

DISCLOSURE GUIDANCE

1. Background

The following disclosures represent changes to the 2008-09 Model Financial Report, and are due to the release of the ACT Accounting Policy Paper on Employee Benefits. As such, Departments will need to substitute the following disclosures for the same disclosures in the 2008-09 Model Financial Report. The affected notes are Note 2 (aa) *Employee Benefits*, Note 2 (ae) *Significant Accounting Judgements and Estimates*, Note 3 *Change in Accounting Policy and Accounting Estimates, and Correction of a Prior Period Error*, Note 11 *Employee Expenses* and Note 33 *Employee Benefits*.

Note that the amended disclosures included below have been made to the Department Model but apply equally to Territory Authorities.

2. Calculation of Change in Accounting Estimate

As a result of the long service leave (LSL) and annual leave (AL) liability calculation methodology changing, Departments and Territory Authorities must disclose the overall monetary impact resulting from the change. This amount is then disclosed in the 'Change in Accounting Estimate' section of Note 3. To assist Departments and Territory Authorities in calculating this amount, an example calculation has been included below.

2.1 Long Service Leave

SOURCE	AMOUNT
Total LSL liability included in the 30 June 2008 Financial Report	\$57,720
Raw data from the June 2009 HR report (supplied by SSC HR or agency payroll area – only including employees with 5 or more years of service)	\$65,000
Raw data from the June 2009 HR report (supplied by SSC HR or agency payroll area – including all employees). Note that this amount includes the new probability factors and includes all material on-costs	\$90,694
Average amount of LSL actually taken in the last three years for 2009	\$15,000

Total LSL liability for 30 June 2009 using the Old Methodology

Short-term liability: $\$15,000 \times 1.01^1 = \$15,150$

Long-term liability: $\$50,000 \times 95\% = \$47,500$

Total liability: $\$15,150 + \$47,500 = \$62,650$

Total LSL liability for 30 June 2009 using the New Methodology

Short-term liability: $\$15,000 \times 1.01^1 = \$15,150$

Long-term liability: $\$75,694 \times 88.8\%^1 = \$67,216$

Total liability: $\$15,150 + \$67,216 = \$82,366$

¹ this is based on a 4% wage increase, which is an example only. $4\% \times 3/12 = 1\%$.

¹¹ this is based on a present value rate of 88.8%, which is an example only. The actual percentage which should be used at the end of the reporting period will be issued by the Accounting Branch in early July each year (note that the percentage is also provided in early January as well).

The total movement in the LSL liability is recorded as an expense

Total LSL liability for 30 June 2009 using the New Methodology less Total LSL liability included in the 30 June 2008 Financial Report equals Total LSL Expense

$\$82,366 - \$57,720 = \$24,646$

This amount is the LSL expense for the year. This amount will appear in the operating statement and in the employee expenses note but does not have to be included in Note 3. Note that this amount does not match to what is currently disclosed in the Model disclosure below.

The total movement in the LSL liability relating to the change in Methodology

Total LSL liability for 30 June 2009 using the New Methodology less Total LSL liability for 30 June 2009 using the Old Methodology equals Movement due to Change in Methodology
 $\$82,366 - \$62,650 = \$19,716$

This amount together with the AL movement (calculated below) will be included in Note 3.

2.2 Annual Leave

SOURCE	AMOUNT
Total AL liability included in the 30 June 2008 Financial Report	\$40,000
Raw data from the June 2009 HR report (supplied by SSC HR or agency payroll area)	\$42,075
Raw data from the June 2009 HR report (supplied by SSC HR or agency payroll area) including all material on-costs.	\$52,918

Total AL liability for 30 June 2009 using the Old Methodology

Short-term liability: $\$42,075 \times 1.01^{\wedge} = \$42,496$

Total liability: $\$42,496$

Total AL liability for 30 June 2009 using the New Methodology

Short-term liability: $\$52,918 \times 1.01^{\wedge} = \$53,447$

Total liability: $\$53,447$

\wedge this is based on a 4% wage increase, which is an example only. $4\% \times 3/12 = 1\%$.

The total movement in the AL liability is recorded as an expense

Total AL liability for 30 June 2009 using the New Methodology less Total AL liability included in the 30 June 2008 Financial Report equals Total AL Expense

$\$53,447 - \$40,000 = \$13,447$

This amount is the AL expense for the year. This amount will appear in the operating statement and in the employee expenses note but does not have to be included in Note 3. Note that this amount does not match to what is currently disclosed in the Model disclosure below.

The total movement in the AL liability relating to the change in Methodology

Total AL liability for 30 June 2009 using the New Methodology less Total AL liability for 30 June 2009 using the Old Methodology equals Movement due to Change in Methodology

$\$53,447 - \$42,496 = \$10,951$

This amount together with the LSL movement (calculated above) will be included in Note 3.

2.3 Total Change in Accounting Estimate

MOVEMENT	AMOUNT
Movement in the LSL liability due to the change in Methodology	\$19,716
Movement in the AL liability due to the change in Methodology	\$10,951
Total Change due to Change in Methodology	\$30,667

This amount is disclosed in Note 3 as the change in accounting estimate. This amount is reflected in the Note 3 disclosure below.

‘Example Department’
Notes to and Forming Part of the Financial Report
For the Year Ended 30 June 2009

AASB 101 para 8 (e)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

AASB 119 para 10

(aa) Employee Benefits

Employee benefits include wages and salaries, annual leave, long service leave and applicable on-costs. On-costs include annual leave, long service leave, superannuation and other costs that are incurred when employees take annual and long service leave. These benefits accrue as a result of services provided by employees up to the reporting date that remain unpaid. They are recorded as a liability and as an expense.

Wages and Salaries

Accrued wages and salaries are measured at the amount that remains unpaid to employees at the end of the reporting period.

Annual and Long Service Leave

ACT Accounting Policy

Annual leave and long service leave that falls due wholly within the next 12 months is measured based on the estimated amount of remuneration payable when the leave is taken.

Annual and long service leave including applicable on-costs that do not fall due within the next 12 months is measured at the present value of estimated future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to the future wage and salary levels, experience of employee departures and periods of service. At each reporting date, the estimated future payments are discounted using market yields on Commonwealth Government bonds with terms to maturity that match, as closely as possible, the estimated future cash flows. In 2008-09, the discount factor used to calculate the present value of these future payments is XX% (95% in 2007-08).

AASB 101 para 60

The long service leave liability is estimated with reference to the minimum period of qualifying service. For employees with less than the required minimum period of 7 years qualifying service, the probability that employees will reach the required minimum period has been taken into account in estimating the provision for long service leave and the applicable on-costs.

The provision for annual leave and long service leave includes estimated on-costs. As these on-costs only become payable if the employee takes annual and long service leave while in-service, the probability that employees will take annual and long service leave while in service has been taken into account in estimating the liability for on-costs.

Annual leave and long service leave liabilities are classified as current liabilities in the Balance Sheet where there are no unconditional rights to defer the settlement of the liability for at least 12 months. However, where there is an unconditional right to defer settlement of the liability for at least 12 months, annual leave and long service leave have been classified as a non-current liability in the Balance Sheet.

‘Example Department’
Notes to and Forming Part of the Financial Report
For the Year Ended 30 June 2009

AASB 101 para 8 (e)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(ae) Significant Accounting Judgements and Estimates

In the process of applying the accounting policies listed in this note, the Department has made the following judgements and estimates that have the most significant impact on the amounts recorded in the financial report:

AASB 101 para 113

(a) *Fair Value of Assets*: The Department has made a significant judgement regarding the fair value of its assets. Land and buildings have been recorded at the market value of similar properties as determined by an independent valuer. In some circumstances, buildings that are purpose built may in fact realise more or less in the market. Infrastructure assets and some community and heritage assets have been recorded at fair value based on depreciated replacement cost as determined by officer valuation. This valuation uses significant judgement and estimates to determine the fair value, including the appropriate indexation figure and quantum of assets held.

AASB 101 para 116

(b) *Employee Benefits*: Significant judgements have been applied in estimating the liability for employee benefits. The estimated liability for employee benefits requires a consideration of the future wage and salary levels, experience of employee departures and periods of service. The estimate also includes an assessment of the probability that employees will meet the minimum service period required to qualify for long service leave and that on-costs will become payable. Further information on this estimate is provided in Note 2(aa) *Employee Benefits* and Note 3 *Change in Accounting Estimates*.

(c) *Estimation of the Useful Lives of Property, Plant and Equipment (PPE)*: The Department has made a significant estimate in determining the useful lives of its PPE. The estimation of useful lives of PPE has been based on the historical experience of similar assets and in some cases has been based on valuations provided by the Australian Valuation Office. The useful lives are assessed on an annual basis and any adjustments are made when considered necessary.

Further disclosure concerning an asset's useful life can be found at Note 2(v) *Depreciation and Amortisation of Non-Current Assets*.

**‘Example Department’
Notes to and Forming Part of the Financial Report
For the Year Ended 30 June 2009**

Reference

AASB 108 para 34
& 39
ACT Accounting
Policy

**NOTE 3. CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES,
AND CORRECTION OF A PRIOR PERIOD ERROR**

Change in an Accounting Estimate

Revision of the Methodology used to Estimate the Liability for Employee Benefits

This year, the Department of Treasury engaged an actuary to review the methodology used by ACT Government agencies to estimate annual and long service leave liabilities. Following this review, this methodology was revised as follows:

- As disclosed in Note 2(aa) *Employee Benefits*, the estimated future payments for annual and long service leave (including applicable on-costs) that do not fall due within the next 12 months are measured at present value.

The estimated future payments are discounted using market yields on Commonwealth Government bonds at the reporting date with terms to maturity that match, as closely as possible, the estimated future cash flows. The rate used to calculate the present value of these estimated future payments has been revised from 95% to XX% mainly due to a change in the long-term yields from Commonwealth Government bonds. The revision to the discount rate has resulted in a decrease to the liability for employee benefits and the related expense.

- As disclosed in Note 2(aa) *Employee Benefits*, the long service leave liability is estimated with reference to the minimum period of qualifying service. For employees with less than the minimum period of 7 years required qualifying service, the probability that employees will reach the minimum period of qualifying service has been taken into account in estimating the provision for long service leave and the related on-costs.

In previous reporting periods, under the methodology used by ACT Government agencies, this liability was estimated by recognising a 100% liability for employees with 5 or more years of service and 0% for employees with less than 5 years of service. This methodology has been replaced by another methodology, whereby the probability that an employee will reach the minimum service period of seven years is estimated for each completed year of service. The use of this revised methodology has resulted in an increase to the liability for employee benefits and the related expense.

- As disclosed in Note 2(aa) *Employee Benefits*, employee benefits include wages and salaries, annual leave, long service leave and applicable on-costs.

In previous reporting periods, all applicable on-costs were not included in the estimated annual and long service leave liabilities due to an omission. The inclusion of these on-costs in the current reporting period has resulted in an increase to the liability for employee benefits and the related expense.

The above revisions and corrections to the liability for employee benefits has resulted in an increase in the estimate of employee benefits and the related expense of approximately \$30,667 in the current reporting period.

‘Example Department’
Notes to and Forming Part of the Financial Report
For the Year Ended 30 June 2009

Reference

NOTE 11. EMPLOYEE EXPENSES

	2009	2008
	\$'000	\$'000
Wages and Salaries	69,522	68,098
Annual Leave Expense ^a	1,923	1,701
Long Service Leave Expense ^b	650 ¹	655
Comcare Premium	1,461	1,320
Termination Expense	558	320
Other Employee Benefits and On-Costs	680	720
Total Employee Expenses	74,794²	72,814

a) The increase in the Annual Leave Expense is due to the inclusion of on-costs in the estimate of the Annual Leave liability. Refer to Note 3: Change in Accounting Estimates for further details on this change.

b) The increase in the Long Service Leave expense is due to the change in the methodology used to estimate the Long Service Leave liability. Refer to Note 3: Change in Accounting Estimates for further details on this change.

¹Note that this amount has decreased since last year. However, as most agencies will have an increase in their long service leave expense this year, the Accounting Branch has included the above variance explanation to assist agencies.

²Note that agencies should, where applicable, disclose other reasons for the increase in the explanation for the variance provided below.

Commentary – Note 11: Employee Expenses

Employee benefits include:

- short-term employee benefits (e.g. wages, salaries, annual leave and non-monetary benefits such as vehicles);
- post employment benefits (e.g. pensions and post employment life insurance);
- long-term employee benefits (e.g. long service leave, sabbatical leave, long-term disability benefits and deferred compensation); and
- termination benefits.

Where an employee has rendered services to the Department during a reporting period, the Department must recognise as an expense (and a liability) the undiscounted amount of short-term employee benefits, including non-monetary benefits, expected to be settled in exchange for that service. Wages and salaries include the cost of any components of a wage or salary package and related Fringe Benefits Tax.

Termination expense represents the movement in the provision for termination benefits outlined in Note 33 *Employee Benefits*. This provision relates solely to redundancies paid to employees as a result of positions being abolished due to a restructuring of the Department.

AASB 119 para 4

AASB 119 para 10

‘Example Department’
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For the Year Ended 30 June 2009

Reference	NOTE 33. EMPLOYEE BENEFITS	2009	2008
		\$'000	\$'000
	Current Employee Benefits		
ACT Accounting Policy	Annual Leave ^a	11,944	8,221
ACT Accounting Policy	Long Service Leave ^b	13,827	11,938
ACT Accounting Policy	Accrued Salaries	3,228	1,923
ACT Accounting Policy	Termination Benefits due to Restructure ^c	878	320
ACT Accounting Policy	Other Benefits	560	84
	Total Current Employee Benefits	30,437	22,486
	Non-Current Employee Benefits		
ACT Accounting Policy	Long Service Leave ^b	883	762
ACT Accounting Policy	Other Benefits	240	36
	Total Non-Current Employee Benefits	1,123	798
	Total Employee Benefits	31,560	23,284
	<i>For Disclosure Purposes Only</i>		
	Estimate of when Leave is Payable		
	Estimated Amount Payable within 12 Months		
AASB 101 para 52(a)	Annual Leave	10,511	7,234
	Long Service Leave	588	508
	Accrued Salaries	3,228	1,923
	Termination Benefits due to Restructure	878	320
	Other Benefits	560	84
	Total Employee Benefits Payable within 12 Months	15,765	10,069
	Estimated Amount Payable after 12 Months		
AASB 101 para 52(b)	Long Service Leave	14,122	12,192
	Annual Leave	1,433	987
	Other Benefits	240	36
	Total Employee Benefits Payable after 12 Months	15,795	13,215
	Total Employee Benefits	31,560¹	23,284
	a) The increase in the Annual Leave Liability is due to the inclusion of on-costs. Refer to Note 3 <i>Change in Accounting Policy and Accounting Estimates, and Correction of a Prior Period Error</i> for further details on this change.		
	b) The increase in the Long Service Leave Liability is due to the change in the methodology used to estimate this liability. Refer to Note 3 <i>Change in Accounting Policy and Accounting Estimates, and Correction of a Prior Period Error</i> for further details on this change.		
	c) The increase in the provision for termination benefits relates to the restructuring of a maintenance division, which will affect 60 employees. See Note 34: ‘Other Provisions’.		
	¹ Note that agencies should, where applicable, disclose other reasons for the increase in the explanation for the variance provided below.		