

URGENT



AUSTRALIAN
CAPITAL TERRITORY

CHIEF MINISTER'S
DEPARTMENT

This Memorandum applies to Departments.

Office of Financial Management Memorandum 97/34

Chief Executives
Chief Finance Officers
Budget Contact Officers

Office of
Financial
Management

1996-97 TERRITORIAL FINANCIAL STATEMENTS OF DEPARTMENTS

Purpose

This OFM Memorandum is issued to reiterate earlier advice provided by this Office, which was designed to give effect to the accounting treatment sought by the Auditor General in regard to the Territorial financial statement schedules for 1996-97 and subsequent years.

I refer in particular to the Office of Financial Management Memorandum 97/25 "ACT Accounting Policy Manual Update" issued on 27 June 1997 and to CFU's subsequent request (on 4 August 1997) for information on the actual amounts to be disclosed.

Background/Issues

2. OFM Memo 97/25 advised details of changes to the format and content of the Statement of Revenues and Expenses on Behalf of the Territory, and provided guidance on relevant changes in the accounting for 'Transfers to Government' (Ref APM section 10.3.10.2). This Memo provides further guidance on the change in accounting policy that applies to the revised format. The change is intended to improve the clarity of Territorial financial statements.

3. The effect of the policy change is that Territorial financial statements should now report (as applicable) liabilities to, and receivables from, the Central Financing Unit (CFU).

4. A Territorial liability to CFU arises when an department collects taxes, fees, and fines, or other Territorial revenues, and the department is obliged to onpass those funds to CFU. This liability is discharged when the department pays the cash to CFU. So, if a department has recognised a Territorial revenue, and either has a corresponding receivable or has received cash which is not yet transferred to CFU, the department has an outstanding liability to CFU. As a period end adjustment, the department should take up the following journal:

Dr Expense: "Transfers to Government"
Cr Liability: "Creditor" (ie CFU)

5. The above journal should only reflect the amount of revenue that the department has not yet transferred to CFU but expects to transfer after receipt of the money. In other words, the liability to

CFU should exclude any bad/doubtful debts. The intended result of this accounting is that the expense item “Transfers to Government”, together with Bad/Doubtful Debts expense, should offset all Territorial revenues that the department is obliged to pay to CFU. This should provide a nil net effect on the Territorial Operating Statement.

6. A liability in the Territorial accounts also arises if a department has received appropriation moneys for payments on behalf of the Territory, and the department has not yet incurred a related expense. In this case, instead of recognising a revenue (“Payment for Expenses on Behalf of the Territory”), the department should recognise either a liability for “Revenue Received in Advance” or a liability to CFU to repay those moneys, as applicable. (Note: It is only appropriate to recognise a “revenue received in advance” if the department still expects to spend the money on the purpose for which it was appropriated. Otherwise the department must return the money to CFU.) Because this is a period end adjustment only, departments will probably have already accounted for the appropriation as a revenue, in which case the relevant journal is:

Dr Revenue: “Payment for Expenses on Behalf of the Territory”
Cr Liability: “Creditor” (ie CFU) or “Revenue Received in Advance”

7. Territorial receivables from CFU arise where a department has recognised a Territorial liability to a third party, and for which the department will probably receive appropriation funding to pay the liability. One example of this is the Superannuation Provision Unit, which should recognise receivables (current and non-current) equivalent to the (current and non-current) whole of Government liability for superannuation. Another example is when a department has entered into a grant/funding agreement (or some other contract) that requires the department to make payments after the end of the reporting period, where such payments constitute a liability (as opposed to a commitment). Note that a receivable from CFU only exists where the liability will be funded by direct appropriation from CFU (as opposed to being funded by other departments out of their own appropriations). The journal to recognise a Territorial receivable is:

Dr Asset: “Debtor” (ie CFU)
Cr Revenue: “Payment for Expenses on Behalf of the Territory”

8. Territorial receivables from CFU do not arise simply because a department has incurred a Territorial expense. They arise only where there is a liability to a third party. This means that Territorial financial statements may continue to report a net loss, due to unfunded expense items such as depreciation, and loss on disposal of assets.

9. Consistent with the above, the Statement of Assets and Liabilities on Behalf of the Territory should show net assets (and equity) totalling the value of non-current assets - other than receivables (Note: This does not apply to CFU Territorial). All other assets should be offset against liabilities to CFU and third parties, as applicable. Likewise, all liabilities should be offset against cash, and receivables from CFU and third parties. Conversely, the CFU Territorial financial statements should reflect receivables from, and liabilities to, departments.

10. Departments are required to treat the accounting outlined above as period end adjustments, for purposes of annual reporting only. For the moment, monthly reporting is not required to include

this accounting. Departments are also requested to advise CFU of the amounts of receivables and creditors taken up at period end.

11. For the initial application of the above change in accounting treatment, departments may need to make opening balance adjustments to assets and liabilities, and adjustments to revenues and expenses, eg to reverse the amount of cash transfers that related to prior period Territorial revenues. Departments should make such adjustments to opening accumulated funds, as required by paragraph 15 of AAS1. Example journals are as follows:

To adjust for cash transfers that relate to prior period revenues:

Dr Capital: opening balance adjustment
Cr Expense: "Transfers to Government"

To adjust for appropriation revenue that relates to prior period expenses:

Dr Revenue: "Payment for Expenses on Behalf of the Territory"
Cr Capital: opening balance adjustment

12. Financial statements should include a note, along the following lines, about the above change in accounting policy:

The Statement of Assets and Liabilities on Behalf of the Territory includes (as applicable) liabilities to, and receivables from, the Central Financing Unit. In previous years no such liability or receivable has been recognised. This represents a central Government change to the accounting framework.

13. Please also note that if a department is required to make a cash transfer to CFU during the period, and that cash transfer does not relate to current or prior period revenues (eg it is due to the sale of an asset), the department should treat the transfer of cash to CFU as a capital transfer. Likewise, where a department receives Appropriation for Payments on Behalf of the Territory, and the appropriation is not for the purpose of funding Territorial expenses (ie it is funding for capital purposes, as indicated in the Budget Papers), the department should treat the appropriation as a capital inflow (rather than as a revenue).

14. If you require further information in relation to the above please contact either Brian Crofts of OFM on 207 5079 or the Audit Manager responsible for your agency's 1996-97 audit (ie Kurt Munro or Bernie Sheville).

15. As advised in OFM Memorandum 1997/25, OFM will shortly issue revised pages for the Accounting Policy Manual update. Those revised pages will also reflect the above additional guidance.

16. On a separate matter, in relation to Departmental financial statements for 1996-97, departments should be reporting as a revenue all Government Payments for Outputs (GPO) received during the year. In other words, for 1996-97 only, departments should treat all GPO received as having been earned during the year. (Whereas for monthly reporting, departments should continue to

recognise a liability, as applicable, for unearned GPO revenues.) The financial statements should include a note about this treatment, along the following lines:

For 1996-97, the department has recognised a revenue (“Government Payment for Outputs”) for all Output Appropriation received during the year.

17. If you require further information in relation to paragraph 16, please contact either Brian Crofts on 207 5079 or Rick Martin on 207 0228.

18. OFM welcomes feedback on the clarity and usefulness of its memoranda. Any comments can be forwarded to Wayne Hunt, Communications officer, Office of Financial Management, Level 1 Canberra Nara Centre (207 0138).

Geoff Ellis
Director
Financial and Budgetary Management
20 August 1997