

TREASURY ANALYSIS – INTERNATIONAL ACCOUNTING STANDARDS

‘Framework for the Preparation and Presentation of Financial Statements’ replaces SAC 3 ‘Qualitative Characteristics of Financial Information’ and SAC 4 ‘Definition and Recognition of the Elements of Financial Statements’

Major impacts

- Any gain or loss on disposal of assets must be recognised on a net basis, rather than gross (also refer to AASB 118 *Revenue*).

Key features of the Framework

- The *Framework* substantially replicates the requirements of SAC 3 and SAC 4, except for the areas discussed under ‘main differences’ below. The AASB plans to retain the substantive content of SAC 1 *Definition of the Reporting Entity* and SAC 2 *Objective of General Purpose Financial Reporting* in a revised form to be determined.

Main differences compared to previous Australian requirements

- *Revenue and Gains* - The *Framework* make a distinction between ‘revenue’ and ‘income’, with income comprising both ‘revenue’ and ‘gains’ (para 74-77) (refer also to *Treasury Analysis AASB 118 Revenue*).
 - ‘Income’ is equivalent to the previous SAC 4 definition of ‘revenue’.
 - ‘Revenue’ is ‘income’ arising in the ‘course of ordinary activities’ and is therefore a narrower concept compared to SAC 4.
 - ‘Gains’ include, for example, those arising on the disposal of non-current assets.
 - Gains are determined on a *net basis* and are usually displayed separately from ‘revenue’.
 - Previously, gains on disposal were recognised on a *gross basis* i.e. the fair value of the consideration received was recognised as revenue and the carrying amount was recognised as an expense (although AAS 29 permitted government departments to net gains or losses on disposal of non-current assets in the operating statement).
- *Expenses and Losses* - The same issue, as above, also arises in respect of ‘expenses’, which comprises both ‘losses’ and ‘expenses’ in the ‘course of ordinary activities’ (para 78-80).
- *Prudence* - The *Framework* discusses prudence as part of the qualitative characteristic of ‘reliability’ (para 37). Some argue that SAC 3 placed more emphasis on neutrality compared to the *Framework* and that under the *Framework* it is more likely that an accounting policy would be determined that results in assets or income being understated and liabilities or expenses being overstated. AASB 108 *Accounting Policies* also requires reference to ‘prudence’ when selecting an accounting policy.

Impact on the public sector

- The IASB *Framework* was designed for *for-profit entities* only. Therefore, the Australian equivalent includes additional paragraphs for *not-for-profit entities* carrying forward some of the SAC 4 material e.g. clarifying that the term ‘future economic benefits’ is synonymous with ‘service potential’. Other public sector specific material, such as guidance regarding non-reciprocal transfers, has not been carried forward, but is addressed separately as part of AASB 1004 *Contributions*.
- Disclosing net gains or losses on disposal of non-current assets in the income statement rather than gross amounts is a change for non-budget dependent agencies only. Budget sector financial reports already disclose such gains or losses on a net basis (per AAS 29).

Policy and Implementation issues

- Agencies must ensure they recognise any gain or loss on disposal on a net rather than gross basis.

This summary has been written in general terms and is intended for reference only. Agencies are strongly recommended to review the contents of the Standard to determine its application in particular circumstances.