I PURPOSE AND SCOPE

Reissued: 24 March 2009

APS 1.1 The Department of Treasury and Finance has issued 6 Accounting Policy Frameworks. They are: *Purpose and Scope*; *General Purpose Financial Statements Framework; Asset Accounting Framework*; *Financial Asset and Liability Framework*; *Income Framework* and *Definitions*. Each of the Frameworks contain Accounting Policy Statements issued by the Treasurer on selected accounting and reporting issues. An APS prefix identifies those paragraphs within an Accounting Policy Framework which are Accounting Policy Statements.

APS 1.2 Accounting Policy Statements are issued pursuant to Section 41 of the *Public Finance and Audit Act, 1987*. They are applicable to all public authorities that are reporting entities.

APS 1.3 Accounting Policy Statements are designed to ensure consistent application of Australian Accounting Standards by all controlled public authorities in the presentation of their general purpose financial statements.

APS 1.4 In addition to the Accounting Policy Statements (mandatory elements) the frameworks contains guidance and preferred financial reporting policies, which are shaded grey.

APS 1.5 An overriding principle of financial reporting is that the reporting reflects the reality or substance of transactions over their legal form.

APS 1.6 Before release, a draft of the Accounting Policy Statement will, where considered necessary, be distributed to the Auditor-General's Department and selected public authorities for comment. The comments received will be reviewed and the draft amended, as appropriate, before being issued.

APS 1.7 In the event of an inconsistency between an Accounting Policy Statement and an Australian Accounting Standard, the requirements of the Accounting Policy Statement will prevail.

APS 1.8 Terms defined in the Accounting Policy Statement will have the same meaning as those in the Australian Accounting Standards unless defined in the *Definitions* Framework.

APS 1.9 The Accounting Policy Frameworks listed in APS 1.1 become operative for the first reporting period beginning on or after 1 January 2005.

APS 1.10 Unless otherwise stated, references in an Accounting Policy Framework to an APS refer to an APS within the same Accounting Policy Framework.

II GENERAL PURPOSE FINANCIAL STATEMENTS FRAMEWORK

Reissued: 21 February 2017

1 INTRODUCTION

Application and Operative Date

This Accounting Policy Framework is re- issued on the 21 February 2017 and applies to the general purpose financial statements of each public authority for the reporting period ending on or after 30 June 2017. It replaces APF II issued in March 2016 which is hereby revoked.

Scope

This Policy Framework prescribes the requirements for public authorities when preparing their general purpose financial statement, significant accounting policies and explanatory notes. It requires most public authorities to prepare a single Statement of Comprehensive Income (on the net cost of services basis); prescribes that elements of the financial statements are to be classified according to their nature; lists those public authorities that are 'for-profit' entities and prescribes certain reporting requirements in relation to administered items.

Australian Accounting Standards

The following Australian Accounting Standards have general application in relation to the preparation of general purpose financial statements.

AASB 101 *Presentation of Financial Statements* prescribes the composition of a complete set of financial statements; general features of financial statements; the structure and content of financial statements; classification of items in the financial statements; and a range of disclosures about financial position and financial performance.

AASB 107 *Statement of Cash Flows* requires the provision of information about the historical changes in cash and cash equivalents of an entity by means of a Statement of Cash Flows which classifies cash flows during the period from operating, investing and financing activities.

AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* prescribes the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. This intends to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

AASB 124 *Related Party Disclosure* ensures that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and financial performance may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

AASB 1050 *Administered Items* requires administered items to be disclosed.

AASB 1052 *Disaggregated Disclosures* requires disclosure of financial information by activity/service costs and achievements.

AASB 1055 *Budgetary Reporting* requires disclosure of certain original budget information including explanations of major variances.

AASB *Framework for the Preparation and Presentation of Financial Statements* sets out the concepts that underlie the preparation and presentation of financial statements for external users.

2 CONTENT OF GENERAL PURPOSE FINANCIAL STATEMENTS

APS 2.1 Where, by statute, Ministerial direction or other authority, a public authority is required to prepare financial statements which adopts an accounting treatment or policy which is inconsistent with the requirements of Accounting Policy Statements, the public authority will not hold out those financial statements to be general purpose financial statements, and will not apply that treatment or policy in the preparation of its general purpose financial statements.

APS 2.2 General purpose financial statements for each reporting entity will include a Statement of Financial Position; a Statement of Comprehensive Income; a Statement of Changes in Equity; and a Statement of Cash Flows; explanatory notes; and financial schedules and explanatory notes for administered items.

APS 2.3 General purpose financial statements will be presented in the Australian currency.

APS 2.4 For the purpose of Australian Accounting Standards, Funds SA, Homestart Finance, Local Government Financing Authority, SAFA, SA Forestry Corporation, SA Water and Urban Renewal Authority are for-profit entities. All other public authorities are not-for-profit entities.

APS 2.5 Where a public authority has control over another entity, it must, subject to materiality, prepare consolidated general purpose financial statements for the public authority and all of its controlled entities.

APS 2.6 Other than those entities specifically exempted via APS 2.6.1, all public authorities must apply Tier 1 Australian Accounting Standards reporting requirements when preparing general purpose financial statements.

APS 2.6.1 Where the Under Treasurer or his/her delegate has approved, the following public authorities are exempt from the requirements of APS 2.6, APS 4.1 and APS 4.2:

- public authorities that have consolidated expenses for the financial year of equal to or less than $50m and consolidated assets for the financial year of equal to or less than $75m; or are public authorities with the primary purpose of promoting the arts; and
- public authorities that are not a public corporation; a public insurer; and/or a public superannuation board/fund; and
- public authorities that do not satisfy a public interest test.

2.6.2 To assist public authorities with the application of APS 2.6.1, the Department of Treasury and Finance has listed below those public authorities that are approved to apply Tier 2 Australian Accounting Standards reporting requirements.

Where a Chief Executive of a public authority is of the opinion that a public authority meets the requirements outlined in APS 2.6.1 but is not specified in the list below, he/she can forward a request to the Department of Treasury and Finance for approval by the Under Treasurer or his/her delegate, to apply Tier 2 reporting requirements.

Aboriginal Lands Trust	Adelaide Cemeteries Authority	Adelaide Dolphin Sanctuary Fund
Adelaide Festival Corporation and Centre Trust	Adelaide Film Festival	Adelaide and Mount Lofty Ranges Natural Resources Management Board
Alinytjara Wilurara Natural Resources Management Board	ANZAC Day Commemoration Fund	Art Gallery Board
Auditor-General's Department	Australian Children's Performing Arts Company	Australian Energy Market Commission
Bio Innovation SA	Board of the Botantic Gardens and State Herbarium	Carrick Hill Trust
Coast Protection Board	Construction Industry Training Board	Dairy Authority of South Australia
Distribution Lessor Corporation	Dog and Cat Management Board	Dog Fence Board
Economic Development Board (Project Coordination Board)	Education and Early Childhood Services Registration and Standards Board of South Australia	Electoral Commission of South Australia and Electoral Districts Boundaries Commission
Essential Services Commission of South Australia	Eyre Peninsula Natural Resources Management Board	General Reserves Trust

Generation Lessor Corporation	Health Advisory Councils Inc. and any associated Gift Fund Trusts	History Trust of South Australia
Independent Commissioner Against Corruption and Judicial Conduct Commissioner	Independent Gambling Authority	Industry Funds including wine, citrus, grain, apiary, cattle, deer, grape, pig, sheep
Investment Attraction South Australia	Kangaroo Island Natural Resources Management Board	Legal Services Commission
Libraries Board of SA	Maralinga Lands Unnamed Conservation Park Board	Museum Board
Native Vegetation Fund	Northern and Yorke Natural Resources Management Board	Office of the National Rail Safety Regulator
Outback Communities Authority	Planning and Development Fund	Professional Standard Council
Rail Commissioner	Retail Shop Leases Fund	Riverbank Authority
Rural Industry Adjustment and Development Fund	SACE Board of South Australia	Second-hand Vehicles Compensation Fund
Small Business Commissioner	South Australian Arid Lands Natural Resources Management Board	South Australian Country Arts Trust
South Australian Film Corporation	South Australian Local Government Grants Commission	South Australian Murray-Darling Basin Natural Resources Management Board
South Australian State Emergency Service	South East Natural Resources Management Board	State Opera of South Australia

State Procurement Board	State Theatre Company of South Australia	Stormwater Management Authority
Study Adelaide (previously known as Education Adelaide)	Teachers Registration Board of South Australia	Transmission Lessor Corporation
The Legislature (Legislative Council and House of Assembly)	Vinehealth Australia (previously known as Phylloxera and Grape Industry Board of South Australia)	Nuclear Fuel Cycle Royal Commission Consultation and Response Agency

APS 2.7 Public authorities must seek the Department of Treasury and Finance's approval prior to adopting a new or amended accounting standard ahead of the specified commencement date, except where a new or amended accounting standard has been early adopted at a whole of government level as specified in the Model Financial Statements issued by the Department of Treasury and Finance.

3 FORMAT OF GENERAL PURPOSE FINANCIAL STATEMENTS

Statement of Financial Position

APS 3.1 All government reporting entities will aggregate all asset, liability and equity items for the reporting period in the Statement of Financial Position according to their nature.

Statement of Comprehensive Income

APS 3.2 All government reporting entities will:

a. present all items of income and expense recognised in a single Statement of Comprehensive Income;

b. aggregate all income and expense items for the reporting period in the Statement of Comprehensive Income according to their nature; and

c. disclose the sale or disposal of non-financial assets on a net basis in the Statement of Comprehensive Income.

APS 3.3 Other than those entities specifically exempted via APS 3.4, all government reporting entities will present the Statement of Comprehensive Income on a net cost of services basis.

APS 3.4 The following government reporting entities are exempt from the requirements of APS 3.3, APS 3.7, APS 3.9 and APS 4.11:

- a government reporting entity deemed to be a for-profit entity via APS 2.4;
- a statutory authority that is required to comply with a specific industry Accounting Standard eg AASB 1023 *General Insurance Contracts*; or
- a university

3.5 The model financial statements issued pursuant to Treasurer's Instruction 19 *Financial Reporting,* contains guidance on the presentation of general purpose financial statements.

APS 3.6 All not-for-profit entities will expense borrowing costs in the period incurred. Unless material and directly attributable to the acquisition, construction or production of a qualifying asset, all for-profit public non-financial corporations will expense borrowing costs in the period incurred.

APS 3.7 Other than those entities specifically exempted via APS 3.4, all government reporting entities will separately disclose:

a. the amount and nature of contributions in accordance with paragraph 60 to 62 of AASB 1004 *Contributions*;

b. appropriations by class and liabilities assumed during the reporting period in accordance with paragraph 63 of AASB 1004 *Contributions;* and

c. compliance with parliamentary appropriation requirements in accordance with paragraph 64 to 68 of AASB 1004 *Contributions.*

Statement of Changes in Equity

APS 3.8 The following items will be presented in the Statement of Changes in Equity:

- analysis of other comprehensive income by item; and
- transactions with the State Government as owner, including, where a Government entity pays a dividend to the SA Government.

Statement of Cash Flows

APS 3.9 Other than those entities specifically exempted via APS 3.4, all government reporting entities will present the Statement of Cash Flows on a net cost of services basis.

APS 3.10 All government reporting entities will:

a. report cash flows from operating activities using the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed in the Statement of Cash Flows;

b. report cash flows on a net basis in the Statement of Cash Flows where AASB107 *Statement of Cash Flows* permits items to be reported on a net basis;

c. classify interest received, dividends received and interest paid as operating flows and classify dividends paid as financing flows in the Statement of Cash Flows; and

d. record cash flows relating to GST on a "gross" basis. The GST component of cash flows arising from investing and financing activities that are recoverable from, or payable to, the taxation authority will be classified as operating cash flows.

Administered Items

APS 3.11 An administered item is an activity whereby the government reporting entity:

- is unable to use the resources for the furtherance of its own objectives eg no discretion to alter the resources provided or determine how those resources are spent.
- provides a service or function on behalf of the Minister eg raising and collecting taxes, providing management and accountability of a fund which is administered by a Minister.

3.12 The provision of an outsourced function such as transaction processing, accounting services, record maintenance services etc is **not an administered item** eg Shared Services SA.

Where an Act establishes an entity or fund and the management and accountability (including the preparation of financial statements which are audited by the Auditor-General) of the entity or fund resides with a Governing Authority this is **not an administered item** even though a government reporting entity may provide accounting or record maintenance services eg Board of Botanic Gardens, Dog and Cat Management Board, Dog Fence Board, Outback Community Authority etc.

Where an Act establishes an entity or fund and the management and accountability of the entity/fund resides with the Minister this **is an administered item** eg Adelaide Dolphin Sanctuary Fund, Primary Industry Funds.

APS 3.13 The financial statements of all government reporting entities will distinguish between those transactions and balances that are controlled and those that are administered by the entity on behalf of the Government. Those administered transactions and balances that are:

3.13.1 significant in relation to the entity's overall performance or financial position, will be disclosed in the financial statements after the explanatory notes in separate administered financial schedules and notes. The administered schedules will include a:

- Statement of Administered Financial Position;
- Statement of Administered Comprehensive Income (presented on a net result basis);
- Statement of Administered Changes in Equity;

- Statement of Administered Cash Flows (presented on a net result basis); and
- Schedule of Administered Income and Expenses attributable to the administered activities of the entity.

3.13.2 insignificant in relation to the entity's overall performance or financial position, will be disclosed in the explanatory notes.

APS 3.14 The administered financial schedules and administered explanatory notes will be prepared using accounting policies and principles that have been adopted for controlled transactions and balances. For example, commitments, contingent assets and contingent liabilities will be disclosed for administered items.

3.15 The model financial statements for not-for-profit entities issued pursuant to Treasurer's Instruction 19 *Financial Reporting,* contains guidance on the presentation of general purpose financial statements including the presentation of administered items.

4 EXPLANATORY NOTES

Transactions with SA Government

APS 4.1 All government reporting entities will disclose in the explanatory notes - revenues, expenses, financial assets and liabilities where the counterparty/transaction is with an entity within the SA Government as at the reporting date, classified according to their nature. A threshold of $100 000 for separate identification of these items will apply.

APS 4.2 Transactions with entities within the SA Government below the threshold may be disclosed with the non-SA Government transactions.

APS 4.3 Public authorities listed in 2.6.1 and universities are exempt from the requirements in APS 4.1 and APS 4.2.

4.4 The Department of Treasury and Finance relies on agencies to provide the information requested at APS 4.1. The receipt of reliable internal transaction information is central to the production of whole-of-government consolidated financial statements. To ensure internal transactions are easily identifiable and reconcilable to the face of agencies financial statements, it is important that totals are included for revenues, expenses, financial assets and financial liabilities.

The SA Government controlled entities listing may assist government reporting entities in distinguishing between SA Government and non-SA Government entities.

Consultants

APS 4.5 Expenses incurred as a result of engaging consultants (as reported in the Statement of Comprehensive Income) will be disclosed in the explanatory notes. Expenses incurred as a result of engaging other contractors need not be disclosed separately.

APS 4.6 Consultant means a person or entity that is engaged by a government reporting entity for a specified period to carry out a task that requires specialist skills and knowledge not available in the entity. The objectives of the task will be achieved by the consultant free from direction by the entity as to the way it is performed and in circumstances in which the engagement of a person under normal conditions is not a feasible alternative.

4.6.1 **Guidelines to assist in distinguishing between consultants and other contractors for the purposes of financial reporting.**

Consultant is defined in Accounting Policy Framework VI *Definitions* as *a person or entity that is engaged by an entity for a specified period to carry out a task that requires specialist skills and knowledge not available in the entity. The objectives of the task will be achieved by the consultant free* *from direction by the entity as to the way it is performed and in circumstances in which the engagement of a person under normal conditions is not a feasible alternative.*

In practice, determining whether a contractor is a consultant is not always easy and more often than not a degree of judgment is needed. The purpose of this guidance is to assist government reporting entities with this determination for the purposes of reporting in compliance with APS 4.5. The APS 4.6 definition of a consultant is the same as the definition in the Department of the Premier and Cabinet Circular 27. The first step for government reporting entities when engaging a contractor is to determine whether in fact the contractor is an employee. An information sheet "Contractor or Employee?" issued by the Public Sector Workforce Relations section (formerly OCPE) may assist agencies with this determination. Having determined the contractor is not an employee for financial statement purposes, the following guidelines may then assist in determining whether, for the purposes of financial statements, the contractor is a consultant.

Consultant

Key characteristics include:

- Generally consultants provide independent expert advice.
- There is an expectation that the consultant will exercise his or her own skill and professional judgment independent of the agency.
- Generally consultants perform significant independent research and investigation.
- Recommendations made by consultants are generally for decision-making or for management action.
- Consultants' recommendations are generally made in a written report or intellectual product.

Examples of consultancy:

- Advice on an agency's training needs and development/design of a training course/framework.
- Advice on new technologies and or system implementation and development of IT strategic plan and or system specification.
- Research projects, feasibility studies where recommendations are made.
- Expert advice on technical and professional matters with recommendations made eg an accountant engaged to advise on the financial viability of a government business enterprise or legal advice relating to issues on proposed amendments to legislation.
- Advice in the development of policy and strategic planning issues where recommendations are made.
- Advice on planning and performing environmental scans.

Other Contractor

Key characteristics of a contract that is <u>not</u> a consultancy include:

- Generally the contractor performs 'routine'/core business tasks.

- The tasks generally would not differ materially from those of employees working in the same area ie 'day to day' issues.
- Tasks performed are generally supervised by an employee of the agency.
- Generally the contract will specify the name/names of the individuals who will be performing the tasks.
- Generally the service provided does not include a recommendation, or if a recommendation is included it is only part of performing a 'routine' task.
- General research/investigation may be carried out as part of performing the routine task.
- The contractor operates as an independent business entity.
- The contractor takes responsibility for risks.
- The contractor engages or employs staff and has the right to delegate work to be performed.
- There is a desired result in a written contract.
- The contractor is bound by contractual requirements to rectify defects.
- The contractor contributes capital, resources etc.

Examples of contractors that are not consultants:

- Trainers, presenters, workshop facilitators ie the person engaged to perform the actual training.
- Temporary staff engaged to undertake office services, sourced from staffing agencies.
- IT programmers, analysts and system support staff ie the person engaged to undertake implementation in accordance with specifications such as supplying or writing software or constructing systems.
- Market researchers ie persons compiling information where no recommendations are made.
- Legal advice, where an opinion is given but no recommendation made, or routine legal services such as conveyancing, advocacy and drafting of documents.
- Routine auditing or accounting service providers ie general financial, legal and taxation services that provide ongoing advice on the day to day issues.
- Outsourced service providers eg IT services as with the EDS contract, cleaning services provided by Tempo, security services provided by Group4.
- Building and construction services eg plumbers, electricians, cleaning services.

Employee Disclosures

APS 4.7 All government reporting entities will disclose in the explanatory notes - employee targeted voluntary separation packages (TVSP) information, specifically the:

a. number of employees who were paid TVSP during the reporting period;

b. amount of TVSPs paid during the reporting period;

c. amount recovered from the Department of Treasury and Finance during the reporting period in respect of TVSPs; and

d. aggregate amount of annual leave, skill experience and retention leave, and long service leave paid during the reporting period to employees who received a TVSP.

APS 4.8 In relation to employees whose normal remuneration is equal to or greater than the base executive remuneration level, an explanatory note will disclose:

a. in relation to the $10 000 band of remuneration that commences at the base executive remuneration level and each successive $10 000 band - the number of employees whose total remuneration paid or payable, or otherwise made available, in respect of the reporting period, directly or indirectly, by the government reporting entity, falls within that band; and

b. the aggregate of the remuneration paid or payable, or otherwise made available, in respect of the reporting period, directly or indirectly, by the government reporting entity, to those employees.

4.9 Interpretation of Remuneration

Remuneration is defined in Accounting Policy Framework VI *Definitions* as: ...any money, consideration or benefit but does not include amounts in payment or reimbursement of out-of-pocket expenses incurred for the benefit of the entity or a controlled entity.

The intent of the disclosure requirement is that the value of remuneration to an employee is measured from the perspective of the employer, that is, by the cost to the employer. For remuneration received other than in cash, the cost to the employer will be equal to the cash payment that would have been made in lieu of the benefit for an equivalent remuneration package.

Fringe benefits tax will therefore be included as a component of remuneration. It is not intended, however, that remuneration will include employment on-costs such as payroll tax or workers compensation liability insurance.

4.10 In the SA Government context, remuneration may include:

- Gross salary or wage (includes all forms of leave paid including amounts paid on termination)
- Amounts forgone as part of a salary sacrifice arrangement
- Superannuation (employer's contribution)
- Subsidised rentals (difference between rental paid and commercial rate)

- Commissions and performance bonuses
- Payment in lieu of notice
- Subsidised loans (difference between interest rate charged and commercial rate)
- Fringe benefits tax (amount paid or payable on fringe benefits provided as required/calculated via the FBT Assessment Act)
- Private use of motor vehicle (employer's cost net of employee contribution)
- Private expense benefits (excluding amounts incurred on behalf of the employer)
- Telephone rental/calls
- Concessional travel
- Living away from home allowance
- Locality allowance
- Separation packages (note leave paid on termination forms part of gross salary and wages).

The above list is not exhaustive and other benefits may apply.

Disaggregated Disclosures

APS 4.11 Other than those entities specifically exempted via APS 3.4, all government reporting entities will prepare disaggregated disclosures in accordance with paragraph 15 to 21 of AASB 1052 *Disaggregated Disclosures*.

Board/committee members

APS 4.12 All not-for-profit government reporting entities will disclose the following information:

a. The name of each person holding the position of a board or committee member at any time during the reporting period, where the board/committee member is entitled to receive income (eg board/sitting fee) for membership, other than a direct out of pocket reimbursement of expenses incurred in carrying out the duties of the board/committee member;

b. The aggregate amount of remuneration directly or indirectly received or receivable by board/committee members for the reporting period;

c. The number of board/committee members whose total remuneration directly or indirectly received or receivable for the reporting period falls within $10,000 bands of remuneration; and

d. Transactions with and amounts receivable from and payable to board/committee members which adopted more favourable terms and conditions than would have been adopted if dealing at an arm's length transaction in the same circumstances.

4.13 South Australian Government boards and committees play an important role in providing leadership, direction and accountability in a number of areas of government activity. There is a range of boards and advisory committees in South Australia and these are diverse in terms of functions, form, size, level of responsibility and accountability.

4.14 It is important, in the interest of public transparency and accountability that board/committee member and remuneration details are appropriately disclosed. Including, where appropriate, disclosure of where a board or committee member has during the year: been appointed, resigned, retired, or had their term ceased. The term "board" should not be interpreted as being limited to a "board of management" or a "board of directors".

4.15 In the public sector other terms are variously used for "committee" such as "panel", "group", "commission", "forum", "tribunal", "council", "trust". Any of these entities, where a member earns income from their membership, would be captured by the disclosure requirements.

4.16 The listing of boards and committees on the Department of Premier and Cabinet website is a useful guide to assist agencies with the identification of boards and committees that should be disclosed (note that the DPC's listing is not exhaustive) and the Model Financial Statements illustrates the SA Government preferred format for disclosure of board/committee members and remuneration. Note: the term remuneration is defined in Accounting Policy Framework VI *Definitions*.

Budgetary Reporting

APS 4.17 Other than those entities specifically exempted via APS 3.4, all government reporting entities will in a note accompanying the financial statements:

a. Present original budgeted financial statement information (as presented to Parliament in Budget Paper 4) for the Statement of Comprehensive Income and the Statement of Administered Comprehensive Income.

b. Present original budgeted financial information (as presented to Parliament in Budget Paper 4) for total investing expenditure, including total new projects and total existing projects investing expenditure.

c. Provide brief explanations of variances between the actual amounts and the corresponding original budget amounts (as presented to Parliament in Budget Paper 4) for the Statement of Comprehensive Income and Total Investing Expenditure only when the variance exceeds the greater of 10% of the original budgeted amount and 5% of the original budgeted total expenses for the following:

1. All classes of expenses, all classes of income, revenue from and payments to SA Government, net cost of providing services, net result and total other comprehensive income in the Statement of Comprehensive Income and Statement of Administered Comprehensive Income.

2. Total investing expenditure including the total investing expenditure on new projects and total investing expenditure on existing projects.

4.18 APS 4.17 captures all entities reporting a budgeted Statement of Comprehensive Income and Total Investing Expenditure information (for controlled and/or administered items) to Parliament in Budget Paper 4. The budget information disclosed for the Statement of Comprehensive Income and Investing Expenditure is to be drawn from the original budget presented to Parliament (Budget Paper 4) in respect of the reporting period. There is no requirement for budget information at the Program or Sub-program level to be disclosed or reported.

For some entities, there may be differences between the amounts of income and expenses reported, for example where an entity includes an activity in its budget reports to Parliament but not in its general purpose financial reports. In these cases, entities should liaise with the Department of Treasury and Finance to ensure the appropriate budget information is included in the note disclosure.

Original budgeted amounts are to be reported. These amounts must not be adjusted to reflect revised budgets, administrative restructures or machinery of government changes. The budgeted amounts disclosed must be prepared on the same basis as the actual amounts included in the financial statements.

For the purposes of variance explanations, original budgeted total expenses means in the context of elements contained within the:

- Statement of Comprehensive Income – Total controlled expenses
- Statement of Administered Comprehensive Income – Total administered expenses
- Total Investing Expenditure Information – Total investing expenses

Reporting Format

4.18 The model financial statements, issued pursuant to Treasurer's Instruction 19 *Financial Reporting*, contain the SA Government's preferred presentation format for general purpose financial statements.

5 RESTRUCTURE OF ADMINISTRATIVE ARRANGEMENTS

5.1 Pursuant to legislation or other authority, the identity and/or structure of a government reporting entity may be dismantled or restructured by the government. The restructuring process may result in the transfer of certain employees, activities, assets and/or the assumption of liabilities to other government reporting entities. It may also result in the termination of some government reporting entities and the creation of new ones.

5.2 Essentially, a restructure of administrative arrangements is the reallocation or reorganisation of assets, liabilities, activities and responsibilities amongst government reporting entities that the government controls that occurs as a consequence of a rearrangement in the way in which activities and responsibilities as prescribed under legislation or other authority are allocated between the government's controlled reporting entities.

APS 5.3 Whilst it is expected that government restructures of administrative arrangements via legislation or other authority will meet the definition requirements under Australian Accounting Standards, the particular circumstances of each restructure requires analysis to confirm it meets the substance of the recognition requirements under the Australian Accounting Standards

5.4 Restructures of administrative arrangements are in the nature of transactions with owners in their capacity as owners and are to be recognised on a net basis.

A transfer of net assets arising as a consequence of a restructure of administrative arrangements represents a distribution to owners by the transferor and a contribution by owners to the transferee.

A transfer of net liabilities arising as a consequence of a restructure of administrative arrangements represents a contribution by owners to the transferor and a distribution to owners by the transferee.

Contribution by owners and distribution to owners are recognised as direct adjustments to equity.

APS 5.5 Assets and liabilities transferred in the course of a restructure of administrative arrangements will be measured at book value ie the amounts recorded by the transferor immediately prior to the restructure.

APS 5.6 Sometimes a government reporting entity will receive an asset or group of assets from another government reporting entity as a result of ministerial direction or other authority. An asset or group of assets acquired by a government reporting entity not as a consequence of a restructure of administrative arrangements will be measured at fair value.

Explanatory notes

APS 5.7 Where activities are transferred from one government reporting entity to another government reporting entity the following must be disclosed by way of an explanatory note:

5.7.1 the transferee government reporting entity must disclose:

a. income and expenses attributable to the transferred activities for the reporting period, showing separately the income and expenses recognised by the transferor government entity during the reporting period;

b. the assets recognised and liabilities assumed as a result of the restructure of administrative arrangements during the reporting period by class; and

c. the identity of the transferor; a brief statement of functions transferred; the date of effective transfer and the authority for the transfer eg Cabinet, Government Gazette.

5.7.2 the transferor government reporting entity must disclose:

a the assets transferred and liabilities forgone as a result of a restructure of administrative arrangements during the reporting period by class; and

b. the identity of the transferee; a brief statement of functions transferred; the date of effective transfer and the authority for the transfer e.g. Cabinet, Government Gazette.

Transfers of activities between government reporting entities

APS 5.8 Subject to APS 5.10, for financial statement purposes, the date at which effective control over a government reporting entity's transferred activities passes from that entity to another government reporting entity will be the deemed date in the Government Gazette. The deemed date in the Gazette will usually be the first day of the following month. If no date is deemed in the Government Gazette the date will be that of the Gazette.

APS 5.9 Subject to APS 5.11, where the transfer date is other than at a month end, for practical purposes, financial statements of the transfer may be based on the nearest end of month date, adjusted for any material transactions that may have occurred in the time between the Gazette date and the end of month date.

APS 5.10 In the unusual event that there is clear evidence that effective control passed on a date other than the deemed date in the Gazette, and where adoption of the deemed date would result in a material misstatement of financial performance or position for the entities involved, the date of transfer will be the date on which effective control actually passed. The notes accompanying the financial statements will clearly disclose the transfer date and any assumptions made as to transfer dates.

Reporting by abolished government reporting entities

APS 5.11 Where a government reporting entity is abolished, the final reporting date for financial statements will be the gazettal date for an administrative unit or public corporation, the date of deregistration for a Corporations Law company or the date of repeal of the enabling legislation (or such other date that may be prescribed) for a statutory authority.

APS 5.12 Where a government reporting entity is abolished, the Chief Executive of the entity acquiring the majority value of net assets from the abolished entity will be responsible for preparing the general purpose financial statements of the abolished entity for its final reporting period. The acquiring government reporting entity will comply with the requirements of Section 23 of the *Public Finance and Audit Act 1987* in respect of the certification and audit of the financial statements of the abolished entity.

APS 5.13 Where a reporting entity is abolished and assets are not transferred to another government reporting entity and the Chief Executive and/or the officer responsible for financial administration of the abolished government reporting entity no longer hold employment in the SA Government, then the next most senior officer of that government reporting entity may certify the general purpose financial statements.

III ASSET ACCOUNTING FRAMEWORK

Re-issued: 12 May 2015

1 INTRODUCTION

Application and Operative Date

This Accounting Policy Framework is re-issued on the 12 May 2015 and applies to the general purpose financial statements of each public authority for the reporting period ending on or after 30 June 2015. It replaces APF III issued in January 2015 which is hereby revoked.

Scope

The purpose of this Policy Framework is to address the issue of identification, recognition and measurement of assets for accounting purposes.

This Accounting Policy Framework mandates that all public authorities measure noncurrent assets at fair value; obtain the Treasurer's approval prior to measuring noncurrent assets using the income approach and/or discounted cash flows; and expense the value of interest-free loans provided for long periods.

It extends the ability to account for revaluations on a class basis to for-profit entities and introduces accounting thresholds for revaluation and recognition of smaller (or component) assets comprising a larger (or complex) asset.

Australian Accounting Standards

The following Australian Accounting Standards have general application in relation to the accounting for assets.

AASB 13 *Fair Value Measurement* defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurement.

AASB 116 *Property, Plant and Equipment* prescribes the accounting treatment and reporting requirements for non-current assets.

AASB 136 *Impairment of Assets* prescribes that the carrying amount of non-current assets is not to exceed their recoverable amount.

AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* prescribes the accounting and disclosure of provisions, contingent assets and contingent liabilities.

AASB 138 *Intangibles* prescribes the accounting treatment, measurement and disclosure rules for all intangible assets that are not dealt with specifically in another standard.

AASB 140 *Investment Property* prescribes the accounting treatment and disclosure requirements for investment property.

AASB 141 *Agriculture* prescribes the accounting treatment, financial statement presentation, and disclosures related to agricultural activity.

AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* prescribes the accounting treatment for assets held for sale, and the presentation and disclosure of discontinued operations.

2 ASSET RECOGNITION

What are Assets?

2.1 The *AASB Framework for the Preparation and Presentation of Financial Statements* (AASB Framework) defines assets as:

... a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

2.2 The key features are that:

- the benefits must be controlled by the entity;
- the benefits must have arisen from a past event; and
- future economic benefits must be expected to flow to the entity.

2.3 Indicators of control:

- the ability of an entity to benefit from the asset and to deny or regulate the access of others to that benefit.
- an entity can depending on the nature of the asset, exchange it, use it to provide goods or services, exact a price for others use of it, use it to settle liabilities, hold it, or perhaps even distribute it to owners.
- possession or ownership of an object or right would normally be synonymous with control over the future economic benefits embodied in the right or object. Care needs to be taken as an entity may possess an object or right but not expect to enjoy the benefits embodied in it, e.g. under a finance lease agreement, control over the leased property owned by the lessor is transferred to the lessee.

2.4 Indicators of past event:

- the specification of a past event differentiates assets from intentions to acquire assets, which are not to be recognised.
- a transaction or event giving rise to control of the future economic benefits must have occurred.

2.5 Indicators of future economic benefits:

- distinguishable from the source of the benefit ie the particular physical resource or legal right.
- does not imply that assets necessarily generate cash flows, the benefits can also be in the form of 'service potential'.
- in determining whether a resource or right needs to be accounted for as an asset, the potential to contribute to the objectives of the entity should be the prime consideration.

- capacity to contribute to activities/objectives/programs.
- the fact that an asset cannot be sold does not preclude it from providing future economic benefits.

When to Recognise Assets

2.6 In accordance with the AASB Framework, assets are recognised in the Statement of Financial Position when and only when:

- it is probable that the future economic benefits will flow to the entity; and
- the asset has a cost or value that can be measured reliably.

2.7 Indicators of probable:

- the chance of benefits arising is more likely rather than less likely (eg greater than 50%).
- benefits can be expected on the basis of available evidence or logic.

2.8 Indicators of reliable measurement:

- valuation method is free from material error or bias.
- faithful representation of the asset's benefits.
- reliable information will, without bias or undue error, faithfully represent those transactions and events.

2.9 Recognition of an asset should be unaffected by questions of whether the asset is acquired from, or developed by, an external party or constructed or developed internally. Judgement may need to be exercised to determine whether the expenditure leads to the emergence of additional economic benefits / service potential or simply maintains existing economic benefits / service potential. In the first instance, the test for recognition of an asset is likely to be satisfied while the second instance is unlikely to satisfy the test.

Items that Fail the Recognition Criteria

2.10 Items that do not meet the recognition criteria will be disclosed in the explanatory notes and will not be reported in the Statement of Financial Position. For example:

- expenditure on research to extend knowledge in a field of science - fails because it is not possible to establish that it is probable that future economic benefits will arise.
- rare paintings or books – fails because they cannot be reliably measured.
- litigation in pursuit of a claim for damages - fails because it is not possible to measure the value of the claim.

Initial Recognition

2.11 Assets, other than those that are acquired at no cost or for nominal consideration, are to be initially recognised at their cost of acquisition, which includes:

- purchase price plus import duties and non-refundable/claimable taxes minus trade discounts and refundable/claimable taxes;
- costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

APS 2.12 Assets acquired at no cost or for nominal consideration are to be initially recognised at their fair value (DR asset and CR revenue). Assets (and liabilities) acquired as a consequence of a restructure of administrative arrangements will be recognised at book value ie the amounts recorded by the transferor public authority immediately prior to the restructure.

Deemed Assets

APS 2.13 Funds credited by an agency to, and held in the following accounts are deemed to be assets of that agency:

- the Surplus Cash Working Account established pursuant to the Cash Alignment Policy; and
- the Accrual Appropriation Excess Funds Account established pursuant to a Treasury Direction.

Materiality Thresholds

APS 2.14 Government entities will control a large amount of relatively low value items which, if they were to be managed and reported in detail, would result in excessive costs for very limited benefits. Typically, these items would include furniture, office equipment, workshop tools etc.

APS 2.15 To minimise costs, a non-current asset, or group of assets as defined in APS 2.17 and APS 2.18, with a fair value at the time of acquisition of less than $10 000 need not be recognised (capitalised) as an asset. That is, it may be expensed in the period in which it is acquired.

APS 2.16 Because of differing materiality levels between entities, due to their size and the nature of their operations, an individual entity may, if it wishes, adopt a capitalisation threshold lower than the general threshold.

APS 2.17 Entities may control large numbers of similar assets with individual values below the capitalisation threshold but which, when grouped together, represent a total value, which is a significant percentage of the total value of the entities' assets. In these circumstances an entity may group those assets for the purpose of capitalisation. For example, all the chairs held by an entity may be grouped as one asset. Procedures would need to be established to ascertain that the grouped asset value continues to reflect the aggregate of the individual items.

APS 2.18 Entities may also control dissimilar assets with individual values below the capitalisation threshold but which work together in the form of a group or network asset whose total value exceeds the capitalisation threshold. In these circumstances the group or network would comprise the primary asset that should be capitalised. Examples of this are a computer network, PABX system or sewerage system.

3 ASSET VALUATION

APS 3.1 Other than for intangible assets (refer to APS 12.6), subsequent to initial recognition each class of non-current assets will be measured at fair value.

Fair Value

3.2 AASB 13 *Fair Value Measurement* (AASB 13) defines fair value as

the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants [in the principal or most advantageous market] at the measurement date.

3.3 In accordance with AASB 13, key features in determining fair value are:

- taking into account the characteristic of the asset, if market participants would take those characteristics into account. This includes the condition and location of the asset and any restrictions on the sale or use of the asset.
- considering the asset's highest and best use that is:
    - physically possible – regard to the physical characteristics (eg location or size of asset) of the asset that market participants would take into account when pricing the asset.
    - legally permissible – regard to any legal restrictions (eg zoning) on the use of the asset that market participants would take into account when pricing the asset
    - financially feasible – regard to generating adequate income or cash flows to produce an investment return that market participants would required form an investment in that asset put to that use.

3.4 Characteristics of the asset and its highest and best use must consider the unique nature of many public sector assets that have few or no alternative uses, and therefore are specialised.

3.5 Fair value measurement of a particular asset is impacted by restrictions on the use or sale of an asset if market participants would take those restrictions into account when pricing the asset.

3.6 Most government reporting entities are mandated by ministerial/government or legal/administrative requirements to provide certain services to the public and therefore, are restricted in the use and disposal of assets that assist to provide these services. This is so, because the government reporting entities remain subject to the restrictions imposed by the Government, because the entity is not able to change the use or dispose the asset, unless approved by the Government.

APS 3.7 Fair value is measured having regard to the asset's highest and best use. An asset's current use is the highest and best use, unless other factors suggest that an 'alternative use' would maximise the value of the asset to market participants. An 'alternative use' must only be considered, if that use is physically possible, legally permissible and financially feasible within the next 5 years.

Fair value measurement techniques

APS 3.8 In determining fair value, it is acceptable to use:

- the cost approach (that is the lower of replacement cost or reproduction cost, less accumulated depreciation, ie written down current cost/depreciated replacement cost). For example, infrastructure assets.
- the market approach (that is quoted prices in an active market for the identical or similar asset in use, type and condition). For example, land with no public use restrictions, used motor vehicles.

APS 3.9 In determining fair value, of a non-financial asset, the income approach (ie discounted cash flow model) as a valuation technique, is only permitted if approved or required by the Treasurer.

3.10 AASB 13 outlines that valuation techniques are to maximise the use of relevant observable inputs and minimise the use of unobservable inputs. It also establishes a fair value hierarchy that categories into three levels the inputs to valuations techniques used to measure fair value.

- Level 1 inputs – unadjusted quoted prices in active markets for identical assets that the entity can access at measurement date. For example shares, derivates
- Level 2 inputs – inputs other than quoted prices included within level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – inputs are unobservable inputs for the asset or liability.

3.11 It is envisaged that generally the following input levels would be used across government:

Land that is subject to restrictions as to use and/or sale or there is not an active market – Level 3

Land that is not subject to restriction as to use and/or sale and there is an active market – Level 2

Buildings that are specialised eg limited alternative uses, substantially customised, heritage listed – Level 3

Buildings that are non- specialised eg residential, commercial or general use buildings – Level 2

Infrastructure eg road, water, electrical – Level 3

Plant and equipment that is specialised eg limited alternative uses, substantially customised – Level 3

Plant and equipment that is non-specialised eg office equipment and furniture – Level 2

Computer equipment and software – Level 3

Vehicles where there is not an active resale market - Level 3

Vehicles were there is active resale market eg state auction – Level 2

Heritage assets where there is not an active market eg museum collections – Level 3

Heritage assets where there is an active market eg paintings – Level 2

Revaluations

APS 3.12 Most government reporting entities will control assets with relatively low values and/or short economic lives. In these circumstances, periodic revaluation would result in excessive costs for very limited benefits.

APS 3.13 To minimise costs, revaluation of a non-current asset, or group of assets as defined in APS 2.17 and APS 2.18, is required only when its fair value at the time of acquisition is greater than $1 million and its estimated useful life is greater than 3 years. Assets below the revaluation threshold are deemed to have been revalued to their fair values immediately following recognition at cost.

Frequency of Revaluations

APS 3.14 Where an asset is required to be revalued in accordance with APS 3.13, then the entire class to which the asset belongs is revalued.

APS 3.15 A class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period (ie two year period) and provided the revaluations are kept up-to-date.

APS 3.16 The frequency of revaluations depends on the materiality of changes in the fair value of assets within that class of non-current assets.

APS 3.17 There are two basic valuation procedures available for determining fair value , namely valuation appraisal by a qualified valuer, or internal estimates based on indices or recent transactions. A valuation appraisal by an internal or external professionally qualified valuer will be performed at least every 6 years.

For Example:

The Dept of SA Service Delivery revalues its non-current physical assets, using a professionally qualified valuer, for the year ending 30 June 2013.

The Department performs interim revaluations using appropriate indices and recent transactions.

The Department of SA Service Delivery will revalue its non-current physical assets again, using a professionally qualified value for the year ending 30 June 2018.

Revaluation Surplus

APS 3.18 To minimise costs all government reporting entities (not just not-for-profit entities) may take revaluation adjustments to the asset revaluation surplus on a class basis rather than an individual asset basis. For-profit entities will disclose their election in relation to this APS.

APS 3.19 The revaluation surplus included in equity in respect of an item of property, plant and equipment will be transferred directly to retained earnings when the asset is derecognised. Transfers from revaluation surplus to retained earnings are not made through profit or loss.

APS 3.20 AASB 116 allows two options for dealing with accumulated depreciation on revaluation, the gross method or the net method.   It is DTF’s preference that government reporting entities account for revaluations on a net basis; ie when an item of property, plant and equipment is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

4 DEPRECIATION/AMORTISATION

4.1 Depreciation and amortisation is a systematic charge that recognises the consumption of non-current assets over their useful lives. Depreciation and amortisation begins when the non-current asset is available for use by the entity.

4.2 Residual value and useful life of asset classes will be reviewed annually.

4.3 Estimation of an asset's useful life requires professional judgement based on the use of similar non-current assets in a similar environment. The following useful lives are provided for consistency purposes across government:

- Buildings
  - Residential — 40 – 50 years
  - Commercial — 70 – 80 years
  - Specialist — These are unique to the business of the agency and can be assessed separately
- Office equipment — 5 – 7 years
- Computer equipment and software — 3 – 5 years
- Furniture and fittings — 3 – 10 years
- Vehicles
  - Passenger — 2 – 4 years
  - Commercial — 20 – 25 years
  - Specialist — These are unique to the business of the agency and can be assessed separately
- Plant and equipment — 5 – 15 years
- Specialised assets — These are unique to the business of the agency and can be assessed separately

4.4 Depreciation expense over the useful life of the asset is the difference between the cost and the residual value (resale price) expected at the end of the asset's "useful life" to the authority.

4.5 Depreciation rates must be reviewed at least annually, and, if necessary, adjusted so that they reflect the most recent assessment of the useful life and residual value of the depreciable asset, having regard to such factors as asset usage and the rate of technical and commercial obsolescence.

Depreciation Methods

4.6 The three most common methods used for calculating depreciation expense are:

4.6.1 *Straight-Line Method* - the straight-line method allocates the cost of consumption of an asset equally per period over its useful life. For example, office furniture may provide future economic benefits over a ten-year period.

4.6.2 *Diminishing Balance Method* - the diminishing or reducing balance method is used where the service yield of an asset is expected to be higher in earlier reporting periods than in subsequent periods. The earlier periods bear a greater portion of the cost of consumption than later periods.

4.6.3 *Units of Production Method* - the overall output or service that an asset is expected to yield may be the basis for estimating the useful life of the asset. Examples of output or service include production units, operating hours, and distance travelled.

Change of Methods or Rates

4.7 When depreciation rates or depreciation methods are changed, the change must be accounted for as a change in accounting estimate in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The effect must be recognised in the reporting period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both. Depreciation recognised in prior reporting periods must not be changed either by an adjustment via the Statement of Comprehensive Income or via retained surplus.

Intangible Assets

4.8 In relation to intangible assets it is necessary to assess whether the useful life is finite or infinite.

4.9 An intangible asset is regarded as having an infinite life where, based on analysis of all the factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash flows for the entity.

4.10 The useful life of an intangible asset that arises from a contractual or other legal right will not exceed the period of the contract or right, but may be shorter depending on the period over which the entity expects to use the asset.

4.11 The residual value of an intangible asset with a finite useful life will be assumed to be zero unless there is a commitment from a third party to purchase the asset at the end of its useful life or there is an active market for the asset and the residual value can be determined by reference to that market.

4.12 An intangible asset with an infinite life will not be amortised.

Long Lived Assets

4.13 Depreciation on long lived assets, such as infrastructure assets, is to be accounted for in accordance with UIG 1030 *Depreciation of Long-Lived Physical Assets, including Infrastructure Assets: Condition-based Depreciation and other Related Methods*.

5 IMPAIRMENT

5.1 The following provides a guide to the provisions of AASB 136 *Impairment of Assets*. In practice, DTF considers AASB 136 will not generally impact on asset valuations for the majority of government assets. AASB 136 applies to assets valued at revalued amounts under AASB 116 but does not apply to investment properties revalued under AASB 140.

5.2 An asset is impaired when its carrying amount exceeds its recoverable amount.

5.3 Recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

5.4 At the end of each financial year, agencies must determine whether there is any indication or evidence that an asset or group of assets are impaired based on the impairment indicators.

5.5 There are two groups of indicators – external and internal. External indicators that may be applicable to entities:

- a significant decline in an asset's market value as a result of time or usage;
- significant changes which will have an adverse effect on the entity, have taken place or are expected to take place in the near future, in the technological, market, economic or legal environment; and
- an increase in market interest rates that are likely to increase the discount rate included in the cash flow calculation when determining value in use (this is not relevant for government reporting entities as the Discounted Cash Flows (DCF) valuation method is generally not permitted under APS 5.11, unless otherwise approved by the Treasurer).

Internal indicators that may be applicable to entities:

- evidence of obsolescence or physical damage to an asset;
- significant changes which will have an adverse effect on the entity, have taken place or are expected to take place in the near future, regarding the way an asset is used or expected to be used; and
- evidence from internal reporting that indicates that the economic performance of an asset is or will be worse than expected.

5.6 Examples of impaired assets include: building damaged by fire or flood; a building that is closed due to identification of structural deficiencies; a bridge that is weight-restricted due to the identification of structural deficiencies; computer hardware that has become obsolete; an oversupply of second hand motor vehicles resulting in a decline in the market price.

5.7 An indicator is only relevant if the recoverable amount of the asset or group of assets is sensitive to the indicator. If there is no evidence of impairment the entity does not have to make a formal estimate of recoverable amount.

5.8 Where there is an indication of impairment, an agency will need to determine the recoverable amount. Where fair value cannot be determined an agency will need to use 'value in use'.

5.9 AASB 136 clarifies that the only difference between an asset's fair value (as defined in AASB 13) and its 'fair value less costs of disposal' is the direct incremental costs attributable to the disposal of the asset. This means where disposal costs are negligible, the recoverable amount of a revalued asset is close to, or greater than its revalued amount. In this circumstance, it is unlikely that the revalued asset is impaired and recoverable amount need not be estimated.

Refer to APS 3.8 in relation to fair value measurement.

5.10 *Value-in-use* (VIU) is defined differently for not-for-profit entities than for for-profit entities. The definitions are:

- *Not-for-profit entities* – VIU is the depreciated replacement cost where the future economic benefits of an asset are <u>not</u> primarily dependant on the asset's ability to generate net cash inflows ie the asset is retained by the entity for reasons other than its ability to generate cash.

Note: In practice, as VIU is depreciated replacement cost, this effectively obviates the need for impairment testing as the resulting value, even if the asset is impaired, would equal the carrying value (ie fair value using the cost approach – depreciated replacement cost).

- *For-profit entities* – AASB 136 defines VIU as the present value of the future cash flows expected to be derived from the asset or cash-generating unit.

However, the meaning of the term cash-generating operation is problematic in a public sector context. The Government generally provides goods and services for the purpose of meeting policy objectives rather than for the sole purpose of generating cash flows. User charges are intended to recover the whole, or part, of the cost of providing some goods and services from users rather than the population at large. Where user charges are insufficient to fully fund the provision of the goods or services, indirect funding will be provided which could include grants, appropriations, cross-subsidies and community service obligation payments. User charges are generally set by Cabinet or other regulatory mechanisms. They do not have the same information content relevant to asset valuation as prices obtained by a private sector business in a competitive market. Therefore APS 5.11 only permits the present value of future cash flows as the valuation basis if approved or required by the Treasurer.

APS 5.11 The value-in-use of a cash-generating operation, and the assets comprising the operation, will be estimated by the sum of the written-down current costs of the assets comprising the operation unless otherwise approved or required by the Treasurer.

5.12 An impairment loss (recoverable amount is less than the carrying amount) relating to:

- a revalued asset is treated as a revaluation decrement ie offset against an asset revaluation surplus for that asset or class of assets.
- an asset measured at cost is recognised in the Statement of Comprehensive Income.

5.13 After the recognition of an impairment loss, an entity will revise the assets' carrying amount and future depreciation and amortisation charges will be based on the revised carrying amount.

5.14 An impairment loss is recognised for a cash-generating unit when the recoverable amount of the unit is less than the unit's combined carrying amount. Entities need to reduce the carrying amount of each asset within the unit on a pro rata basis, based on the carrying amount of each asset in the unit.

However, assets in the unit cannot be reduced below the highest of:

(a) the assets' fair value less costs of disposal (if determinable);

(b) value in use (if determinable); and

(c) zero.

5.15 At the end of each reporting period, entities are required to assess whether impairment losses previously recognised need to be reversed. A reversal of an impairment loss for an individual asset cannot exceed the amount that asset would have been carried at had the asset not been impaired and written down. For a cash-generating unit the amount allocated to each asset cannot exceed the lower of the carrying amount had no impairment loss been recognised in the prior period and recoverable amount.

5.16 The following disclosures are required:

For each class of asset:

- The amount of the impairment loss and the reversals of any impairment loss recognised in the Statement of Comprehensive Income and the respective line items; and
- The amount of the impairment loss and the reversals of any impairment loss on revalued assets recognised directly in equity.

For each material impairment loss (or reversal) for an individual asset or cash-generating unit:

- The events/circumstances that led to the impairment loss;
- The amount of the impairment loss recognised or reversed (recognised by class of asset if it forms part of a cash-generating unit);
- The nature of the asset or cash-generating unit;

- The reportable segment to which the asset belongs; and
- Where the aggregation of assets for identifying the cash-generating unit has changed, a description of the current and former method and the reasons for the change.

If impairment losses in aggregate are material:

- The main classes of assets affected; and
- The main events/circumstances that led to the losses.

In addition, segment disclosures are required.

6 CONTINGENT ASSETS

6.1 Contingent assets are:

- possible assets that may arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- assets that fail the asset probability recognition criteria.

6.2 Assessing whether an entity has contingent assets will be a matter of fact and degree and involve management judgement and in some cases, reports from independent experts.

6.3 Contingent assets usually arise from unplanned and/or unexpected events that give rise to the possibility of future economic benefits eg a legal claim where the outcome is uncertain. If the realisation of income (eg from the legal claim) is virtually certain then an asset is recognised.

6.4 The probability test in 2.7 is applied where the existence of future economic benefits relates to a past event. The virtually certain test is applied where the existence of possible future economic benefits will be confirmed by the occurrence of one or more uncertain future events.

APS 6.5 Where the inflow of possible future economic benefits is dependent on future uncertain events and is:

- not probable or probable but not virtually certain, the asset is a contingent asset and is not recognised in the Statement of Financial Position. Rather, the asset is disclosed in the explanatory notes. For example, receivables that are subject to disputes or claims that are subject to assessment.
- virtually certain and capable of reliable measurement, the asset is recognised in the Statement of Financial Position, ie is not a contingent asset.

7 COMPLEX ASSETS

Background

7.1 Where major components of non-current assets are replaced at regular intervals, the components are accounted for as separate assets because they have useful lives different from those of the non-current assets to which they relate. It is appropriate to account for component parts of an asset separately when the component assets have different useful lives or provide benefits to an entity in a different pattern from that of the complex asset. Where the major components of complex assets are accounted for as separate assets, the requirements of AASB 116 will be applied to those component assets.

Recognition of complex assets

APS 7.2 Assets will be classified as complex assets if the definition and recognition criteria for an asset in the AASB Framework are met, providing the fair value at time of acquisition is greater than $5 million for infrastructure assets and $1 million for other assets, and the estimated useful life is greater than 3 years. Government reporting entities may also elect to classify an asset as complex where its value is below these thresholds and/or is significant to the entity.

Recognition of component assets

APS 7.3 Assets will be classified as component assets when they:

- can be identified separately from the complex asset/structure of the asset to which they belong;
- can be measured reliably;
- have useful lives significantly different from the structure of the asset to which they belong; and
- are considered by the government reporting entity to be material and therefore the effort in separately tracking these components is justified.

The extent of componentisation is generally dependent on the nature and functions of the asset itself.

Separately identifiable

7.4 The identification, recognition and valuation of an asset requires clear specification of its economic benefits. This requires specification of the asset's service capacity, service quality and expected useful life.

7.5 These are important aspects of an asset's 'future economic benefits'. Without such specification, it is not possible to determine whether a particular item of expenditure represents, say, an asset replacement, an enhancement, or simply asset maintenance. The specification of the asset needs to be determined at the commencement of the asset's life to enable the proper accounting and management of that asset.

7.6 The separate recognition of material components is important in distinguishing between replacement and maintenance of assets. It also allows separate depreciation to reflect the useful life of the component, as well as the removal and replacement of the components in accounting terms.

Measured Reliably

7.7 Reliability is promulgated in the AASB Framework as one of the qualitative characteristics of financial statements. To be reliable, information must:

- be free from material error and bias;
- represent faithfully the transactions and other events; and
- be complete within the bounds of materiality and cost.

A reliable value can be attributed either separately or by apportioning the value of the asset.

Useful lives

7.8 An assessment of the useful life of a complex asset would include an assumption that repairs or maintenance would be carried out to allow the asset to continue to function in its current state, hence maintenance expenditure does not extend an asset's useful life but allows the asset to realise its expected service level and estimated useful life. However, asset enhancements could materially increase the asset's pre-determined useful life.

Materiality/Thresholds

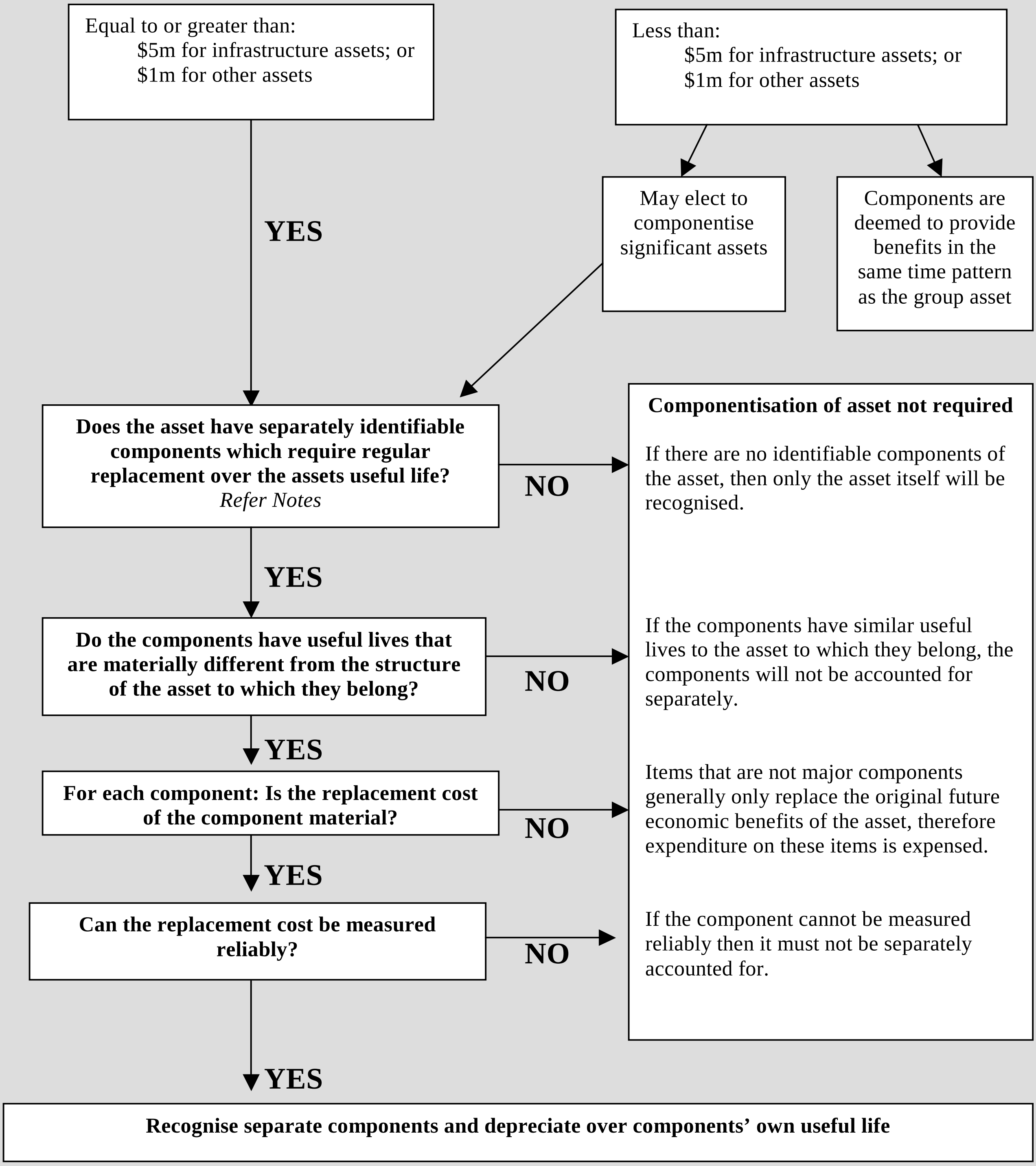
7.9 Decisions about which components are accounted for separately usually reflect the systems put in place to ensure that the service delivery capabilities of infrastructure and other complex assets are monitored, managed and maintained on an appropriate basis.

APS 7.10 For the purposes of this policy:

- a complex asset with a fair value at the time of acquisition of less than $5 million for infrastructure assets and $1 million for other assets, need not be componentised.
- component assets of a complex asset valued below the threshold are deemed to provide benefits in the same pattern as the structure of the asset to which they belong.

COMPLEX ASSETS DECISION TREE

Does the asset have a fair value:



Notes:

AASB 116 paragraph 43-49 whether an asset is accounted for as a complex asset, depends on whether or not the components have different useful lives to the asset to which they relate. AASB 116 provides examples engine and fittings of an aeroplane; and lining and housing of a blast furnace.

8 HERITAGE ASSETS

What are Heritage Assets?

8.1 Heritage assets can be described as items that are held for their unique historical, geographical, cultural or environmental significance rather than their operational attributes. Examples of heritage assets are monuments, historical buildings, works of art, parks and gardens, library collections, and other cultural collections.

When to Recognise Heritage Assets

8.2 The recognition and measurement of heritage assets is a contentious issue. Some jurisdictions have adopted a policy that, as the asset has no alternative use, there should be no valuation other than a nominal $1 in order to recognise it in the financial statements. Some administrators of heritage assets do not consider their collections can be represented in financial terms, others maintain that it would be too costly to value collections and still others are unsure as to an appropriate valuation methodology.

8.3 Practical difficulties likely to be encountered in the valuation of heritage assets will involve the size of collections, which may number many thousands of items, the difficulty and cost of conducting skilled appraisals where appropriate skills are difficult to obtain and 'thin' market demand for items.

How to Value Heritage Assets

APS 8.4 Heritage assets are to be carried at fair value. Refer to APS 3.8

- Where a heritage asset is unique and of such a specialised nature that market prices cannot be directly observed, , its fair value may be measured using the cost approach ie lower of replacement cost or its reproduction cost less accumulated depreciation.

- Where market prices can be directly observed for heritage assets, its fair value may be measured using the market approach. For example: works of art; coin collections.

APS 8.5 There may be some instances where heritage assets are so unique that they are not capable of reliable measurement and will not be recognised. Where heritage assets are not recognised in the financial statements, relevant information on those items should be disclosed in the explanatory notes.

APS 8.6 Certain heritage assets will have very long and indeterminate useful lives due to their historical or cultural interest (for example works of art, numismatics, philatelic and other heritage collections). As their service potential has not, in any material sense, been consumed during the reporting period, no amount of depreciation is to be recognised in respect to these heritage collections.

APS 8.7 Reproducible heritage assets (for example buildings, monuments restored or reproduced) are similar to other non-current assets and do have limited useful lives.

9 LAND AND IMPROVEMENTS

Types of Land Use

9.1 There are two types of land held for their service potential:

- Site land - where the land has buildings or other structures on it. This would include land under roads, railway tracks, car parks and any other type of structure.

- Land only holdings - where the land is held for heritage purposes such as national parks, or where it is held for productive purposes such as agriculture, horticulture or forestry.

Crown Land

9.2 Crown land is land that is not freehold in which the Crown has full interest and enjoys the majority of benefits and bears the majority of the risks associated with ownership. While ownership remains with the Crown, Crown land can be controlled and reported by an entity.

9.3 Crown land can be made available to government reporting entities in the following ways:

- Crown grant - refers to land that has been alienated from the Crown and title granted to a government reporting entity. By definition, this is no longer Crown land.

- Reservation, dedication and vesting - Crown land can be reserved, dedicated or vested for the activities of a government reporting entity (eg. water supply). In South Australia Crown land is usually dedicated. Dedication is a procedure by which Crown lands are appropriated for specific purposes and is effected by notice in the Gazette by the Minister. Dedication has the effect of transferring day-to-day control to the receiving government reporting entity.

- Special arrangement - may have been made for a government reporting entity to occupy a particular parcel of Crown land or to share a parcel of land with another government reporting entity. For example, easements can be made available to utilities to run distribution systems across Crown land. This is not common in South Australia, the more usual procedure being to issue a licence for short-term occupation and to dedicate the land for long-term usage.

- Lease/licence - Crown land can be made available to any individual or entity under a licence or lease agreement. The charge for the use of Crown land will depend on the nature of the entity's activities. Common arrangements in South Australia are perpetual leases, pastoral leases, miscellaneous leases (for example, holiday shacks along the banks of the Murray), irrigation leases and war service leases. Perpetual leases have some similarities to fee simple (freehold title) but are nevertheless distinct. Licences are granted for a term not exceeding one year and authorise persons to enter onto and occupy Crown lands for specified purposes.

How to Value Land

APS 9.4 Land is to be valued separately from any structures or improvements residing on it. In the case of land used for productive purposes such as agriculture, horticulture or forestry, the land will be valued separately from the crop or the orchard.

9.5 The valuation of land will depend on whether it was acquired with the intention of resale or for its continued use.

9.5.1 Land held principally for the purpose of being traded will be valued at the lower of cost and net realisable value. Estimates of net realisable value are to take into account the purpose for which the inventory is held and past and future sales eg any future contracts for the sale of land.

9.5.2 Land held for resale (not trading stock) will be valued at the lower of its carrying amount and fair value less costs to sell.

APS 9.5.3 Land acquired and held principally for continued use will be valued at fair value. Refer to APS 3.8.

APS 9.6 Government reporting entities must not recognise any land under roads acquired before 1 July 2008 as an asset. Land under roads includes land under roadways, land under road reserves, and land under footpaths, nature strips and medium strips.

APS 9.7 Government reporting entities must either recognise all land under water and infrastructure (excluding road infrastructure) as an asset or recognise no land under water and infrastructure (excluding road infrastructure) as an asset.

APS 9.7.1 Where a restructure of administrative arrangements results in land under water/infrastructure (other than land under roads) that is recognised by the transferor being transferred to an entity that does not recognise land under water/infrastructure, the transferee must not recognise the land under water/infrastructure. Where a transferee has a policy of recognising all land under water/ infrastructure, all transferred land must be recognised.

APS 9.7.2 Where a government reporting entity can only reliably measure some land under water/infrastructure, the entity will disclose the land that can be reliably measured in the notes to the accounts.

APS 9.8 An easement held over land meets the definition of an asset in that it confers control of future economic benefits related to right of entry. Easements will be treated as intangible assets and will be measured at cost.

Land Subject to Restricted Use

9.9 Land may be subject to restrictions on its use. For example restrictions may apply to parklands, land under roads, railway and tram tracks, land containing heritage-listed buildings, national parks and other encumbrances. The degree to which a restriction can be lifted depends on the powers available to the holder of the land and the likelihood of any change in use being successful. Restrictions on use are likely to lower the market value of the land compared with land not subject to the same restrictions.

How to Value Improvements

APS 9.10 Where land is used for the production of biological assets, those assets will be valued in accordance with AASB 141 *Agriculture*.

APS 9.11 All other improvements are to be valued at fair value. Refer to APS 3.8

APS 9.12 Land is considered to have an unlimited useful life and no depreciation is to be recognised in respect of land.

Soil Remediation

9.13 Expenses associated with land can include the remediation of contaminated soil where the soil must be returned to its original state.

9.14 Soil remediation means the clean up of polluted soil including the removal and treatment of source material, disposal and destruction of waste material and contamination.

9.15 Remediation costs may relate to:

- Site characterisation
- Engineering and project management
- Valuation and taxation issues
- Transaction costs

9.16 AASB 116 requires that property values include the initial estimate of site restoration/dismantling costs when there is an obligation to restore the site ie an agency may be obliged to remediate the land before use or on disposal.

9.17 If soil remediation costs meet the definition and recognition criteria of assets then the soil remediation would be capitalised and depreciated. However, this would be rare.

Treatment of costs on Disposal of Land

9.18 AASB 5 *Non-Current Assets Held for Sale and Discontinued Operations* states that assets held for sale should not be depreciated, therefore soil remediation costs incurred to enable an entity to sell land would not be depreciated.

Treatment of costs on Purchase of Land

9.19 If soil remediation occurs before the land is purchased, it would be anticipated that the fair value of the land (ie the purchase price) would reflect the remediation.

9.20 If the land is remediated following purchase and the land is revalued after remediation, the value of the remediation will be reflected in the land's fair value (ie through the asset revaluation surplus).

APS 9.21 In accordance with APS 9.12, land will not be depreciated. However, AASB 116 requires that where the cost of land includes site restoration costs, these costs are to be depreciated over the expected time period that the restoration investment benefits are to be received. These benefits will be depreciated over a period that does not exceed three years.

APS 9.22 On the other hand, where costs of restoration or remediation are designed to return the acquired asset to its original state, (ie there is no additional future economic benefits flowing or present obligation to the agency) those costs are to be expensed.

Treatment of costs on land in use

9.23 Generally where the property is held for use, the definition and recognition criteria of assets and/or liabilities would not be met and therefore soil remediation costs would be expensed. Specifically, soil remediation expenditure does not meet the criteria of:

- an asset as there are no future economic benefits being received from the remediation ie the land is being returned to its original condition; or
- a liability as there is not a present obligation ie there is no obligation to a third party to restore the site to its original state.

9.24 In line with the principles outlined in AASB 116 paragraph 11, if soil remediation is required for safety reasons and without the remediation the entity would be denied full use of the land, such remediation costs may qualify for recognition as an asset as they enable an agency to derive future economic benefits from related assets (land) in excess of what could be derived had the remediation not been undertaken. An example would be remediated lands used for crops/plantations or livestock grazing.

9.25 An example in contrast would be where in replacing sleepers and ballast, DPTI identifies soil damage and decides to remediate the soil via transportation, dumping and replacement with uncontaminated soil in order to prevent the contaminated soil from blowing onto nearby residential properties. In this scenario, these remediation costs would be expensed as the land is being returned to its original state ie there are no additional future economic benefits flowing to the agency, no present obligation to a third party to carryout the remediation and remediation does not affect how the land is used.

10 MAINTENANCE V CAPITAL EXPENDITURE

Maintenance Expenditure

10.1 Expenditure on a non-current asset that does not meet the capitalisation criteria in paragraph APS 10.3, is maintenance expenditure and must be expensed as incurred. In general, maintenance expenditure (sometimes referred to as capital renewal) will allow the asset to realise its expected service levels and estimated useful life and does not:

- extend the expected useful life of the asset; or
- augment the expected service potential of the asset.

Capital Expenditure

10.2 Capital expenditure can relate to new assets or existing assets. Capital expenditure on existing assets is often referred to as capital expansion or upgrade expenditure.

APS10.3 Capital expenditure on a non-current asset will be recognised as an increase in the asset (capitalised) where considered by the government reporting entity to be material and:

- where the expenditure results in an effective increase in the future benefits that are expected to be derived from using the asset and the increase in future benefits will be utilised; or
- there has been an effective increase in the quality of the services provided by the asset beyond that previously determined; or
- there has been an effective extension to the asset's useful life as a result of the expenditure.

Where these criteria are not met the expenditure is classified as maintenance and is expensed.

11 AGRICULTURE

11.1 Agriculture is described in AASB 141 *Agriculture* as the management of the transformation of biological assets (living animals or plants) for the purpose of sale, agricultural produce and/or the creation of additional biological assets.

11.2 Biological transformations include growth, degeneration, production and procreation. Examples include sheep, forests and dairy cattle. Examples of agricultural produce include wool, logs and milk.

11.3 A biological asset and agricultural produce (harvested from an entity's biological assets) will be measured on initial recognition and at each reporting date at its fair value less estimated costs to sell at the point of harvest, not at reporting date.

11.4 Costs to sell include commission to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. It excludes costs to get assets to a market ie transport costs.

11.5 Where fair value cannot be measured reliably, that biological asset will be measured at its cost less any accumulated depreciation and any accumulated impairment losses

11.6 A gain or loss arising on initial recognition of a biological asset or agricultural produce will be included in profit or loss for the period in which it arises in accordance with AASB 141 paragraph 26.

12 INTANGIBLE ASSETS

12.1 Entities may incur costs in acquisition, development, maintenance or enhancement of intangible assets such as technical knowledge, licences or intellectual property. Common examples of items include in-house developed computer software, copyrights, customer lists, rights and licences.

APS 12.2 Software that is integral to the related hardware (eg operating software) is to be classified as plant and equipment. All other software is to be classified as an intangible asset (eg application software).

12.3 Intangible assets are only recorded when both the definition (that is, identifiability, control and the existence of future economic benefits) and recognition criteria are met.

12.4 The definition criteria for an intangible asset differ from an asset in that the element 'identifiability' is required rather than the 'past event or transaction' element.

12.5 If an item does not meet the definition and recognition criteria it is expensed.

APS 12.6 Intangible assets will be measured at cost unless the asset is acquired for no cost or for a nominal amount and then the asset's fair value is deemed to be its cost.

12.6.1 For externally acquired intangible assets, cost comprises the purchase price plus any directly attributable costs of preparing the asset for its intended use.

12.6.2 For internally generated intangible assets, cost is defined in the guidance contained within paragraph 12.10 to 12.14.

APS 12.7 To minimise costs, an intangible asset, or group of intangible assets as defined in APS 2.17 and APS 2.18 with a cost of less than $10 000 need not be recognised (capitalised) as an asset. That is, it may be expensed in the period in which it is externally acquired or if internally generated when the asset first meets the recognition criteria.

12.8 Because of differing materiality levels between entities, due to their size and the nature of their operations, an entity may, if it wishes, adopt a capitalisation threshold lower than the general threshold.

APS 12.9 Generally any subsequent expenditure by government reporting entities on intangible assets such as the replacement of a part or additions to the asset will be expensed as the expected future economic benefits will only be maintained.

Internally Generated Intangible Assets

12.10 In addition to the normal intangible asset definition and recognition criteria, internally generated intangible assets are subject to the requirements relating to project research and development.

12.11 All research expenditure and borrowing costs are to be expensed.

12.12 The cost of an internally generated intangible asset comprises all direct costs necessary to create, produce and prepare the asset for use and may include the costs of materials and services used or consumed, employee costs, legal fees etc. Overhead costs are not to be included such as, administration and staff training.

12.13 Development expenditure will be recorded as an intangible asset , if and only if, all of the following elements are satisfied:

- Technically feasible;
- Intention to complete the asset;
- Ability to use or sell the asset;
- Existence of a market for the output of the intangible asset, or for the asset itself, or if it is to be used internally, the usefulness of the asset;
- Availability of adequate technical, financial and other resources to complete the development; and
- Ability to reliably measure the expenditure attributable to the intangible asset during development.

12.14 Cost of an internally generated intangible asset is the sum of expenditure incurred from the date the intangible asset first meets the recognition criteria. Expenditure previously recognised as an expense cannot be reinstated.

Examples of costs that should be capitalised or expensed for Internally Developed Software

The following table provides a practical example of costs that should be capitalised (where the capitalisation limit is met) and those that should be expensed. The table specifically refers to internally developed software.

Project Activity 1 (in the table below) represents the research phase while Project Activities 2, 3 and 4 represent the development phase, referred to in the 'Recognition' section above.

Project Activity/Item	Activity/Cost Item Description	Expenditure type
1. Initiation Stage (scoping, evaluation and business case)	• Project Scoping tasks including, • Conceptual formulation of alternatives, evaluation of alternatives, determination of the existence of the necessary technology.	Expense

	• Technology evaluation • Selection of alternatives • Business case analysis and the management and planning functions for the project • Developing standards and architectural designs	
2. Analysis, Design and Development	• Detailed analysis of user requirements • Detailed design and specification • Software development configuration and interfaces • Coding • Installation of software	Capitalise
3. Testing and Implementation	• Testing up to the point where the system is live • Implementation of the software	Capitalise
4. Enhancement of existing applications	• Detailed design and specification • Software configuration • Development of interfaces • Coding • Installation of software • Testing • Parallel processing	Capitalise
5. Recurring maintenance and Infrastructure support	• Management costs associated with ensuring the project is completed, including the provision of accommodation, office supplies and corporate services for the project team • Data conversion from old systems into the new system • Post implementation review • Training of staff in the use or administration of the software (training room set up, organising, delivering and attending training, fees paid to vendor to attend a training course) • Ongoing support and system administration • Applications maintenance, including maintenance for software licences which includes provision for delivery of software upgrades • Management of infrastructure resources and cost of infrastructure support • Minor projects where an asset will be acquired or developed but the total expenditure will not exceed the threshold amount	Expense

Retirements and Disposals

APS 12.15 An intangible asset will be derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss on sale or disposal of an intangible asset will be disclosed in the Statement of Comprehensive Income

13 INTEREST FREE LOANS

What Are Interest Free Loans?

APS 13.1 Interest free loans are all loan agreements with a zero percentage interest rate implicit in that agreement.

Accounting for Interest Free Loans

APS 13.2 All interest free loans will be recorded at the present value of expected repayments, being expected future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate, and other factors) with a similar credit rating at the time of the loan's initiation. The remaining balance (that is, the difference between the amount lent and the present value) will be expensed.

Example: An interest free 10 year loan receivable with a single repayment to be made after 10 years. The 10 year bond rate at the date of origination (1 July) is 7% and the calculation of the present value of the repayment is:

	YR 1	YR 2	YR 3	YR 4	YR 5	YR 6	YR 7	YR 8	YR 9	YR 10
Face Value	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000
Book Value	5 439	5 820	6 227	6 663	7 130	7 629	8 163	8 734	9 346	10 000

Accounting entry for Yr 1

DR	Loan Receivable	5 439
DR	Expense	4 561
CR	Cash	10 000

(recognise loan receivable at fair value in accordance with APS 13.2)

Accounting entry for Yr 2

DR	Loan receivable	381
CR	Interest income	381

(record amortisation of loan)

Accounting Entry for Yr 10

DR	Cash	10 000
CR	Loan Receivable	10 000

(record receipt of the loan repayment)

Materiality Thresholds for Interest Free Loans

13.3 Government reporting entities may control interest free loans that have been provided/ received for a very long period of time that, if they were to be accounted for in accordance with APS 13.2, would result in excessive accounting effort for very limited benefits. These would include, for example, government assistance loans provided for 99 years.

APS 13.4 To minimise the administrative burden, interest free loans provided/received for a very long period of time should have a carrying value of zero.

Discount Rate

APS 13.5 In the absence of a relevant prevailing interest rate (refer APS 13.2), the appropriate discount rate will be equal to the market yield on long-term Commonwealth bonds at the time the loan was provided plus an average risk margin of 2.5%.

13.6 For the purposes of APS 13.2 the discount rate first used (i.e. at the time the loan was initiated) remains the appropriate discount for the remainder of the loan term.

14 EXPLANATORY NOTES

APS 14.1 The general purpose financial statements will include in the explanatory notes (if applicable):

General

- those assets controlled by the entity, which have not met the criteria for recognition in the financial statements. The information to be disclosed will include the nature of the assets, the purpose for which they are held, how they contribute to generating economic benefits and why they have not been recognised**.**

Contingent Assets

- where an inflow of economic benefits is not probable or probable but not virtually certain: a brief description of the nature of the contingent assets at the reporting date and where practicable an estimate of their financial effect ie when the realisation of income is virtually certain.

Land

- the value of Crown land (where material) and information on the nature and extent of restrictions placed on its use and disposal;
- the disaggregated value of land and improvements recognised in the financial statements and separately the gross amount of site land and land only holdings; and
- where infrastructure assets are disclosed as part of the aggregate value of major asset classes, a note or supplementary schedules will (where material) disaggregate the major asset classes into the specific infrastructure types and disclose, for each infrastructure type, the gross amount of the assets and related accumulated depreciation.

Other

- as required by AASB 13 *Fair Value Measurement* AASB 116 *Property, Plant and Equipment*; AASB 140 *Investment Property*; AASB 141 *Agriculture*; AASB 136 *Impairment of Assets*; AASB 138 *Intangibles*.

15 MODEL LETTER TO VALUERS

Model Letter of Instruction to Valuers

1 January 201X

Assess, Measure and Evaluate Pty Ltd
Qualified Valuers
King William Street
Adelaide SA 5000

Dear Sir/Madam

ASSET VALUATION

You are invited to provide a quote (including GST) for the valuation of (name of entity) property, plant and equipment assets for financial reporting purposes in accordance with the current Australian Accounting Standards for the period ended 30/6/201X.

The [name of entity] general purpose financial statements will be audited by the Auditor-General's Department and it is intended that the financial statements will provide information to a range of users to assist them in:

- making and evaluating decisions about the allocation of resources by the entity;
- assessing the financial performance of the entity; and
- discharging managerial accountability.

Attached are details of those assets to be valued, separately identifying assets that are surplus to requirements. This list is provided as a guide for quotation purposes only and should not be seen as a complete list.

The approach to valuation should be in accordance with the Department of Treasury and Finance's Accounting Policy Frameworks available at www.treasury.sa.gov.au

The Valuer(s) undertaking this valuation must have relevant experience in undertaking valuations for financial reporting purposes and be a Certified Practising Valuer (CPV) of the Australian Property Institute. The Valuer(s) should also have a thorough understanding of International Valuation Standard Council's Standard 300 (IVAC 300) *Valuations for Financial Reporting* and Australian Accounting Standard Board's Standards (AASB) 116 Property, Plant and Equipment, 13 *Fair Value Measurement*, 136 *Impairment of Assets* and 5 *Non-current Assets Held for Sale and Discontinued Operations*.

The valuation is required to be completed by XX/X/201X with a draft copy provided by XX/X/201X. A report (in both soft and hard format) will be required for the (name of entity) and will include:

- a copy of the instructions and the purpose of the valuation;
- a detailed description of the basis for valuation of each class consistent with the requirements of AASB 116 and AASB 13;
- provision of information to allow for the detailed disclosure of the measurement techniques employed for valuing assets in each class and their corresponding level input to the fair value hierarchy;
- detailed disclosures relating to level 3 assets as required by AASB 13;
- gross value, useful lives (total & remaining), fair value and residual value for each individual asset;
- tenure of assets and classification of rights value;
- date of the valuation and inspection (if appropriate);
- identification and description of the structural assets (appropriately componentised) and their locations, including digital photographs; and
- special assumptions and/or limiting conditions.

Fair Value

In accordance with APF III *Asset Accounting Framework*:

- The valuation basis will generally be fair value. Fair value is defined in AASB 13 and 116 as the *price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.*
- Fair value is measured having regard to using the asset at its highest and best use (ie exit price), which is a use that is physically possible, legally permissible and financially feasible. This includes taking into account the unique nature of many public sector assets have few or no alternative uses therefore deeming them as specialised. .

In accordance with APF III *Asset Accounting Framework* complex assets will be componentised when they:

- can be identified separately from the complex asset/structure of the asset to which they belong;
- can be reliably measured;
- have useful lives significantly different from the structure of the asset to which they belong; and
- are considered by the agency to be material.

Restrictions on the use or sale of an asset

Fair value measurement of a particular asset is impacted by restrictions on the use or sale of an asset if market participants would take those restrictions into account when pricing the asset.

Most government reporting entities are mandated by ministerial/government or legal/administrative requirements to provide certain services to the public and therefore, are restricted in the use and disposal of assets that assist to provide these services. This is so, because the government reporting entities remain subject to the restrictions imposed by the Government, because the entity is not able to change the use or dispose the asset, unless approved by the Government.

As a result, in most circumstances, restrictions imposed by the Government regarding the use and disposal of assets in the public sector are a characteristic of the asset which a market participant would take into account when pricing the asset. It is probable then, that most assets will be valued on current (restricted) use.

In many cases, current market prices cannot be directly observed. Accordingly, the best indicator of the asset's fair value may be the replacement cost of the asset's remaining future economic benefits/replacement of the asset's service capacity (which is the lower of its replacement cost or its reproduction cost, less accumulated depreciation, ie its written-down current cost). The cost approach is used on an "optimised" basis, thereby excluding the cost of replacing or reproducing excess capacity or over-engineering of the asset.

In limited circumstances, market or other factors may suggest that a different use (ie alternative use) by market participants would maximise the value of the asset. It is important that adequate evidence to support the feasibility of this use is obtained, taking into account the cost of achieving this alternate use and the existing natural, legal and socio-political environment in which the government reporting entity operates.

Assets with a feasible alternative use, are valued at the greater of the current use and any alternative use – where it can be demonstrated that the alternative use can be achieved in the near future (ie within five years).

Land and heritage assets should be valued in accordance with APF III *Asset Accounting Framework*

Surplus Assets

Surplus assets that will be disposed of within twelve months of the next reporting date should be valued in accordance with AASB 5. That is an entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

Thank you for your cooperation in providing a quote by XX/X/201X.

If you have any queries in regard to this matter, please contact (name of officer) on (direct phone number).

Yours sincerely

AB Smith
Chief Executive

IV FINANCIAL ASSET AND LIABILITY FRAMEWORK

Re-Issued: 16 June 2016

1 INTRODUCTION

Application and Operative Date

This Accounting Policy Framework is re-issued on the 16 June 2016 and applies to the general purpose financial statements of each public authority for the reporting period ending on or after 30 June 2016. It replaces the APF IV issued in March 2016 which is hereby revoked.

Scope

The purpose of this Accounting Policy Framework is to address the issue of identification, recognition and measurement of financial assets and liabilities with specific reference to employee benefits. It allows a short-hand method to be used to calculate long-service leave obligations. With respect to financial assets and liabilities, it requires public authorities that are not public financial corporations or insurers to value financial instruments, other than derivatives, at cost.

Australian Accounting Standards

The following Australian Accounting Standards have general application in relation to the accounting for financial assets and liabilities.

AASB 7 *Financial Instruments: Disclosure* requires disclosure to enable users to evaluate the significance of financial instruments on an entity's financial position and performance. Other disclosure requirements include the nature and extent of risks arising from financial instruments, and how the entity manages those risks. The principles in this Standard complement the principles for recognising, measuring and presenting financial assets and financial liabilities in AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*.

AASB 119 *Employee Benefits* prescribes the accounting treatment and reporting requirements for employee benefits including post-employment benefits.

AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* prescribes the accounting and disclosure of provisions, contingent assets and contingent liabilities.

AASB 132 *Financial Instruments: Presentation* establishes principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset.

AASB 139 *Financial Instruments: Recognition and Measurement* prescribes the principles for recognising and measuring financial assets, financial liabilities, and some contracts to buy or sell non-financial items. Some of this standard's requirements include recognising financial assets and liabilities in the Statement of Financial Position and for measurement purposes, classification of financial instruments into one of four categories.

2 MEASUREMENT OF FINANCIAL ASSETS

APS 2.1 Other than as specifically required or exempted in this APF and APF III *Asset Accounting Framework* APS 13.2 and APS 13.4, all government reporting entities will use the historical cost measurement for debt and financial assets and the fair value measurement basis for derivatives.

APS 2.2 The following entities are exempt from the requirements of APS 2.1:

- Public financial corporations eg HomeStart, SAFA;
- Public insurers eg SAICORP, MAC; and
- Public Trustee and Universities.

3 LIABILITIES AND COMMITMENTS

What are liabilities?

3.1 A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

3.2 The key features are that there must be:

- a present obligation to an external party;
- the obligation must have arisen from a past event; and
- there must be an outflow of future economic benefits.

3.3 Indicators of a present obligation would include:

- a firm agreement;
- the probability that either party to the agreement would suffer loss from cancellation by the other party; and
- the probability that the other party would succeed in any action to secure performance or significant compensation.

3.4 Indicators of past event:

- the specification of a past event differentiates liabilities from intentions to sacrifice economic benefits in the future (which are not to be recognised).
- a transaction or event giving rise to the present obligation to sacrifice future economic benefits must have occurred.

3.5 Indicators of future economic benefits:

Outflows of future economic benefits can take various forms such as the payment of cash, transfer of assets, provision of services, replacement of an obligation with another obligation or the conversion of the obligation to equity.

When to recognise liabilities

3.6 A liability should be recognised in the Statement of Financial Position when and only when:

- it is probable that the future sacrifice of economic benefits will be required; and
- the amount of the liability can be measured reliably.

3.7 The term probable means that the chance of the future sacrifice of economic benefits being required is more likely rather than less likely.

Items that Fail the Recognition Criteria

3.8 Liabilities that do not meet the recognition criteria will be disclosed in the explanatory notes and will not be reported in the Statement of Financial Position.

Distinguishing between Liabilities and Commitments

3.9 Commitments represent an intention to sacrifice future economic benefits. They are different from liabilities in that they lack the element of a present obligation.

3.9.1 Commitments and liabilities arise at separate points on the time-line in the process of incurring a liability. Merely establishing a grant program or making the decision to purchase or undertake a venture would not give rise to a present obligation.

3.9.2 The point at which a commitment becomes a liability is generally when the intention to sacrifice future resources becomes a present obligation.

This would normally occur when:

a) there is firm agreement;

b) it is probable that either party to the agreement would suffer substantial loss from cancellation by the other party; and

c) it is probable that the other party would succeed in any action to secure performance or significant compensation.

3.10 The tables below illustrate the timeline of events during which a commitment becomes a liability:

Payment of an unconditional grant

Stage	Application received	Decision / offer made to applicant	Enforceable agreement	Payment made
Classification		Commitment	Record expense and liability and remove commitment	Remove liability

Payment of a conditional grant in advance

Stage	Application received	Decision / offer made to applicant	Enforceable agreement	Payment made	Confirmation that conditions have been met
Classification		Commitment	Commitment	Record a prepaid expense (asset)	Reduce prepayment and recognise expense

APS 3.11 Where material, details of commitments (other than commitments for the payment of salaries and wages to employees) must be disclosed in the explanatory notes. Commitments are to be disclosed in the time bands as follows:

- Not later than one year
- Later than one year but not later than five years
- Later than five years

4 CONTINGENT LIABILITIES AND PROVISIONS

Contingent Liabilities

4.1 Contingent liabilities are:

a. possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

b. present obligations that arise from past events but are not recognised because:

   i. it is not probable that an outflow of resources will be required to settle the obligation; or

   ii. the amount of the obligation cannot be measured with sufficient reliability.

4.2 Determining contingent liabilities will in some cases be a matter of fact, and in others will involve management judgement which may require reports from independent experts.

Provisions

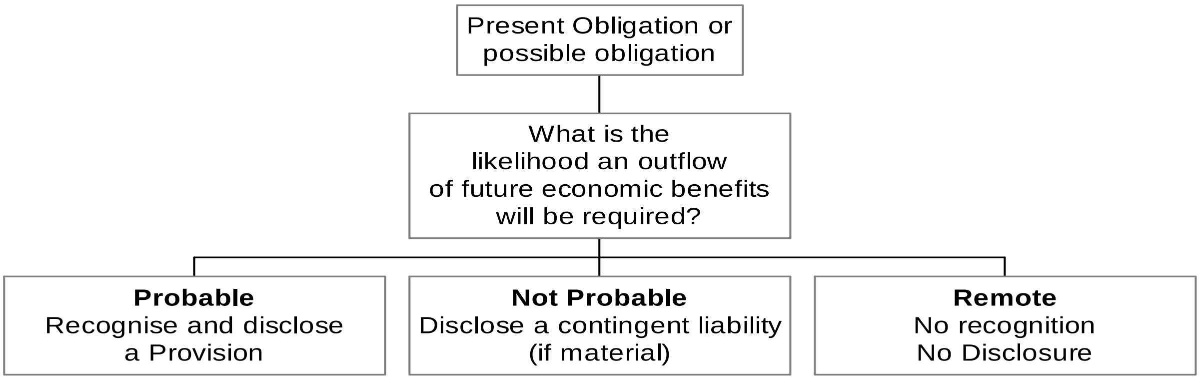
4.3 Provisions are liabilities for which the amount and timing of the future sacrifices of economic benefits that will be made is uncertain e.g. workers compensation.

APS 4.4 Workers compensation will be reported as a provision and not an employee benefit.

4.5 In the context of doubtful debts and depreciation, the term provision refers to an adjustment to the carrying amount of the associated asset (receivables and non-current assets) and is not a liability.

Recognition

4.6 Where as a result of past events, outflows of future economic benefits may be required, the following decision tree identifies the recognition and disclosure requirements:


Present Obligation or possible obligation
What is the likelihood an outflow of future economic benefits will be required?
Probable
Recognise and disclose a Provision
Not Probable
Disclose a contingent liability (if material)
Remote
No recognition
No Disclosure

5 EMPLOYEE BENEFITS

Introduction

5.1 For the purposes of preparing general purpose financial statements, an employee is any person engaged under any Act, Award or other contract of service and who receives a salary or a wage along with other benefits from the government reporting entity.

5.2 The government reporting entity that pays the employee's salary or wage is defined as the employer, and is initially responsible for incurring and reporting all employee benefits.

5.3 Employee benefits should be determined through specific reference to the appropriate legislation, awards or service contracts applicable to the employees of an entity.

Short-term Employee Benefits

5.4 Short-term (ie expected to be settled within 12 months after the end of the reporting period in which the employee rendered the services) employee benefits are to be measured at nominal amounts. This includes salaries and wages, annual leave, skills and experience retention leave and sick leave.

5.5 Most government reporting entities will continue to measure annual leave liability and skills and experience retention leave liability at nominal amounts, due to the immaterial effect of discounting. Refer to 5.7 example nominal amount.

5.6 In using the nominal amount, each government reporting entity should consider whether its experience profile, in relation to its annual leave liability and skills and experience retention leave, is different to that of most other government reporting entities such that the entity would undertake a present value calculation.

For example, sometimes a government reporting entity may have substantial excessive annual leave balances that if measured at nominal amounts would result in a material error to the accounts. In this unusual event, a reporting entity would measure annual leave at its present value. Refer to 5.7 example present value.

5.7 The Department of Treasury and Finance recommends a salary inflation rate of 3.0% per annum be applied to the salary rates current at reporting date to determine the nominal amount (i.e. the amount the entity expects to pay).

For example – nominal amount

The annual leave liability report as at 30 June 201X states the total annual leave liability for the entity is $100 000. (This report has used remuneration rates current as at 30 June 201X.) Hence nominal amount for the annual leave liability is:

$100 000 *1.03 = $103 000

For example – present value

The annual leave liability report as at 30 June 201X states the total annual leave liability for the entity is $500 000. 80% of this balance relates to entitlements that are excessive and it is the entity's expectation that this substantial and excessive entitlement will be settled in 5 years. For the purposes of this example assume a 5 year bond rate of 5.25%.

$500 000*1.03 = $515 000

It is expected that 30 employees (totalling $100 000 of leave liability) entitlement to annual leave will be settled within 12 months. Nominal amount for the annual leave liability is $103 000.

It is expected that 25 employees (totally $400 000 of leave liability) excessive entitlement will be settled within 5 years. Each of these employees' leave balances will be increased by the salary inflation rate of 3% and NPV at 5.25%.

5.8 In applying the salary inflation rate, each government reporting entity should consider whether its experience of salary increases and/or its EB arrangements are sufficiently different to that of most other government reporting entities to render use of the salary inflation rate unreliable in estimating short-term employee benefits. In these circumstances, the entity should undertake its own calculation of the short-term employee benefit liability and would need to show that its calculation complies with the requirements of AASB 119.

With regard to sick leave, benefits may accumulate similar to annual leave benefits but are usually only paid upon a valid claim for sick leave. On average, sick leave taken each reporting period would be equal to or less than the entitlement accruing in that period and therefore no liability needs to be recognised. If past experience indicates otherwise, it would be necessary to recognise that component of accumulated benefits expected to result in payments to employees, measured at nominal amount.

Long-term Employee Benefits

5.9 Long-term (ie not expected to be settled within 12 months after the end of the period in which the employees rendered the service) employee benefits are to be measured at the present value of the future cash outflows. This includes all benefits other than short-term employee benefits, post employment benefits and termination benefits.

APS 5.10 The discount rate to be applied is the prevailing market yield on Commonwealth or State Government bonds of a term similar to the average term of the liability.

5.11 To assist government reporting entities in determining long service leave liability, the Department of Treasury and Finance has developed a long service leave module within the BMS system which contains an actuarial analysis to determine an estimate of the present value of future cash outflows associated with the long service leave liability. The Department of Treasury and Finance recommends a salary inflation rate of 4.0% per annum be applied for long term employee benefits.

Current / Non-current classification of Long Service Leave

5.12 AASB 101 *Presentation of Financial Statements* requires liabilities to be classified as current when the relevant criteria are met. One of the criteria is where the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

5.13 In relation to long service leave, an unconditional legal entitlement to payment arises after a qualifying period of service (usually ten or fifteen years). Accumulation of long service leave entitlement continues after this point until the leave is taken. This entitlement is termed the "unconditional" entitlement category.

In certain circumstances a legal entitlement to pro rata payment in lieu of long service leave arises. This entitlement is termed the 'conditional' entitlement category.

5.14 To assist entities in calculating the conditional component of the long service leave, a report will be available from the long service leave module within BMS which will provide the percentage of the long service leave that could be considered conditional.

5.15 In using this report, entities should also consider specific legislative provisions, policies and practices in relation to the approval of long service leave.

Post-employment Benefits

5.16 Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment. In the SA public service this applies to superannuation.

5.17 All SA Government employees are covered by a superannuation scheme operated by the Government, statutory authorities or other public sector organisations. These schemes include member and employer contributions to voluntary schemes and employer contributions to the Southern State Superannuation Scheme, in lieu of Commonwealth mandated Superannuation Guarantee arrangements, for employees who are not members of the voluntary schemes.

5.18 The provision of superannuation gives rise to liabilities for payment of future benefits by employers. The extent of the liability of a superannuation scheme will depend upon the nature of the scheme and the types of benefits it provides.

APS 5.19 For the majority of government controlled reporting entities, the Treasurer assumes the accruing superannuation liability in return for periodic payments calculated by Super SA as either a factor of contribution amounts paid by employees or a percentage of the employees' eligible earnings. Payment, of amounts owing in respect of each pay period, is required within seven days of the end of the entity pay period.

APS 5.20 For those entities discussed at APS 5.21, at reporting date the amount of any employer superannuation contributions due but not yet paid to the Treasurer will constitute a current liability and will be classified in the Statement of Financial Position as a payable. The liability for employees' superannuation entitlements rests with the Treasurer and would not be reported by individual government reporting entities.

5.21 Government reporting entities that sponsor superannuation schemes on behalf of their employees are responsible for measuring and recognising any expenses or liabilities resulting from those schemes. The requirements are covered extensively within AASB 119.

Employment On-costs

5.22 Employment on-costs are recognised as liabilities and expenses where the employee benefits to which they relate have been recognised as liabilities and expenses.

5.23 In determining whether settlement of employee benefit liabilities will give rise to the payment of employment on-costs, an entity should consider whether they are likely to be extinguished through resignation/termination or through the taking of leave.

5.24 The Department of Treasury and Finance has calculated an average percentage for the proportion of long service leave estimated to be taken as leave (and the proportion taken as a lump sum payment) at a whole of government level. Each government reporting entity should consider whether their experience is sufficiently different to render the use of these averages unreliable. The current estimates for the proportion of long service leave taken as leave are:

Education	62%
Health units	51%
Other entities	40%

APS 5.25 Liabilities for employment on-costs will be classified as payables and not employee benefits. The determination of the current and non-current portions of the liabilities will be based on the classification of the employee benefits to which they relate.

5.26 Employer superannuation contributions relating to accrued salaries and wages or annual leave liability will be determined using the same basis for calculation as for each pay period in respect of salaries and wages.

5.27 With regards to long-service leave liabilities, employer superannuation contributions are not incurred in respect of lump sum payments. Therefore a government reporting entity must determine the proportion of long-service leave it expects will be taken as leave and calculate the superannuation contributions relating to that amount to be recognised as an on-cost liability.

5.28 Where the liability for long-service leave is determined based on a group of employees using an actuarial estimate the liability to each employee will not be available and therefore an average factor across schemes will need to be determined. Similarly, the proportion of long service leave estimated to be taken as lump sums cannot readily be determined without recourse to the data forming part of the actuarial calculation. To assist government reporting entities using the LSL module within the BMS system to calculate their long service leave liability, the Department of Treasury and Finance has calculated an average factor for the calculation of the employer superannuation contribution on-cost of 10.2%.

APS 5.29 Where employees transfer between government reporting entities, any liabilities for employee benefits accrued up to the transfer date are usually transferred to the transferee entity. In these circumstances the transferor entity will extinguish any employee benefit liabilities and recognise income equivalent to the liabilities extinguished. The transferee entity will recognise an expense and a liability for the benefits transferred.

APS 5.30 In those circumstances where the transferor entity makes a payment to the transferee entity in consideration for the assumption of the liability for employee benefits of transferring employees, the transferor will extinguish liabilities and recognise a decrease in assets (cash) or an increase in liabilities (cash payable). The transferee will correspondingly recognise the liability assumed and an increase in assets (cash or cash receivable). To the extent that the payment is less than the liability assumed, the transferor will recognise income equal to the amount of the shortfall and the transferee will recognise an expense.

5.31 Agencies should note, the requirements of Determination 3.1 Employment Conditions - Leave in relation to transfers of entitlements between government reporting entities.

5.32 The extent to which employee benefits have not been paid as at the reporting date will represent a liability.

5.33 Employee benefit disclosure requirements are illustrated in the model financial statements issued pursuant to Treasurer's Instruction 19 *Financial Reporting*.

6 MEASUREMENT OF FINANCIAL LIABILITIES

APS 6.1 Other than as specifically required or exempted in this APF and APF III *Asset Accounting Framework* APS 13.2 and APS 13.4, all government reporting entities will use the historical cost measurement for debt and financial assets and the fair value measurement basis for derivatives.

APS 6.2 The following entities are exempt from the requirements of APS 6.1:

- Public financial corporations eg HomeStart, SAFA;
- Public insurers eg SAICORP, MAC; and
- Public Trustee and Universities.

Accounting for Interest Free Loans

APS 6.3 All interest free loans will be recorded at the present value of expected repayments, being expected future cash payments discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate, and other factors) with a similar credit rating at the time of the loan's initiation. The remaining balance (that is, the difference between the amount borrowed and the present value) will be recorded as revenue.

Example: An interest free 10 year loan payable with a single repayment to be made after 10 years. The 10 year bond rate at the date of origination (1 July) is 7% and the calculation of the present value of the repayment is:

	YR 1	YR 2	YR 3	YR 4	YR 5	YR 6	YR 7	YR 8	YR 9	YR 10
Face Value	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000
Book Value	5 439	5 820	6 227	6 663	7 130	7 629	8 163	8 734	9 346	10 000

Accounting entry for Yr 1

DR	Cash	10 000
CR	Loan Payable	5 439
CR	Revenue	4 561

(recognise loan payable at fair value in accordance with APS 6.3)

Accounting entry for Yr 2

DR	Interest expense	381	
CR	Loan payable		381

(record amortisation of loan)

Accounting Entry for Yr 10

DR	Loan Payable	10 000	
CR	Cash		10 000

(record the loan repayment)

Materiality Thresholds for Interest Free Loans

6.4 Government reporting entities may control interest free loans that have been provided/ received for a very long period of time that, if they were to be accounted for in accordance with APS 6.3, would result in excessive accounting effort for very limited benefits. These would include, for example, government assistance loans provided for 99 years.

APS 6.5 To minimise the administrative burden, interest free loans provided/received for a very long period of time should have a carrying value of zero.

Discount Rate

APS 6.6 In the absence of a relevant prevailing interest rate (refer APS 6.3), the appropriate discount rate will be equal to the market yield on long-term Commonwealth bonds at the time the loan was provided plus an average risk margin of 2.5%.

6.7 For the purposes of APS 6.3 the discount rate first used (i.e. at the time the loan was initiated) remains the appropriate discount for the remainder of the loan term.

V INCOME FRAMEWORK

Issued: 24 March 2009

1 INTRODUCTION

Application and Operative Date

This Accounting Policy Framework is re-issued on the 24 March 2009 and applies to the general purpose financial statements of each public authority for the reporting period ending on or after 30 June 2009. It replaces APF V issued in February 2006 which is hereby revoked.

Scope

The purpose of this Accounting Policy Framework is to address income identification, recognition and measurement, with a specific reference to contributions. To assist public authorities with accounting for contributions, such as grants, the income, expense, asset and liability aspects of contributions are considered.

It mandates that all public authorities measure contributed assets at fair value and provides accounting guidance for grants.

Background

In November 2005, the AASB released its proposed guidance on contributions (ED 144 *Proposed Australian Guidance to Accompany AASB 1004 Contributions)*, to further explain the concepts and requirements outlined in AASB 1004. The statement contained in the AASB's media release was that 'ED 144 does not propose any changes to the requirements of AASB 1004'.

In January 2006, the AASB decided not to finalise the guidance at this stage as changes will be required to AASB 1004 when the outcomes of the IASB and IPSASB projects on non-exchange revenue transactions are known.

The AASB has agreed to undertake a separate longer-term project to review the requirements and guidance for contributions, and for this project to be conducted jointly with the New Zealand FRSB. Over the longer term and as part of this separate project, the AASB will continue to monitor the IASB projects on liability and revenue recognition and consider their implications for treatment of revenue from non-exchange transactions.

This Accounting Policy Framework includes guidance material, and uses terminology contained in ED 144 to further explain the concepts and requirements outlined in AASB 1004. The Accounting Policy Framework has been issued to facilitate the consistent application of the income accounting requirements across government reporting entities.

Australian Accounting Standards

AASB 118 *Revenue* sets out the accounting treatment of revenue arising from certain types of transactions and events.

AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* prescribes the measurement, recognition and disclosure of government contributions for for-profit entities.

AASB 1004 *Contributions* prescribes the measurement, recognition and disclosure of contributions for not-for-profit entities; defines restructures of administrative arrangements; and specifies that restructures are in the nature of transactions with owners in their capacity as owners.

AASB *Framework for the Preparation and Presentation of Financial Statements* sets out the concepts that underlie the preparation and presentation of financial statements for users.

2 INCOME

APS 2.1 All income must be measured at fair value.

2.2 Income is defined as increases in economic benefits during the reporting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from owners. Income is defined to include both revenues and gains, where:

- revenues arise in the ordinary course of an entity's business activities eg the sales of goods and/or rendering of services, use of the entity's assets yielding interest etc; and

- gains may or may not arise in the ordinary course of business and are recognised on a net basis eg gains on the sale or disposal of non-current assets.

2.3 Income is recognised when an increase in future economic benefits relates to an increase in an asset or a decrease in a liability that can be measured reliably.

APS 2.4 Revenues and gains must be reported separately in the Statement of Comprehensive Income. Gains must be disclosed on a net basis (ie reported net of related expenses).

3 CONTRIBUTIONS

What are contributions?

3.1 Contributions are non-reciprocal transfers and include items such as appropriation, grants, donations, taxes, rates and other asset transfers other than equity contributions by the SA Government as owner.

3.2 Contributions can be cash or non-monetary eg sponsorships, donated artworks etc.

What are stipulations?

3.3 Contributions may have stipulations that are conditional or unconditional.

3.4 Stipulations may be placed on the manner, purpose or timing of the use of the contributions. Examples of stipulations include:

- projects and activities required to be completed within specified timeframes and carried out in accordance with approved plans and/or proposals;
- expenditure required to be made in accordance with the approved budget and any unspent contributions returned to the contributor/grantor;
- progress reports and/or financial information to be provided when requested; and
- assistance from the contributor is required to be acknowledged in any published material.

3.5 Contributions with conditional stipulations have enforceable stipulations that need to be satisfied before the contribution will be paid, or where the contribution is paid in advance, failure of the receiving entity to comply with or satisfy these enforceable stipulations will trigger repayment. Refer to paragraph 4.8 for further information and examples of contributions with conditional stipulations. In the absence of enforceable stipulations that trigger repayment, the contribution is unconditional.

3.6 In assessing whether a stipulation is conditional it is important that attention be given to the underlying substance and economic reality of the stipulation. For example, if past experience indicates that the contributor has not enforced the conditional stipulations, that are attached to the contribution, then the contribution has the form but not the substance of a contribution with conditional stipulations.

3.7 The receipt of a contribution, with conditional or unconditional stipulations, will impose a fiduciary responsibility on the management of the entity to use the contribution efficiently and effectively in pursuing the objectives of the entity. This fiduciary responsibility is imposed on the use of all of the entity's assets and does not, of itself, constitute a legal, equitable or constructive obligation.

3.8 A contribution with unconditional stipulations does not give rise to a liability in the accounts of the recipient entity, as a present obligation (eg with respect to the use of the funds) on the entity has not been created.

4. ACCOUNTING FOR CONTRIBUTIONS BY NOT-FOR-PROFIT ENTITIES

APS 4.1 A contribution, other than a contribution by owners in their capacity as owners, must be recognised as an asset and income when the entity obtains control of the contribution or obtains the right to receive the contribution and the income recognition criteria are met (ie the amount can be reliably measured and the flow of resources is probable).

APS 4.2 This Accounting Policy Framework outlines the accounting treatment for contributions received. For contributions payable, the contribution will be recognised as a liability and expense when the government reporting entity has a present obligation to pay the contribution and the expense recognition criteria are met.

APS 4.3 Other than those government reporting entities specifically exempted via APS 3.4 in APF II, all government reporting entities (not just departments) will apply the following paragraphs of AASB 1004 *Contributions*:

a. paragraphs 39 to 43 “Liabilities assumed by other entities”; and

b. paragraphs 44 to 47 “Contributions of Services”.

4.4 To ensure contributions are accounted for consistently within the South Australian Government, agreements for contributions between government reporting entities must clearly articulate whether stipulations are conditional or unconditional, and the paying entity and receiving entity should ensure the recognition of contributions is consistent.

4.5 Implementation of the following process may assist government reporting entities with ensuring contributions are accounted for consistently:

- the receiving entity reconciling the extent of compliance with conditional stipulations to determine any amount repayable under the agreement;
- the receiving entity advising the paying entity that an amount is payable in accordance with the agreement; and
- the paying entity to confirm whether or not repayment of the amount is required.

4.6 Whether the government reporting entity has obtained control or the right to receive a contribution is a matter of fact that will need to be determined in each circumstance. Generally, for

- Contributions with unconditional stipulations this will be when the agreement becomes enforceable ie the earlier of when the receiving entity has formally been advised that the contribution (eg grant application) has been approved; agreement/contract is executed; and/or the contribution is received.

- Contributions with conditional stipulations this will be when the enforceable stipulations specified in the agreement occur or are satisfied, that is income would be recognised for contributions received or receivable under the agreement.

Accounting for contributions with unconditional stipulations

4.7 The following table demonstrates the accounting treatment for grants with unconditional stipulations by not-for-profit entities – whether paid in arrears or advance for the current year or future years.

Event	Action	Accounting Implications
Commitment	A decision has been made in favour of an applicant and/or an offer has been made to an applicant	Payer - Disclose commitment in the notes to the accounts.
Enforceable agreement	Contract or agreement – both parties sign a legal contract	Receiver - records income and a receivable. Payer – records an expense and a payable
Receipt/Payment	Receive/Pay per agreement	Receiver – receipts cash and reduces receivable. Payer – pays cash and reduces payable

If the receipt/payment occurs before the grant agreement becomes enforceable the income is recognised on receipt of the grant.

Accounting for contributions with conditional stipulations

4.8 Contributions with conditional stipulations have enforceable stipulations that need to be satisfied before the contribution will be paid, or where the contribution is paid in advance, failure of the receiving entity (ie grantee) to comply with or satisfy these enforceable stipulations will trigger repayment. Conditional stipulations may include:

- The use of the contribution to provide goods and services to third parties;
- The transfer of the contribution to a third party; and
- The obtaining of matching funds from a third party.

4.9 Generally, contributions with conditional stipulations give rise to an asset and income when the enforceable stipulations specified in the agreement are satisfied. Prior to this point in time, an enforceable right to use the contributed asset in the pursuit of the entity's objectives does not exist.

4.10 Where a contribution contains a conditional stipulation for the receiving entity (ie grantee) to provide goods and services, the agreement may be in economic substance a 'transaction for the provision of goods and services' ie a normal trading transaction of the entity, (eg where a payment is made to a research organisation to undertake research and provide the results of that research to the grantor). In such circumstances, the requirements in AASB 118 *Revenue* would apply.

4.11 Terms of an agreement to provide goods and services may include:

- the specific goods and services to be provided, quantities to be provided and/or entities to receive goods and services;
- an acquittal process to ensure the specified goods and services have been provided; and/or method for determining the stage of completion of goods and services; and
- a right to refuse payment or demand repayment when goods and services provided are not in accordance with arrangements specified.

APS 4.12 When a contribution with conditional stipulations is transferred in arrears of the conditional stipulations being met, the contribution must be recognised as an asset and income when the stipulations are met.

The following table demonstrates the accounting treatment for grants with conditional stipulations by not-for-profit entities – paid in arrears for the current year or multiple years.

Event	Action	Accounting Implications
Commitment	A decision has been made in favour of an applicant and/or an offer has been made to an applicant	Payer - disclose commitment in the note to the accounts.
Enforceable agreement with enforceable stipulations	Contract or agreement – both parties sign a legal contract	None – remains disclosed as a commitment in the notes to the accounts.
Confirm conditional stipulations are met and make payment/ receipt funds.	Receive/Pay as conditional stipulations are met as specified in the agreement	Receiver – records income and receipts cash. Payer – records expense and pays cash.

4.13 When a contribution with conditional stipulations is transferred in advance of the conditional stipulations being met, the asset must be recognised when the contribution is received, but there may be a liability associated with a contribution paid in advance, depending on:

- the nature of the asset transferred and the nature of the conditional stipulations attached to the contribution; and
- whether the entity has a present obligation to sacrifice economic benefits as a result of the payment eg where the contribution does not give the grantor a right to receive benefits directly from the grantee, the grantee does not have a present obligation to make future sacrifice of economic benefits to the grantor.

When an entity determines that a liability exists, the liability is only recognised if the outflow of future economic benefits is probable.

The following table demonstrates the accounting treatment for grants with conditional stipulations by not-for-profit entities – paid in advance for the current year or multiple years (assuming a liability is recognised because there is a clear statement of the specific action that is to be taken with the grant asset).

Event	**Action**	**Accounting Implications**
Commitment	A decision has been made in favour of an applicant and/or an offer has been made to an applicant	Payer - disclose commitment in the notes to the accounts.
Enforceable agreement with enforceable stipulations	Contract or agreement – both parties sign a legal contract	None – remains disclosed as a commitment in the notes to the accounts.
Receipt/ Payment	Receive/Pay contribution	Receiver – receipts cash and record income received in advance (the associated liability). Payer – pays cash and record the prepayment (the associated asset).
Confirm conditional stipulations are met	Conditional stipulations are met as specified in the agreement	Receiver – records income and reduces the liability Payer – records an expense and reduces the prepayment

5 ACCOUNTING FOR CONTRIBUTIONS BY FOR-PROFIT ENTITIES

5.1 A contribution from government (Commonwealth, State and Local) is recognised as an asset and income when there is reasonable assurance that the for-profit entity will comply with the conditional stipulations attached to the government grants and the government grants will be received. Government grants are defined in AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*.

5.2 Whether the 'reasonable assurance' test has been satisfied will need to be determined in each circumstance.

5.3 AASB 120 requires a for-profit entity to recognise government grants in profit or loss on a systematic basis over the periods necessary to match them with the related costs. For example:

- grants relating to depreciable assets are usually recognised as income over the same period and in the same proportions in which depreciation on those assets is charged; and
- compensation for expenses or losses already incurred or for the purpose of giving immediate financial support are recognised as income in the period it becomes receivable.

APS 5.4 Contributions received from non-government entities must be recognised as an asset and income when the entity obtains control of the contribution or the right to receive the contribution and the income recognition criteria are met (ie the amount can be reliably measured and the flow of resources is probable).

5.5 Whether the entity has obtained control or the right to receive a contribution is a matter of fact that will need to be determined in each circumstance.

5.6 This Accounting Policy Framework outlines the accounting treatment for contributions received. When a for-profit entity pays a contributions to a non-government entity or a government not-for-profit entity, the contribution will be recognised as a liability and expense when the entity has a present obligation to pay the contribution and the expense recognition criteria are met (ie the amount can be reliably measured and the flow of resources is probable).

VI DEFINITIONS

Re-issued: 9 April 2014

APS 1 Scope

The purpose of APS 2 is to define and identify the meaning of terms used in the Accounting Policy Frameworks and Accounting Policy Statements contained therein.

APS 2 Definitions/Meanings

Accounting Policy Statements means instructions, issued by the Treasurer pursuant to Section 41 of the *Public Finance and Audit Act*.

Australian Accounting Standards means accounting standards issued by the Australian Accounting Standards Board which are in force in relation to the reporting period to which the financial statement relates. Accounting Standards are binding on SA Government entities by authority of Treasurer's Instruction 19 *Financial Reporting*.

Base executive remuneration level means the remuneration of an executive at the A level on the EX structure ie EX A.

Commitments are obligations or undertakings to make future payments eg orders for goods or contracted services with reasonable expectation that the goods will be delivered or services provided.

Complex Asset means long-lived physical assets that are comprised of a number of components. These components may be replaced during the useful life of the asset (examples include a building or a train).

Component Asset means a part of an asset that is separately identifiable, measurable and has a significantly different useful life than the useful life of the structure to which it belongs.

Consultant means a person or entity that is engaged by an entity for a specified period to carry out a task that requires specialist skills and knowledge not available in the entity. The objectives of the task will be achieved by the consultant free from direction by the entity as to the way it is performed and in circumstances in which the engagement of a person under normal conditions is not a feasible alternative. A discussion to assist in identifying consultants from other forms of contractors is included in APF II guidance.

Contributions with conditional stipulations have enforceable stipulations that need to be satisfied before the contribution will be paid, or where the contribution is paid in advance, failure of the receiving entity to comply with or satisfy these enforceable stipulations will trigger repayment.

Contribution with unconditional stipulations refers to contributions that have no stipulations attached or has stipulations that would not result in the repayment of the contribution if the stipulations were not met.

Discount Rate means that rate of interest used in conjunction with the present value formula to express the expected future cash inflows or outflows associated with an asset or liability as an equivalent single amount, the present value of the expected future cash flows concerned.

Distribution to Owners means future economic benefits distributed by the entity to all or part of its ownership group, either as a return on investment or as a return of investment.

Employee means for the purposes of financial reporting by SA Government entities, an employee is any person engaged under any Act, Award or other contract of service and who receives a salary or a wage along with other benefits from the government entity.

Employment On-Costs means expenses which are consequential to the employment of employees, but which are not the entitlements of employees, such as payroll tax.

Future economic benefits are the capacity of assets to provide benefits to entities that use them and is common to all assets irrespective of their physical or other form. It is important to note that the asset is the future economic benefits and can be distinguished from their source – a particular object or right. The definition of an asset refers to the benefits and not to their source since, in the absence of future economic benefits, the object or right will not be of benefit to the entity and therefore will not qualify as an asset.

Government Department means a government controlled entity, established or continuing in existence, under the *Public Sector Act 2009* or otherwise designated as a government department by the government which controls it.

Government reporting entity means a public authority that is required by statute, Ministerial direction or other authority to prepare financial statements.

Grants are assistance in the form of transfers of resources to an entity and exclude normal trading transactions of the entity. Transfers may be based on compliance with past or future operations/activities.

Infrastructure Assets means items which meet the definition of an asset and comprise the facilities that provide essential services and enhance the capacity of the economy. Examples of assets commonly referred to as infrastructure are roads, sewerage systems, water supply systems and reservoirs, power generation plants and transmission grids, port and harbour facilities, busways and railways.

Land under roads:

- includes land under roads where roads have been declared under the South Australian Government's care, control and management and that portion of the land surrounding those roads that is the accepted responsibility of the South Australian Government;
- does not include land on title or parcel such as schools, hospitals and national parks; and
- does not include land controlled by councils.

Long-Lived Assets generally means any asset that has a useful life expectancy exceeding 50 years from its manufacture, construction or creation. In some cases, asset groups that include components or items with lives less than 50 years will also be included.

Long-term benefits means employee benefits (other than post-employment benefits and termination benefits) which do not fall due wholly within 12 months after the end of the period in which the employees render the related service e.g. long service leave.

Maintenance Expenditure means expenditure incurred to ensure that the asset continues to provide its pre-determined service capacity and quality and achieves its useful life. It is of a regular, on-going nature and is to be treated as an expense. Expenditure that does not represent the replacement of a component asset or an asset enhancement is maintenance expense and should not be capitalised.

Material means the extent to which relevant and reliable information may be omitted, misstated or not disclosed separately without having the potential to adversely affect the decisions about the allocation of scarce resources made by users of a general purpose financial statement or the rendering of accountability by preparers.

Net Cost of Services means the total cost of services less any revenue retained by agencies involved in the provision of the services – it excludes items classified as revenues from and payments to the SA Government

Normal Remuneration means any remuneration paid or payable, or otherwise made available, in respect of the reporting period, other than a separation benefit paid or payable in return for an employee ceasing employment with the entity.

Public Financial Corporation means an entity classified to this institutional sector under the Australian Bureau of Statistics' System of National Accounts Framework.

Reciprocal transfer means a transfer in which the entity receives assets or services or has liabilities extinguished and directly gives approximately equal value in exchanges to the other party or parties to the transfer.

Recognised means reported on, or incorporated in amounts reported on, in the Statement of Comprehensive Income or Statement of Financial Position (whether or not further disclosure of the item is made in notes thereof).

Remuneration means any money, consideration or benefit but does not include amounts in payment or reimbursement of out-of-pocket expenses incurred for the benefit of the entity or a controlled entity. The amount of remuneration is determined on the basis of the cost of the remuneration to the entity. Where the entity provides non-monetary benefits to an employee, the employee's remuneration includes what it effectively cost the entity to provide the benefits.

Specialised Public Service Assets are where the specialised design or features of the asset mean that there are few, if any, similar assets that are bought or sold in the market and the asset is probably suitable only for the delivery of the specific service and therefore if demand for the service falls or ceases then so will the value of the asset.

In addition, many public service assets are the subject of specific service obligations imposed either by conditions on the land use or by obligations on the operating entity. These obligations often restrict the ability of public sector agencies to deal with the assets. These restrictions may mean that certain opportunities or alternative uses are not available and therefore should not be taken into account when assessing fair value.

[definition adapted from guidance contained within IVSC's *Valuation of Specialised Public Service Assets*]