. Amounts already designated as equity cannot be redesignated under AASB Interpretation 1038.12.

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

- policy approval has been given for the reclassification (in most cases, approval from the Finance Minister);
- The amount reflects the policy approval via reappropriation in Bill 3;
- a section 51 quarantine of the original amounts appropriated under Act 1 has been actioned by Finance;
- the section 51 quarantined amount and the Bill 3 reappropriation amounts have been reported in the entity’s PAES statements.

359. Further guidance on redesignation/reclassifications between DCB and operating funding can be found in the EM 2019/02: *Treatment of Reclassifications/ Redesignations between Departmental Operating and Departmental Capital Budget in Appropriation Bill 3 in the Current Year*.

**Departmental supplementation**

360. 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 appropriations revenue; and
- subsequent years – appropriations in subsequent years will be recognised to the extent that they have not been previously recognised.

361. Transactions need to be appropriately evidenced before appropriations can be recognised. The minimum requirement for ‘appropriate evidence’ is a written Ministerial agreement.

362. The receivable must not be taken up as ‘appropriation receivable’ until such time as legally available and instead is to be taken up as a ‘receivable from Government’.

**Lapsing appropriations**

363. The annual appropriation acts include a repeal date that provides an annual appropriation life span of up to three years. That is, any unspent balance of an
appropriation will cease to be available for spending after the repeal date specified in the relevant Appropriation Act.

364. Lapsing appropriations should be recognised as departmental equity returns referenced in section 39(2) of the FRR.

365. 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.

366. Entities should recognise the reduction in appropriation receivable at each 30 June balance date and disclose in the relevant note.
Administered Appropriations

Extract from *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*

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

**42 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.

**43 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 (i.e., not in the nature of equity injections or loans) are recorded as expenses by the non-corporate Commonwealth entity.
Administered appropriations

367. Administered appropriations provide funding relating to activities administered by entities in their fiduciary capacity on behalf of the Australian 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 out of the OPA for administered items do not give rise to administered appropriations receivable.

368. Drawdowns of administered appropriations can be daily as required, and entities will be able to make additional drawdowns for the amounts of recoverable GST where necessary. Entities will 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 Act 1 and Appropriation Act 2.

Payments to corporate entities

369. Amounts to be paid to corporate Commonwealth entities are appropriated to the relevant non-corporate Commonwealth entity (i.e., portfolio department) for payment to corporate entities in the annual Appropriation Acts or in other Acts (as special appropriations). They do not include amounts paid to corporate entities under other arrangements (e.g., contractual arrangements).

370. Amounts appropriated to a non-corporate Commonwealth entity for payment to corporate entities are administered appropriations to the non-corporate Commonwealth entity.

371. Upon receipt of the payment from the non-corporate Commonwealth entity, the corporate Commonwealth entity, being legally separate from the Commonwealth, will recognise the amount as revenue from Government, unless the funding is in the nature of an equity injection.

372. An equity injection received by a corporate Commonwealth entity is recognised as contributions by owners, only if 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 Contributions. Refer to RMG 123 Deeming or designating transfers of assets and liabilities as ‘contributions by owners’ (equity) for more information.

373. Equity injections paid to a corporate Commonwealth entity are recorded by a non-corporate Commonwealth entity (i.e., the portfolio department) as an adjustment to administered investments.
Disclosure of Appropriations

**Extract from Public Governance, Performance and Accountability (Financial Reporting) Rule 2015**

**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.
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.

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.

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.

General

374. The appropriations disclosure note does not include payments to the ATO of GST amounts collected on receipts (whether notional or actual), actual payments of GST to the ATO and GST paid on supplies.
375. Payments from the CRF not authorised by appropriation are always ‘material in nature’ and an explanation is required irrespective of the amount.

**Annual appropriations**

*Formal additions or reductions under section 40 of the FRR*

376. The availability of an appropriation is determined by the enactment date of the Appropriation Act and the funds do not become legally available until this date. Appropriations for additional outputs that are subject to formal approval by Parliament after the end of the reporting period (as per section 40 of the FRR) must not be disclosed.

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

**Disclosure of withheld and quarantined appropriations**

378. Reporting entities are required to include details (e.g., reason and amount) of appropriations that have been withheld and quarantined in a footnote.

**Unspent annual appropriations**

379. Unspent balances incorporate adjustments to appropriations under the Appropriation Acts and PGPA Act (e.g., PGPA Act section 75 transfers), where applicable.

**Special appropriations**

380. Disclosures are required for all special appropriations irrespective of whether the appropriation has been drawn on. Where a special appropriation has not been 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, e.g. table list or footnote.

381. For special appropriations with the type 'refund', 'Appropriation applied' is the total refunds made under section 77 of the PGPA Act. Further information about refunds can be found in EM 2017/53: Repayments made using the special appropriation in section 77 of the PGPA Act.

382. Please note that there may be more than one responsible entity for an appropriation. Where this is the case, each entity must make disclosures of the amounts they have drawn on.

**Acting as an agent**

383. An entity is considered to be acting as an agent in relation to another entity’s appropriation when that entity has the authority to access the appropriation of the other entity to make payments as if it was the appropriated entity. Where an entity receives an amount from another entity and retains it by increasing its appropriation, and subsequently pays this amount on to a third party, it is not acting as an agent.
384. For cross-referencing purposes, where an entity makes disclosures and at least one other entity has drawn from the same special appropriation, the entity making the disclosures must name those other entities by making the following statement as a footnote to the table:

“[Disclose other entity/entities] also drew from [disclose special appropriation provision(s)]”.

**Corporate entities - Appropriations**

385. Except in cases where corporate entities handle public money, 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. By the time the money reaches the corporate entity, it is not considered an appropriation in its hands. Corporate entities must not disclose these amounts as appropriations.

386. Corporate entities are required to disclose these amounts in accordance with the nature of the payment. This can be determined by reference to the appropriation acts, for example ordinary annual appropriations amounts recognised as revenue, amounts designated as equity would be disclosed as contributed equity.
Part 10 – Other Disclosures

Overview

Part 10 addresses specific disclosure requirements in the face statements and supporting notes, special accounts and the reporting of outcomes.

Special Accounts

Extract from Public Governance, Performance and Accountability (Financial Reporting) Rule 2015

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 (e.g., 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.

General

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

388. 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.

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

Special Account - Expenditure

390. For each special account, there must be separate disclosure for expenditure that is departmental or administered in nature.

Comcare receipts

391. Amounts received from Comcare for workers compensation to be provided to employees can be retained

392. Guidance on retainable receipts is provided in RMG 307 Retainable Receipts.

Unidentified receipts

393. Refer to the guidance on unidentified receipts in Part 5 - Assets Held in Trust.

Assets held in trust

394. 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 (Part 5 – Assets Held in Trust).

Statutory Credits

395. 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 unilateral transaction.

396. A statutory credit provision is not in itself a separate special appropriation. Special accounts in Acts are supported by the (limited) special appropriation in section 80(1) of the PGPA Act. The limit of the special appropriation in s80 of the PGPA Act is the balance of the special account.
397. Statutory credits will increase the balance of the special account (and hence available appropriation). The entity is to record the statutory credit received as cash in OPA with the corresponding accounting entry against equity (administered) or appropriation receivable (departmental). Entities will recognise a payment and reduce the balance of the special account when the amount is applied.

398. Statutory credits to the special account will increase the appropriation amount and be included in the entity’s appropriation disclosures in accordance with financial reporting requirements. There is no requirement to separately disclose appropriation increases that have resulted from the execution of a statutory credit provision.

399. Legislated statutory credit provisions are not financial instruments and therefore, are not required in financial instrument disclosures.

Disclosure of Special Account Balances in Entity Financial Statements

400. Reporting 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 and Special Accounts note.

401. Reporting entities should disclose all special account related funds held in their administered receipts and administered payments bank account as cash at bank in theAdministered Schedule of Assets and Liabilities, Administered Cash Flow Statement, Administered Reconciliation Schedule, Administered – Financial Assets note and Special Accounts note.

402. For trust amounts received as retainable receipts under section 74 of the PGPA Act, 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, and that entities should refer to the Annual Appropriations and Assets Held In Trust notes for more information. 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 retained are actually trust amounts.

403. 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.

404. Appendix 3 illustrates reporting and disclosure requirements for entities who held part of the closing balance of a special account on trust.

405. Administered receipts relating to a special account 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 and Special Accounts note.

406. The balance of the OPA (incorporating balances of special accounts transferred by entities to the OPA) will be disclosed as appropriate by the Department of Finance on behalf of whole of government in its financial statements as cash/ cash equivalents in the Administered Schedule of Assets and Liabilities and Administered – Financial Assets note.
407. Special account balances that are held in the OPA (excluding trust amounts) will be included in the financial instrument disclosure note under AASB9, there is a contractual right to receive cash and 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.

408. Special account balances held by an entity in a bank account (excluding trust amounts) will be included in the financial instrument disclosure note, as 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.

409. Further guidance on special accounts reporting can be found in the EM 2017/47 and its attachments. Also, guidance on the reporting of Special accounts has been published in CBMS User Reference Material – 09. Reference Material – Guidance.

**Reporting of Outcomes**

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

**Comparative information and reclassification of items**

410. Reclassification of an item between outcomes may result in a change in accounting policy and hence require restatement of comparative data and disclosure in the notes of entities’ financial statements, in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. Refer to paragraphs 14–31 of AASB 108 for further information about applying changes in accounting policies.

**Outcomes tables**

411. AASB 1050 Administered Items and AASB 1052 Disaggregated Disclosures use the term 'activities' which generally equate to the term 'outcomes' for departmental and administered items.

412. Paragraph 16 of AASB 1052 requires disclosure of departmental assets and liabilities by major activity where they are reasonably attributable (and this guide requires the same disclosure for administered assets and liabilities). Whether particular assets and liabilities cannot be reliably attributed is, however, a matter for each reporting entity to determine.

413. Administered income does not include administered appropriations.

414. Entities 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; and
   - major classes applicable to the disclosing entity.

415. Payments to corporate entities are not related to the paying entity’s outcomes and are therefore not attributed. They need to be included in the disclosures for completeness.
416. Outcome disclosures need to agree to the corresponding totals in the entity’s statement of comprehensive income, statement of financial position and administered schedules. This means the disclosure note may need to include items not allocated to an outcome.

Outcomes reporting for Tier 2 entities

417. Tier 2 entities are not required to present outcome reports in their financial statements. However, it is expected that all entities will present the relevant disaggregated disclosures in the body of their annual reports. Refer to the annual reports guideline (RMG 135) on the Finance website for further details.

Regulatory Charging

<table>
<thead>
<tr>
<th>Extract from Public Governance, Performance and Accountability (Financial Reporting) Rule 2015</th>
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</thead>
<tbody>
<tr>
<td>34A Regulatory charging</td>
</tr>
<tr>
<td>(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.</td>
</tr>
<tr>
<td>(2) The note must include:</td>
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<tr>
<td>(a) appropriations drawn down and applied to the regulatory activities;</td>
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<tr>
<td>(b) external revenue raised for the regulatory activities; and</td>
</tr>
<tr>
<td>(c) expenses related to the regulatory activities.</td>
</tr>
</tbody>
</table>

General

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

419. This note previously related to cost recovered activities. With the introduction of the Australian Government Charging Framework (the Framework) on 1 July 2015, this note now only relates to regulatory charging activities. All regulatory charging activities regardless of their financial value need to be reported. Resource and commercial charging activities do not need to be reported nor do inter or intra-government charges.

420. This financial information needs to be prepared as an aggregate (i.e., the total of the entity’s regulatory charging activities). This information is a subset of information contained elsewhere in the financial statements (e.g., the external revenue reported in this note is a subset of the entity’s total external revenue). Where entities do not manage all parts of the regulatory charging activity (e.g., deliver the activity but do not collect receipts or vice versa), entities need to disclose those parts of the activity that they manage. Reference to other entities involved in the activity needs to be included in the ‘regulatory charging activities' section of PRIMA Forms.
421. Further information is available in RMG 302: *The Australian Government Charging Framework* or by contacting the Charging Policy Team at chargingpolicy@finance.gov.au.

**Financial Reporting Rule requirements**

*Amounts applied*

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

423. Corporate Commonwealth 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.

424. Non-corporate Commonwealth entities need to complete the relevant appropriation line/s.

*Expenses and revenue*

425. This relates to the total amounts expensed and external revenue recognised that can be attributed to the regulatory charging activities and are split between departmental and administered items. Revenue only relates to revenue that can be attributed to external sources (i.e., it does not include appropriation revenue).

426. Corporate Commonwealth 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.

**Better practice disclosures included in PRIMA Forms**

*Amounts written off*

427. This allows 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*

428. This 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).
Budgetary Reporting

General

429. Not-for-profit entities within the GGS are required to disclose the original budgeted financial statement presented to parliament together with explanations of major variances between the actual amounts presented in the financial statements and the corresponding information original budget amounts.

430. Reporting entities' financial statements are subject to audit and will therefore need to ensure that they have adequate working papers to support Budget information disclosed. Examples of appropriate working papers include CBMS reconciliations, CFO sign-offs and appropriate Budget authority documentation.

431. Comparative budgetary information in respect of the previous period is not required.

432. The ANAO will only audit variances between actual and original budget amounts and will not audit the budget amount. Reporting entities will need to understand and explain the underlying basis of the budget amount in order to provide an appropriate explanation for any variance.

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

Major variances

434. Explanations of major variances to be disclosed are those relevant to an analysis of the performance of a reporting entity and the use of resources entrusted to it. Entities need to exercise professional judgement in explaining variances, particularly where variance explanations are of a security or sensitive nature. As per paragraph 15 of AASB 1055, explanations are to focus on a high level explanation of the cause, rather than 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.

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

436. 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% would not be useful in analysing the entity’s performance. Other factors to be considered could include:

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

Net Cash Appropriation Arrangements

General

437. Net cash appropriation arrangements were introduced from the 2009-10 Budget onwards as a response to the June 2008 Murray review - *Operation Sunlight – Overhauling Budget Transparency*. The net cash appropriation arrangements removed the nexus between depreciation/amortisation expenses and asset replacement funding (entities need to refer to the capital budgeting guidance in the knowledge management section of CBMS for operational details). These arrangements were designed to improve resource management and provide entities with the funding they require within a financial year rather than providing funding for items which will not occur sometimes for many years.

438. Under the net cash appropriation arrangements:

- From 2010-11 onwards, non-corporate Commonwealth entities have received a separate Departmental Capital Budget (DCB), provided as Appropriation Acts (No. 1/3/5) equity injections in lieu of an appropriation for depreciation/amortisation (See below for a list of affected entities).

- Entities that are fully cost recovered or majority-funded from external revenue (such as the sale of goods/services) do not receive government funding for their assets, as they self-fund asset purchases and replacements through cost recovery.

439. The DCB is to be used for minor asset replacement (i.e., assets worth $10 million or less), capitalised maintenance and make good costs.

- Major asset purchases/replacements continue to be 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.

- DCBs are disclosed separately as ‘contributions from owners’ in entity Portfolio Budget Statements (PBS), Portfolio Additional Estimates Statements (PAES) and annual reports, and are recorded separately in CBMS.

440. From 2009-10 onwards, nine corporate Commonwealth entities and one non-corporate Commonwealth entities have been designated as Collection Institutions (CIs) and receive separate Collection Development Acquisition Budgets (CDABs). 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 PBS, PAES and annual financial statements.

- For designated CIs that are corporate Commonwealth 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 (such as fit-outs, and infrastructure, plant and equipment).

Disclosure requirements

441. Completion of the Net Cash Appropriation Arrangements note in the financial statements is voluntary. However, entities that receive DCBs should include the Note to provide a clear read with their PBS/PAES. The Net Cash Appropriation Arrangements note is still a requirement for PBS/PAES Budget papers.

442. In preparing the 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.
  
  o These entities need to include a footnote to explain the amount of depreciation/amortisation expenses that have been excluded from the note and what assets/functions they relate to.

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

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

444. Entities may wish to include the following text to explain the purpose of the Net Cash Appropriation Arrangements note:

```
From 2010-11, the Government introduced net cash appropriation arrangements where revenue appropriations for depreciation/amortisation expenses ceased. Entities now receive a separate capital budget provided through equity appropriations. Capital budgets are to be appropriated in the period when cash payment for capital expenditure is required.
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Budget implications

445. Entities in receipt of a DCB and/or CDAB may make a technical operating loss as a result of the net cash appropriation arrangements.

- Affected entities are not required to apply for an operating loss where the loss is solely attributable to net cash appropriation arrangements.

- Entities are still required to apply for an operating loss approval where the loss is due to any other factors.

446. The Net Cash Appropriation Arrangements note in the PBS/PAES and annual financial statements are used to identify whether operating loss applications are required from those entities in receipt of a DCB and/or CDAB.
447. Entities may contact their Finance Agency Advice Unit for more information on the operating loss approval process.

448. Contact the Budget Reporting and Framework Team in Finance by email BudgetFramework@finance.gov.au for further information about net cash appropriation arrangements.

449. DCB is designated as contributions by owners (i.e. equity). Refer to Part 9 Appropriations – Departmental capital budgets for guidance on department capital budgets and reclassification between DCB and operating funding.

Non – corporate Commonwealth entities with full DCB funding (72 entities) (as at 5 February 2019)

450. These entities receive full DCB funding for asset replacement (i.e., they do not have any significant cost recovery activities).

451. These entities need to disclose their full depreciation/amortisation expenses in the Net Cash Appropriation Arrangements note.
- Administrative Appeals Tribunal
- Aged Care Quality and Safety Commission
- Asbestos Safety and Eradication Agency
- Attorney-General’s Department
- Australian Building and Construction Commission
- Australian Bureau of Statistics
- Australian Centre for International Agricultural Research
- Australian Commission for Law Enforcement Integrity
- Australian Communications and Media Authority
- Australian Competition and Consumer Commission (also has body corporate status)
- Australian Electoral Commission
- Australian Federal Police
- Australian Institute of Criminology
- Australian Institute of Family Studies
- Australian Law Reform Commission
- Australian National Audit Office
- Australian Office of Financial Management
- Department of the Environment and Energy
- 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 Health and Medical Research Council
- National Mental Health Commission
- Office of National Assessments
- 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
<table>
<thead>
<tr>
<th>Australian Radiation Protection and Nuclear Safety Agency</th>
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<tbody>
<tr>
<td>Australian Research Council</td>
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<tr>
<td>Australian Secret Intelligence Service</td>
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<tr>
<td>Australian Securities and Investments Commission (also has body corporate status)</td>
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<tr>
<td>Australian Security Intelligence Organisation</td>
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<td>Australian Signals Directorate</td>
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<td>Australian Sports Anti-Doping Authority</td>
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<td>Australian Taxation Office</td>
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<td>Australian Trade Commission</td>
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<td>Australian Transaction Reports and Analysis Centre</td>
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<td>Australian Transport Safety Bureau</td>
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<td>Cancer Australia</td>
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<tr>
<td>Clean Energy Regulator</td>
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<tr>
<td>Commonwealth Grants Commission</td>
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<tr>
<td>Department of Communications and the Arts</td>
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<td>Department of Education and Training</td>
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<td>Department of Home Affairs</td>
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<td>Department of Infrastructure, Regional Development and Cities</td>
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<td>Department of Jobs and Small Business</td>
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<td>Department of Parliamentary Services</td>
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<td>Department of Social Services</td>
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<td>Office of the Commonwealth Ombudsman</td>
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<td>Office of the Director of Public Prosecutions</td>
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<td>Office of the Inspector General of Intelligence and Security</td>
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<td>Parliamentary Budget Office</td>
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<td>Productivity Commission</td>
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<tr>
<td>Professional Services Review Scheme</td>
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<td>Safe Work Australia</td>
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<tr>
<td>Tertiary Education Quality and Standards Agency</td>
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<tr>
<td>Workplace Gender Equality Agency</td>
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</tbody>
</table>
Non-corporate Commonwealth entities with partial DCB funding (13 entities)  
(as at 5 February 2019)

452. These entities receive a partial DCB for asset replacement, as they have significant functions/activities which are cost recovered or externally funded from sales of goods/services. Asset replacements relating to these functions/activities are to be self-funded from cost recovery charges or external revenue earned.

453. These entities need to exclude depreciation/amortisation expenses relating to these assets from the Net Cash Appropriation Arrangements note.

- Australian Financial Security Authority – exclude depreciation/amortisation expenses related to the Personal Property Securities Register and other cost-recovered activities.
- Australian Fisheries Management Authority – exclude depreciation/amortisation expenses related to internally developed software for its licensing function.
- Australian Public Service Commission – exclude depreciation/amortisation expenses related to assets purchased using external revenue.
- Australian Skills Quality Authority – exclude depreciation/amortisation expenses relating to assets purchased using external revenue.
- Bureau of Meteorology – exclude depreciation/amortisation expenses related to assets purchased for the provision of aviation and Defence weather services.
- Department of Agriculture and Water Resources – exclude depreciation/amortisation expenses relating to its biosecurity activities.
- Department of Finance – exclude depreciation/amortisation expenses relating to the Property Special Account.
- Department of Foreign Affairs and Trade – exclude depreciation/amortisation expenses related to the Overseas Property Special Account.
- Department of Health – exclude depreciation/amortisation expenses related to the National Industrial Chemicals Notification and Assessments Scheme and the Therapeutic Goods Administration.
- Department of Human Services (including Centrelink and Medicare) – exclude depreciation/amortisation expenses related to assets purchased using external revenue.
- Department of Industry, Innovation and Science – exclude depreciation/amortisation expenses related to the Australian Astronomical Observatory.
- National Blood Authority and Australian Organ and Tissue Donation and Transplantation Authority – exclude depreciation/amortisation expenses relating to assets purchased using funding from the States and Territories.
Corporate Commonwealth entities which receive a CDAB (9 entities)

454. The following corporate Commonwealth entities are Collection Institutions and receive a CDAB. These entities need only disclose their heritage and cultural depreciation expenses in the Net Cash Appropriation Arrangements note. No depreciation/amortisation expenses relating to other categories of assets, nor other expenses, are required to be shown.

- Australian Institute of Aboriginal and Torres Strait Islander Studies.
- Australian National Maritime Museum.
- Australian War Memorial.
- National Film and Sound Archives of Australia.
- National Gallery of Australia.
- National Library of Australia.
- National Museum of Australia.
- National Portrait Gallery.
- Old Parliament House (excluding any H&C building depreciation).

Non-corporate entities which receive a CDAB (1 entities)

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

- National Archives of Australia.
Appendix 1 – Financial Statements Checklist – Enhancing Readability and Simplification of Disclosures

This checklist includes practical suggestions that Commonwealth entities may adopt in preparing their annual financial statements. The guiding principle is to balance user readability and ease of navigation with simplification of disclosures (while still complying with Australian Accounting Standards (AAS) and the Financial Reporting Rule (FRR)). Technical considerations such as the application of materiality are beyond the scope of this checklist.

<table>
<thead>
<tr>
<th>Topic</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Summary</td>
<td>Have you considered a brief financial summary in your annual report to better communicate your financial results to end users? The summary accompanies but does not form part of the financial statements.</td>
</tr>
</tbody>
</table>
| Contents Page | Have you considered grouping similar notes to assist with navigation (e.g., employee information or funding)? PRIMA contains one example of grouping, yet the appropriate order and grouping of notes varies between entities.  
  o Are subheadings for each grouping written in plain English (e.g., funding subheading for appropriations and special accounts notes).  
  o Does the order of the notes focus on items of most relevance to your entity (most important first) and end users in assessing the financial performance? |
| Presentation in Primary Statements (or Administered Schedules) or the Notes | Where notes supporting primary statements or schedules only include a few line items, have you considered including these items on the face of the statement or schedule and removing the separate notes?  
  o Have you considered combining line items in face statements/administered schedules (where appropriate)?  
  o Where there is flexibility in presenting disclosures in the primary statements/schedules or notes (e.g., AASB 1055 Budgetary Reporting), have you considered the merits of both alternatives? |
| Accounting Policies | Have you reviewed each accounting policy description to determine that it does not contain superfluous information (e.g., describing a policy for finance leases when the entity doesn’t have any finance leases) and written in plain English relevant to your end users?  
  o Have you considered co-locating accounting policy text (including information relating to key assumptions and estimates) with the relevant disclosure rather than as a separate note? |
<table>
<thead>
<tr>
<th>Topic</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Have you reviewed disclosures specific to a particular reporting period to determine if they are still relevant, and if so, whether the level of detail is appropriate (e.g., breaches of section 83 of the Constitution and budgetary reporting)?</td>
<td></td>
</tr>
</tbody>
</table>

**Formatting**

<table>
<thead>
<tr>
<th>• Have you reviewed the formatting of each numerical table to improve presentation?</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>○ Orientation - Portrait or Landscape</td>
<td></td>
</tr>
<tr>
<td>○ Font size must be appropriate to ensure readability</td>
<td></td>
</tr>
<tr>
<td>○ Omitting zero line items</td>
<td></td>
</tr>
<tr>
<td>○ Combining line items that are not material with other line items (unless required by accounting standards)</td>
<td></td>
</tr>
<tr>
<td>○ Consider whether comparatives are included 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>
</tbody>
</table>

• Have you considered combining tables to improve presentation or save space (e.g., combining some tables for property, plant and equipment and intangibles; combining some appropriation reporting requirements)?

• Have you considered co-locating departmental and administered information to improve presentation? (practical considerations include clear delineation between departmental and administered, as well as readability where departmental rounding differs to administered).
Appendix 2 – subsection 18 (2) and (3) of the FRR

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

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

(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; and
(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>Item</th>
<th>Reporting entity</th>
<th>Listed matter</th>
<th>Listed AAS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Airservices</td>
<td>Defined benefit superannuation; Financial instruments; Fair value measurement.</td>
<td>AASB 7 <em>Financial Instruments</em>: Disclosure</td>
</tr>
<tr>
<td></td>
<td>Australia</td>
<td></td>
<td>AASB 13 <em>Fair Value Measurement</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>AASB 119 <em>Employee Benefits</em></td>
</tr>
<tr>
<td>2</td>
<td>Clean Energy</td>
<td>Financial instruments; Fair value measurement.</td>
<td>AASB 7 <em>Financial Instruments</em>: Disclosure</td>
</tr>
<tr>
<td></td>
<td>Finance Corporation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2A</td>
<td>Department of</td>
<td>Administered financial assets; Administered financial instruments; Administered</td>
<td>AASB 7 <em>Financial Instruments</em>: Disclosure</td>
</tr>
<tr>
<td></td>
<td>Communications</td>
<td>fair value measurement</td>
<td></td>
</tr>
<tr>
<td></td>
<td>and the Arts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Department of</td>
<td>Administered defined benefit superannuation.</td>
<td>AASB 119 <em>Employee Benefits</em></td>
</tr>
<tr>
<td></td>
<td>Defence</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Department of</td>
<td>Administered financial assets; Administered financial instruments; Administered</td>
<td>AASB 7 <em>Financial Instruments</em>: Disclosure</td>
</tr>
<tr>
<td></td>
<td>Education and</td>
<td>fair value measurement</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Training</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Department of</td>
<td>Administered defined benefit superannuation; Administered investments;</td>
<td>AASB 7 <em>Financial Instruments</em>: Disclosure</td>
</tr>
<tr>
<td></td>
<td>Finance</td>
<td>Administered financial instruments; Administered financial instruments;</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Administered fair value measurement.</td>
<td>AASB 119 <em>Employee Benefits</em></td>
</tr>
<tr>
<td>6</td>
<td>Department of</td>
<td>Administered financial assets; Administered financial instruments; Administered</td>
<td>AASB 7 <em>Financial Instruments</em>: Disclosure</td>
</tr>
<tr>
<td></td>
<td>Foreign Affairs</td>
<td>fair value measurement</td>
<td></td>
</tr>
<tr>
<td></td>
<td>and Trade</td>
<td>Non-financial assets; Fair value measurement.</td>
<td>AASB 13 <em>Fair Value Measurement</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>AASB 116 <em>Property, Plant and Equipment</em></td>
</tr>
<tr>
<td>Item</td>
<td>Reporting entity</td>
<td>Listed matter</td>
<td>Listed AAS</td>
</tr>
<tr>
<td>------</td>
<td>------------------</td>
<td>---------------</td>
<td>------------</td>
</tr>
<tr>
<td>7</td>
<td>Department of Industry, Innovation and Science</td>
<td>Administered financial assets; Administered financial instruments; Administered fair value measurement.</td>
<td>AASB 7 <em>Financial Instruments</em>: Disclosure  AASB 13 <em>Fair Value Measurement</em></td>
</tr>
<tr>
<td>7A</td>
<td>Department of Infrastructure, Regional Development and Cities</td>
<td>Administered financial assets; Administered financial instruments; Administered fair value measurement.</td>
<td>AASB 7 <em>Financial Instruments</em>: Disclosure  AASB 13 <em>Fair Value Measurement</em></td>
</tr>
<tr>
<td>7B</td>
<td>Department of the Environment and Energy</td>
<td>Administered financial assets; Administered financial instruments; Administered fair value measurement.</td>
<td>AASB 7 <em>Financial Instruments</em>: Disclosure  AASB 13 <em>Fair Value Measurement</em></td>
</tr>
<tr>
<td>8</td>
<td>Department of the Treasury</td>
<td>Administered financial instruments; Administered investments; Administered fair value measurement.</td>
<td>AASB 7 <em>Financial Instruments</em>: Disclosure  AASB 12 <em>Disclosure of Interests in Other Entities</em>  AASB 13 <em>Fair Value Measurement</em></td>
</tr>
</tbody>
</table>
Appendix 3 – disclosure of Trust Moneys in Departmental and Administered Financial Statements

- **Administered**
  - Statement of Comprehensive Income (PRIMA:AdminIS)
  - Administered Reconciliation Schedule (PRIMA:AdminC)
  - Administered Schedule of Assets and Liabilities (PRIMA:AdminBS)
  - Administered Cash Flow Statement (PRIMA:AdminCF)

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

- **Departmental**
  - Statement of Comprehensive Income (PRIMA:DeptIS)
  - Statement of Changes in Equity (PRIMA:DeptCE)
  - Statement of Financial Position (PRIMA:DeptBS)
  - Cash Flow Statement (PRIMA:DeptCF)

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

- **Departmental and Administered**
  - Assets Held in Trust Note
    - (Held in a Special Account)
    - Include trust amounts held in a special account.
    - Should include a cross reference to the Special Accounts Note.

  - Includes all amounts that make up special accounts balances, including trust moneys.
  - Footnote required to disclose special accounts that hold trust moneys, and value of trust moneys.
  - Should include a cross reference to the Assets Held in Trust note.

  FRR: s31
  RMG 125 Part 5 Statement of Financial Position – Assets Held in Trust
  PRIMA:OI8.2

- **Special Accounts Note**
  - Includes all amounts that make up special accounts balances, including trust moneys.
  - Footnote required to disclose special accounts that hold trust moneys, and value of trust moneys.
  - Should include a cross reference to the Assets Held in Trust note.

  FRR: s48
  RMG 125: Part 10 Other disclosures – Special Account
  PRIMA:F5.2

- **Departmental only**
  - Appropriations Note
    - Trust moneys received as retainable receipts should be included in Adjustments to Appropriations.
    - Footnote required to disclose trust amounts.
    - Should include a cross reference to the Assets Held in Trust note.

  FRR: s31
  RMG125 Part 5 Statement of Financial Position – Assets Held in Trust
  PRIMA:F5.1