ACT ACCOUNTING POLICY

AAPP 104 - ACT Accounting Policy Paper

on

Disaggregated Disclosures

FOR THE REPORTING PERIODS BEGINNING ON OR AFTER

1 JULY 2008

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1 Introduction

1.1 Application

1.1.1 Purpose

This ACT Accounting Policy: *Disaggregated Disclosures* provides general guidance to directorates on the disclosure of assets and liabilities by output class.

This Policy is to be read in conjunction with the following:

- AASB 1052 *Disaggregated Disclosures*.

1.1.2 Relationship to International Financial Reporting Standards

ACT Accounting Policies are to be read in conjunction with the applicable Australian Accounting Standards. Australian Accounting Standards incorporate International Financial Reporting Standards issued by the International Accounting Standards Board, with the addition of paragraphs on the applicability of each standard in the Australian environment. This policy assists directorates to apply the requirements within Australian Accounting Standards to provide disaggregated disclosures.

There is, however, no intention that the ACT Accounting Policies will replicate the Accounting Standards. Consequently, directorates should ensure that they have a thorough understanding of the content of the standards before reading and applying relevant ACT Accounting Policies.

1.1.3 Application Date

This ACT Accounting Policy Paper applies to reporting periods beginning on or after 1 July 2008.

1.1.4 Agencies covered by this Policy

This policy applies to directorates only.

1.1.5 Contact

If you have any questions regarding the content or application of this ACT Accounting Policy, please do not hesitate to contact the ACT Accounting Branch policy section to provide further clarification. Contact details are listed on the website: www.treasury.act.gov.au/accounting/html/contacts.htm

2 ACT Accounting Policies

2.1 Background

The three government accounting standards (AAS 27, AAS 29 and AAS 31) have been abolished and the requirements from these standards have been moved to other standards. As part of this process the disaggregated disclosure requirements in AAS 29 have moved to AASB 1052 *Disaggregated Disclosures.*

In addition to the previous requirements from AAS 29, there is a new disaggregated disclosure requirement included in AASB 1052. This requirement is to disclose the assets deployed and the liabilities incurred that are reliably attributable to a directorate's major activities. AASB 1052 para 20 provides guidance in determining major activities of government departments (i.e. directorates). ***It is ACT Accounting Policy that each directorate output class constitutes a major activity***.

2.2 Attribution of Assets and Liabilities

AASB 1052 does not provide guidance on what is meant by 'reliably attributable'. AASB 1052 para 19 does state however that it may not be possible to reliably attribute all assets and liabilities.

ACT Accounting Policy is that in almost all cases, cash and cash equivalents cannot be reliably attributed to a directorate's output classes and as such directorates do not have to allocate this asset class to output classes (see 2.2.1 below).

It is ACT Accounting Policy that the following asset and liability classes can be reliably attributed to a particular output class and as such directorates must allocate these classes to each of their output classes:

- ***Property, Plant and Equipment (see Section 2.2.2 below);***
- ***Capital Works in Progress (see Section 2.2.3 below);***
- ***Intangible Assets (see Section 2.2.4 below);***
- ***Employee Benefits (see Section 2.2.5 below); and***
- ***Finance Lease Liabilities (see Section 2.2.6 below).***

For all other asset and liability classes, the ultimate decision regarding whether or not these classes can be reliably attributed to an appropriate output class rests with the directorate, and as such directorates will need to analyse their assets and liabilities to determine which ones can be reliably attributed. The decision must be documented and included in accounting workpapers to support the disclosures made in the financial report. Assets and liabilities that cannot be reliably attributed are reported as unallocated.

Directorates are not required to allocate equity classes to their output classes as AASB 1052 only requires the allocation of asset and liability classes. As such the disaggregated disclosure will not present the full balance sheet.

2.2.1 Cash & Cash Equivalents

In almost all cases, cash and cash equivalents will not be able to be 'reliably attributed'. The Accounting Branch considers that cash in a general bank account is not 'reliably attributable' due to a number of factors, including:

- A generic cash buffer - that is working capital which is not held for any specific output class but is instead held for unforseen operational expenditures;
- Numerous unpresented cheques - there is no correlation between output class expenditure and actual cheques which are unpresented at any given point in time. Also, a single unpresented cheque could relate to multiple output classes;
- Cash held for a specific purpose; and
- Cash drawn down in anticipation of an imminent payment.

Further, no one driver has been identified that enables general bank account balances to be 'reliably attributed' to an output class. However, where a directorate considers that it can 'reliably attribute' amounts in a general bank account to one or more output classes, then it should do so.

Where a directorate has a bank account for each output class then cash and cash equivalents can be 'reliably attributed' and as such should be allocated. Further, where a directorate has more than two output classes and has a separate bank account for one of its output classes and a general bank account for the other output classes, the directorate should allocate cash and cash equivalents to the single output class with its own bank account and report the amount in the general bank account as unallocated.

2.2.2 Property, Plant and Equipment

All directorates will be able to 'reliably attribute' property, plant and equipment to an output class. This is because directorates already allocate the depreciation expense on the operating statement to each output class, based on asset register information. As such, directorates should use the same methodology when allocating property, plant and equipment on the balance sheet.

Example of Allocation Basis

The majority of buildings and land will be simple to allocate as they generally relate to a single output class. However, where a single building is used for a number of output classes, an appropriate basis of allocation is relatively straight-forward, such as floor space used or the number of employees. For example, a building is valued at $3,000,000 and houses 500 employees with a total floor space of 5,000m^2. Output class 1 has 280 employees and uses 2,600m^2 of floor space, where as output class 2 has 220 employees and uses 2,400m^2 of floor space. The amount of the building value allocated to each output class is calculated as follows:

- Based on employees:

  Output Class 1 - 280/500 x $3,000,000 = $1,680,000

  Output Class 2 - 220/500 x $3,000,000 = $1,320,000

- Based on floor space:

  Output Class 1 – 2,600/5,000 x $3,000,000 = $1,560,000

  Output Class 2 – 2,400/5,000 x $3,000,000 = $1,440,000

Note that the value of land is allocated using the same percentage as is used for the building which is on that land.

2.2.3 Capital Works in Progress

All directorates will be able to 'reliably attribute' capital works in progress to an output class. This is because capital works in progress are individually identifiable assets, and similar to property, plant and equipment, the majority will align with a single output class. Where a capital works in progress asset relates to multiple output classes, the asset value can be allocated on the same basis as outlined above in Section 2.2.2 *Property, Plant and Equipment*.

For example, where a building under construction will be used for multiple output classes, directorates could use the projected floor space or the projected number of employees per output class as a basis of allocation.

2.2.4 Intangible Assets

All directorates will be able to 'reliably attribute' intangible assets to an output class. This is because directorates already allocate the amortisation on the operating statement to each output class, based on asset register information. As such, directorates should use the same methodology when allocating intangible assets on the balance sheet.

Example of Allocation Basis

As the majority of software is specialised in nature and used for a specific purpose it usually relates to a single output class. However, where a piece of software is used across a number of output classes an appropriate basis of allocation is relatively straight-forward, such as the number of users/licences. For example, software is valued at $3,000,000 and 1,000 employees have licences to use the software. Output class 1 has 800 employees with licences, where as output class 2 has 200 employees with licences. The amount of the software allocated to each output class, based on employees/licences, is calculated as follows:

- Output Class 1 - 800/1,000 x $3,000,000 = $2,400,000
- Output Class 2 - 200/1,000 x $3,000,000 = $600,000

2.2.5 Employee Benefits

All directorates will be able to 'reliably attribute' employee benefits to an output class. This is because directorates already allocate employee expenses on the operating statement to each output class. As such, directorates should use the same methodology when allocating employee benefits on the balance sheet.

When calculating the amount of employee benefits to be allocated to each output class, the allocation calculation should not take into account output classes which the employee has worked for in the past. That is, where a staff member worked within output class 1 in a directorate for 9 years and then moves to output class 2 in the same directorate in the current year, all the employee benefits relating to that staff member are allocated to output class 2. It is the same when a staff member moves between directorates. This is because the gaining output class assumes the full liability for that staff member.

Example of Allocation Basis

Employees generally work within one output class and as such their employee benefit liability is able to be allocated to a specific output class. However, where an employee performs work for a number of output classes, an appropriate basis of allocation is relatively straight-forward, such as the number of hours an employee spends performing work for each output class or in the case of a corporate area the number of employees per output class. If the hourly allocation method is used, employees would need to complete time sheets for a sample number of fortnights indicating the amount of time spent on each output class. For example, an employee's total long service leave liability is $17,500 at the end of the financial year and the employee worked a total of 1,700 hours throughout the current financial year (extrapolated from the sample number of time sheets). The employee currently spends 1,200 hours performing work for output class 1 and 500 hours working for output class 2 (also extrapolated from the sample number of time sheets). The amount of employee benefits allocated to each output class based on hours worked is calculated as follows:

- Output Class 1 – 1,200/1,700 x $17,500 = $12,353
- Output Class 2 - 500/1,700 x $17,500 = $5,147

2.2.6 Finance Lease Liabilities

All directorates will be able to 'reliably attribute' finance lease liabilities to an output class. This is because directorates already allocate finance lease expenses on the operating statement to each output class, based on asset register information. As such, directorates should use the same methodology when allocating finance lease liabilities on the balance sheet.

Example of Allocation Basis

Most finance lease liabilities will involve the leasing of motor vehicles. Motor vehicles are generally for the use of one employee (even though the motor vehicle maybe available for the use of other employees during the day) and as such the liability attached to that motor vehicle should be allocated in the same way as the employee's salary has been allocated in the operating statement. As employees generally work within one output class this allocation should be relatively straight-forward. However, where an employee performs work for a number of output classes an appropriate basis of allocation could be based on the number of hours an employee spends performing work for each output class or in the case of a corporate area the number of employees per output class.

A pooled car is usually attached to a business unit or division within a directorate and as such should be straight-forward to allocate where that business unit or division falls within an output class. However, where the business unit or division is split between output classes the allocation of the pooled car will be more difficult. In this case it will be up to each directorate to determine the appropriate allocation.

Finance lease liabilities might also involve the leasing of buildings. The finance lease liabilities in these cases can be allocated on the same basis as buildings set out above in Section 2.2.2 *Property, Plant and Equipment*.

2.3 Meaning of 'Reliably Attributable'

AASB 1052 para 16 states that the financial report of a government department (i.e. directorate) shall disclose the assets deployed and liabilities incurred that are 'reliably attributable' to each department output class. However, AASB 1052 does not provide guidance regarding when an asset or liability is 'reliably attributable' to a particular output class. It does state that it may not be possible to reliably attribute all assets and liabilities.

The AIFRS Framework explains the meaning of 'reliable' in the context of the information contained in an entity's financial report. As the disaggregated disclosure requirements contained in AASB 1052 are included in a directorate's financial report it is appropriate to apply the meaning of 'reliable' from the Framework. The Framework states that information is 'reliable' when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent. Further, any uncertainties are recognised by the disclosure of their nature and extent and by the exercise of prudence in the preparation of the financial report. Prudence is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty.

As such, directorates should only allocate asset and liability classes to output classes where this is a faithful representation of what is included in those output classes. If not, then the asset and liability classes should be reported as unallocated. Given this, it is not considered that reliable attribution means that directorates will be in a position to allocate all asset and liability classes.

In cases where it is difficult to allocate an asset or liability class to an output class, a directorate must exercise judgement in determining whether or not those classes should be allocated. Where it is determined to be too difficult to allocate a class, it should be classified as unallocated. This means that assets and liabilities may be reported as unallocated even though it is not impossible to 'reliably attribute' them.

2.4 Change in Attribution Methodology

Where a directorate changes the methodology it uses to attribute an asset or liability class to an output class, this does not constitute a change in accounting policy as outlined in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. Instead it should be accounted for as a change in an accounting estimate in accordance with AASB 108. As such directorates are required to disclose the nature and amount of this change in Note 3 *Change in Accounting Policy and Accounting Estimates, and Correction of a Prior Period Error*.

2.5 Disclosure and Presentation Requirements

2.5.1 Model Financial Report

The disclosure requirements are included in the Operating Statement for each Output Class and the Note on Disaggregated Disclosures of Assets and Liabilities within the Model Financial Statements for Directorates.

Assets and liabilities that are assessed as being 'reliably attributable' must be allocated to each output class at 30 June.

2.5.2 Disclosure of Unallocated Asset and Liability Classes

Disclosures should be made in the financial report regarding why cash and cash equivalents as well as why any material unallocated classes of assets and liabilities cannot be reliably attributed. Disclosure of why immaterial unallocated asset and liability classes cannot be reliably attributed is not required.

2.5.3 Prior Year Comparative Figures

AASB 101 requires comparative information be disclosed in respect of the prior period for all amounts reported in the financial report, except where another Australian Accounting Standard permits or requires otherwise. AASB 1052 does not specifically address comparative figures for disaggregated disclosures but, as stated above, it only requires the allocation of asset and liability classes where they can be 'reliably attributable' to an output class. As such directorates should include comparative figures for this disaggregated disclosure unless not 'reliably attributable'.

Where information has been reclassified in the current financial year, AASB 101 recognises that in some circumstances it maybe impracticable to reclassify comparatives. AASB 101 states that a requirement is impracticable when the directorate cannot apply it after making every reasonable effort to do so. For example, data may not have been collected in the prior period(s) in a way that allows reclassification, and it may not be practicable to recreate the information.

When it is impracticable to reclassify comparative amounts, a directorate shall disclose:

- the reason for not reclassifying the amounts; and
- the nature of the adjustments that would have been made if the amounts had been reclassified.