

**ALTERNATIVE NOTE 3 DISCLOSURE**

**“Change in Accounting Policy and  
Correction of Prior Period Errors”**

**FOR DEPARTMENTS**

**FOR REPORTING PERIODS**

**ENDING ON 30 JUNE 2008**

**ACT GOVERNMENT**

**ISSUED MAY 2008**

## **Purpose**

Note 3 in the 2007-08 Model Financial Report contains an example disclosure for a change in accounting policy but does not include a disclosure regarding a material prior period error. This 'Alternative Note 3 Disclosure' includes an example prior period error disclosure and has been issued to assist Departments that may need to make a prior period error disclosure.

This 'Alternative Note 3 Disclosure' includes both the Change in Accounting Policy Note as it appears in the 2007-08 Model as well as the new example disclosure for prior period errors. No changes in this alternative have been made to the disclosures concerning 'Changes in Accounting Policy'. The 'Changes in Accounting Policy' disclosure has been provided in order to illustrate the complete note as it may appear in your 2007-08 financial report.

For Departments that do not have any Prior Period Errors, Note 3 in the 2007-08 model will be sufficient and appropriate, and as such this alternative disclosure is not required.

**‘EXAMPLE DEPARTMENT’**

**NOTE 3**

**Change in Accounting Policy and  
Correction of Prior Period Errors**

**FOR THE YEAR ENDED 30 JUNE 2008**

**‘Example Department’  
Notes to and Forming Part of the Financial Report  
For the Year Ended 30 June 2008**

**Reference**

**NOTE 3. CHANGE IN ACCOUNTING POLICY AND CORRECTION OF PRIOR PERIOD ERRORS**

**Change in Accounting Policy**

As a result of the move towards Generally Accepted Accounting Practice / Government Finance Statistics (GAAP/GFS) harmonisation, and the introduction of AASB 1049 ‘Whole of Government and General Government Sector Financial Reporting’, the ACT Government must report all property, plant and equipment and intangible assets at fair value for the whole-of-government and the general government sector financial reports by 1 July 2008. In order to facilitate this ACT Accounting Policy now requires all Departments to measure property, plant and equipment and intangible assets at fair value. Therefore “Example Department” has changed its accounting policy in respect of the valuation methodology used for plant and equipment, community and heritage assets, and intangible assets. These assets, which were previously measured at cost, are now measured at fair value. This has not resulted in a change in the carrying amount of plant and equipment and intangible assets in the current reporting period as their cost approximates fair value. However Community and Heritage assets have been revalued to fair value which has resulted in an increase in this class of approximately \$7.6m. This increase in the value of Community and Heritage assets will also result in higher depreciation to the amount of \$76,000 for the 5 months since the valuation occurred.

AASB 101 para 38 & 39

AASB 108 para 29

Comparative figures for 2006-07 have not been restated to reflect this policy change, as it is not possible to determine what the retrospective fair value of these assets would have been at the end of the previous period.

**Correction of Prior Period Errors**

On 1 February 2004 ‘Example Department’ received Land, Buildings and Plant & Equipment from XYZ Department, as part of an Administration Arrangement Order (AAO). These assets were acquired at no cost and taken up at the carrying amount of the transferor. All items were recorded in the books of ‘Example Department’ at the date of the transfer except for one building (valued at \$250,000) and the corresponding piece of land (valued at \$150,000). On 30 June 2005, this building and land was revalued to fair value to \$300,000 and \$235,000 respectively.

AASB 108 para 49 (a)

AASB 108 para 49 (b)(i) & (c)

As this error was made in a financial year prior to the comparative year, the Balance Sheet opening balances as at 1 July 2006 were restated as follows:

- Property, plant and equipment was increased by \$520,000 to recognise that the land and building were not previously recognised in ‘Example Department’s’ books. This increase to property, plant and equipment was made up as follows:
  - Land by \$235,000;
  - Buildings by \$300,000; and
  - Accumulated Depreciation on the buildings by \$15,000.
- Accumulated funds were increased by \$367,000; and
- Asset revaluation reserve was increased by \$153,000, which was made up as follows:
  - An increase of \$85,000 for the land asset revaluation reserve; and
  - An increase of \$68,000 for the building asset revaluation reserve.

In addition, this error resulted in restatement of the following line items for the year ending 30 June 2007:

- Depreciation expense was increased by \$15,000;
- Operating (deficit) was increased by \$15,000;
- Accumulated depreciation on the buildings was increased by \$15,000; and
- Accumulated funds was decreased by \$15,000.

**‘Example Department’  
Notes to and Forming Part of the Financial Report  
For the Year Ended 30 June 2008**

Reference

**NOTE 3. CHANGE IN ACCOUNTING POLICY AND CORRECTION OF PRIOR PERIOD ERRORS - CONTINUED**

Financial Report Line Item / Balance Affected	Note	Actual 2007 \$'000	Correction \$'000	Corrected Actual 2007 \$'000
<b><u>Operating Statement Extract</u></b>				
<b>Expenses</b>				
Depreciation and Amortisation		93,549	15	93,564
<b>Total Expenses</b>		<b>356,424</b>	<b>15</b>	<b>356,439</b>
<b>Operating Deficit</b>		<b>(3,755)</b>	<b>(15)</b>	<b>(3,770)</b>
<b><u>Balance Sheet Extract</u></b>				
<b>Non-Current Assets</b>				
Property, Plant & Equipment	26	3,699,377	505	3,699,882
<b>Total Non-Current Assets</b>		<b>3,876,703</b>	<b>505</b>	<b>3,877,208</b>
<b>Total Assets</b>		<b>3,892,807</b>	<b>505</b>	<b>3,893,312</b>
<b>Net Assets</b>		<b>3,832,602</b>	<b>505</b>	<b>3,833,107</b>
<b>Equity</b>				
Accumulated Funds		3,492,436	352	3,492,788
Asset Revaluation Reserve		215,911	153	216,064
<b>Total Equity</b>		<b>3,832,602</b>	<b>505</b>	<b>3,833,107</b>
<b><u>Statement of Changes in Equity Extract</u></b>				
<b>Opening Balance</b>		3,661,417	-	3,661,417
<i>Accumulated Funds</i>				
Net Effect of a Correction of an Error		-	520	520
Operating Deficit		(3,755)	(15)	(3,770)
<b>Total Income and Expense Recognised Directly in Equity for the Period</b>		<b>105,221</b>	<b>505</b>	<b>105,726</b>
<b>Closing Balance</b>		<b>3,832,602</b>	<b>505</b>	<b>3,833,107</b>

**‘Example Department’  
Notes to and Forming Part of the Financial Report  
For the Year Ended 30 June 2008**

**Reference**

**NOTE 3. CHANGE IN ACCOUNTING POLICY AND CORRECTION OF PRIOR PERIOD ERRORS - CONTINUED**

Financial Report Line Item / Balance Affected	Actual 2007 \$'000	Correction \$'000	Corrected Actual 2007 \$'000
<b><u>Note 26. Property, Plant and Equipment Extract</u></b>			
Land at Fair Value	25,911	235	26,146
<b>Total Land Assets</b>	<b>25,911</b>	<b>235</b>	<b>26,146</b>
Buildings at Fair Value	72,459	300	72,759
Less Accumulated Depreciation	(5,057)	(30)	(5,087)
Less Accumulated Impairment Losses	(554)	-	(554)
<b>Total Written Down Value of Buildings</b>	<b>66,848</b>	<b>270</b>	<b>67,118</b>
<b>Total Land and Written Down Value of Buildings</b>	<b>92,759</b>	<b>505</b>	<b>93,264</b>
<b>Total Written Down Value of Property, Plant and Equipment</b>	<b>3,699,377</b>	<b>505</b>	<b>3,699,882</b>

**Commentary – Note 3: Change in Accounting Policies and Correction of Prior Period Errors**

**Change in Accounting Policy**

AASB 108 para 14

Under AASB 108, a change in an accounting policy shall only be made when:

- it is required by an Australian Accounting Standard; or
- it results in the financial report providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity’s financial position, financial performance or cash flows.

AASB 108 para 16

The following are examples that are not changes in accounting policy:

- the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and
- the application of a new accounting policy for transactions etc that did not occur previously or were immaterial.

AASB 108 para 19 (b)  
AASB 108 para 22

A voluntary change in accounting policy is to be accounted for retrospectively by adjusting the opening balance of retained earnings for the earliest period presented and restating comparative information.

AASB 108 para 19 (b)

For changes in accounting policy that are not due to the initial adoption of an Australian Accounting Standard, the cumulative financial effect of the change must be calculated as if it had always been applied.

AASB 108 para 24

If it is not possible to identify the effects of changing an accounting policy, AASB 108 requires that the accounting policy be applied to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which application is applicable.

AASB 108 para 29

Where a change in accounting policy has an effect in the current reporting period, the previous period or subsequent period, the following must be disclosed:

**‘Example Department’  
Notes to and Forming Part of the Financial Report  
For the Year Ended 30 June 2008**

**Reference**

**Commentary – Note 3: Change in Accounting Policies and Correction of Prior Period Errors - Continued**

- the nature of the change;
- the reasons for the change;
- the amount of any adjustment for current period and each prior period for each financial statement line item affected;
- the amount of the adjustment relating to prior financial years; and
- if retrospective application is not practical for a particular period or for prior periods, a description of:
  - the circumstances that led to that condition; and
  - how, and from when, the change in accounting policy has been applied.

**Correction of Prior Period Errors**

When correcting a prior period error Departments need to adjust the relevant comparative figures in their current year’s financial report so that these comparatives reflect that the error has been corrected. It is also necessary to disclose the corrections that have been made to the financial statements in ‘Note 3 - Changes in Accounting Policies and Correction of Prior Period Errors’.

The figures in the extracts above (ie the Statement and ‘Note 26 – Property, Plant and Equipment’ extracts) are based on the 2007-08 Model Financial Report. The ‘Corrected Actual 2007’ column included in the disclosure above contains figures that appear in the 2007 comparative column in this year’s Model. Note that the only exception to this is that the ‘Net Effect of a Correction of an Error’ line item included in the Statement of Changes in Equity extract will not match what is in the Model as the Model did not include this error. The ‘Actual 2007’ column in the extracts above represents the 2007 figures that appear in the prior year’s financial report.

Departments should ensure the figures in the ‘Corrected Actual 2007’ column in Note 3 appear in the comparative figures in their current year financial report. Departments should also ensure that the figures in the ‘Actual 2007’ column in Note 3 match what was in their prior year Financial Report.

AASB 108 para 41

Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Potential current period errors discovered in that period are corrected before the financial report is authorised for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial report for that subsequent period.

AASB 108 para 42

Under AASB 108, a Department must correct a material prior period error in the first financial report authorised for issue after their discovery by:

AASB 108 para 42 (a)

- restating the comparative amounts for the period(s) presented in which the error occurred; or

AASB 108 para 42 (b)

- if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities, and equity for the earliest prior period presented

AASB 108 para 44

When it is impracticable to determine the period specific effects of an error on comparative information the Department shall restate the opening balances of assets, liabilities and Equity for the earliest period for which retrospective restatement is practicable.

## Illustrative Calculations

### Figures used in this 'Alternative Note 3 Disclosure'

The figures used in this 'Alternative Note 3 Disclosure' have been taken from the 2007-08 Model Financial Report for Departments. Should a prior period error occur, a Department would refer to their Financial Report for the prior year and restate the comparatives when presented in the current year's Financial Report. Please refer to the illustrative calculations below for details of the analysis required to correct this prior period error in the 'Alternative Note 3 Disclosure'.

In order to demonstrate the calculations behind the disclosures made above, further data is provided below. This data is not required to be disclosed in order to satisfy AASB 108 'Accounting Policies, Changes in Accounting Estimates & Errors', however it will demonstrate the level of analysis which may be required in order to restate any comparative figures.

Financial Report Line Item / Balance Affected	2007 \$'000	Opening Balance Adjustment	2006 \$'000	2005 \$'000	2004 \$'000
	Ref		Ref	Ref	Ref
<b>Effect on Expenses</b>					
Depreciation Expense	15 (h)		15 (g)	13 (d)	5 (c)
<b>Effect on Operating Surplus/ (Deficit)</b>	(15)		(15)	(13)	(5)
<b>Effect on Assets</b>					
Land	235	235	235	235 (e)	150 (a)
Buildings	300	300	300	300 (f)	250 (b)
Accumulated Depreciation	(30) (h)	(15)	(15) (g)	- (f)	(5) (c)
<b>Total Effect on Assets</b>	505	520	520	535	395
<b>Effect on Equity</b>					
Accumulated Funds	352	367	367	382	395
Asset Revaluation Reserve - Buildings	68	68	68	68 (f)	-
Asset Revaluation Reserve - Land	85	85	85	85 (e)	-
<b>Total Effect on Equity</b>	505	520	520	535	395

### Value on Transfer

- (a) On 1 February 2004 the Land had a book value of \$150,000 and had an indefinite useful life.  
 (b) On 1 February 2004 the Building had a book value of \$250,000 and had a useful life of 20 years.

### Depreciation Notes & Calculations

- (c) Depreciation for 2004 is  $\$250,000 / 20 \text{ years} / 12 \text{ months} \times 5 \text{ months} = \$5,208$   
 (d) Depreciation for 2005 (prior to revaluation) is  $\$250,000 / 20 \text{ years} = \$12,500 \text{ pa}$   
 (g) Depreciation for 2006 (post revaluation) is  $\$300,000 / 20 \text{ years} = \$15,000 \text{ pa}$   
 (h) Depreciation for 2007 (post revaluation) is  $\$300,000 / 20 \text{ years} = \$15,000 \text{ pa}$

### Revaluations

- (e) On 30 June 2005 the land was revalued. The fair value was assessed at \$235,000 with an indefinite useful life. Prior to revaluation the book value was \$150,000. Therefore an asset revaluation reserve of \$85,000 has been raised.  
 (f) On 30 June 2005 the building was revalued. The fair value was assessed at \$300,000 with a remaining useful life of 20 years. Prior to revaluation the book value was \$232,292. Therefore an asset revaluation reserve of \$67,708 has been raised.