The Looking Glass

NSW Government | The Treasury

Insights into financial reporting

Issue 3 | July 2015

Welcome

Welcome to the third edition of The Looking Glass. In preparation for financial year-end reporting, this issue looks at some of the key actions agencies need to undertake in preparing Annual Returns for Treasury. We also take a high-level look at two Australian Accounting Standards Board (AASB) Exposure Drafts: ED 260 *Income of Not-for-Profit Entities* and ED 261 *Service Concession Arrangements: Grantor*.

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Annual Returns

NSWTC 15-11 Agency guidelines for the 2014-15 Mandatory Annual Returns to Treasury outlines the procedures agencies need to follow in submitting both their Preliminary Annual Return and Final Annual Return to Treasury. As in recent years, these procedures focus on continuing to improve the quality and timeliness of financial reporting, and key points include:

- discuss any concerns identified during the Early Close Process with the Audit Office;
- resolve significant issues identified prior to financial statements preparation to avoid misstatements and potential audit qualifications;
- identify, document and notify Treasury of emerging issues and likely misstatements;
- assess the impact of new and revised accounting standards. In particular, evaluate and document relationships with subsidiaries, associates, joint arrangements and other entities, including entities that are not currently consolidated. Refer to Appendix H of NSW TC 15-11 for details;
- identify major variances between actual and original budgeted amounts in the financial statements, and document detailed reasons for these variances. Agencies should note that as a result of AASB 1055 *Budgetary Reporting*, budget amounts in the financial statements must now be the original budgeted information presented to Parliament.

Both the financial statements prepared for audit and the TOES Data returns are to be submitted to Treasury by 27 July, and associated supplementary schedules are due on 29 July 2015.

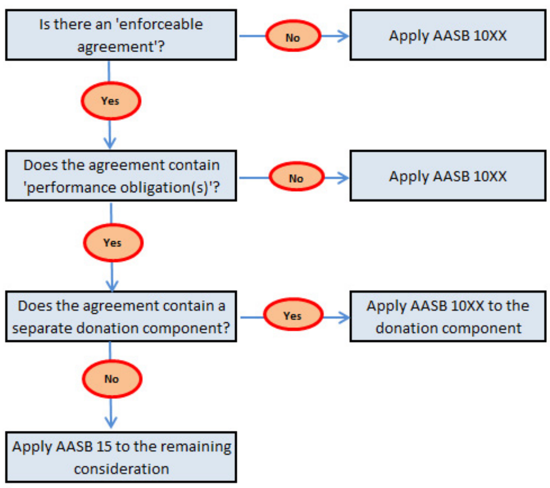
ED 260 Income of Not-for-Profit Entities

Following the release of AASB 15 *Revenue from Contracts with Customers,* which establishes new principles for reporting revenue arising from contracts with customers, the AASB released ED 260 *Income of Not-For-Profit Entities* in April 2015. ED 260 proposes:

- a new standard, AASB 10XX that will replace the income recognition requirements in AASB 1004 *Contributions.* AASB 10XX will apply to income of not-for-profit (NFP) entities that does not fall under AASB 15, or another standard.
- amendments to AASB 15 to include Australian Implementation Guidance for NFP entities. This guidance aims to assist NFP entities apply the principles of AASB 15 and to determine whether to apply AASB 15 or the new AASB 10XX to specific transactions.

Which standard will apply?

The concepts in AASB 1004 of 'reciprocal' and 'non-reciprocal' transfers are proposed to be removed. Instead the proposed NFP guidance in AASB 15 will clarify that where there is both an enforceable agreement and performance obligation(s) AASB 15 will apply. A promise must be sufficiently specific to be a performance obligation. Where the agreement is not enforceable or does not contain performance obligation(s) AASB 10XX will apply. The following diagram demonstrates how this guidance applies.



Income under AASB 10XX

Where there is no enforceable agreement with sufficiently specific performance obligations, AASB 10XX will require income to be recognised when the NFP entity obtains control of the asset, it is probable the future economic benefits will flow to the entity, and the fair value of the asset can be reliably measured.

Potential impacts of the changes

It is likely that some income previously accounted for under AASB 1004 will now fall under AASB 15, and be recognised as the relevant service obligations are satisfied. We will be setting up a workshop with the principal cluster agencies to look at potential impacts. Agencies will need to be prepared to reassess their income transactions to determine whether the changes will result in greater deferral of income.

ED 261 Service Concession Arrangements: Grantor

The AASB has recently issued ED 261 *Service Concession Arrangements: Grantor.* The proposed new standard addresses accounting by a grantor for service concession arrangements (SCA) and would be applicable for financial years beginning on or after 1 January 2017.

Does the proposed standard apply to you?

The proposed standard applies to arrangements where an operator uses an asset to provide a public service on behalf of a public sector entity (the grantor). It may include arrangements where an operator is a private sector entity and arrangements between two public sector entities. The proposed definition of public service is broad and may include arrangements other than those traditionally considered public private partnerships (PPPs).

If it applies to you, what is the likely impact?

The proposals will require a grantor to recognise a service concession asset when it controls that asset. Control is deemed to exist where the grantor controls or regulates the public services, to whom the services are provided and at what price, and where either the grantor controls any significant residual interest in the asset, or the concession is for the entire useful life of the asset. Under the proposed accounting requirements, a grantor will recognise:

- a service concession asset at fair value; and
- a financial liability (if the grantor compensates the operator by paying them); or
- unearned revenue (if the grantor compensates the operator by granting the operator a right to charge users of the asset).

Contact us if you have any concerns about or comments on the AASB proposals

NSW Treasury, through Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC), will be making submissions to the AASB commenting on the proposals contained in ED 260 and ED 261. Please contact us if you have any concerns or comments on these proposals. NSW Treasury would value your input to inform our submissions to the AASB.

Other developments

Key financial reporting developments that may impact agencies in future periods are outlined below.

Financial reporting development	Estimated issue date	Suggested action
Depreciated replacement cost as a measure of value in use The AASB is concerned that is not clear in the current accounting standards that 'depreciated replacement cost' (DRC) as used in AASB 136 *Impairment of Assets* does not have the same meaning as 'current replacement cost' as used in AASB 13 *Fair Value Measurement*. This project is intended to clarify the application of DRC as a measure of value in use for certain assets of NFP entities.	A due process document reflecting the clarification is imminent	Nothing as yet.
ED 262 Fair value Disclosures of Not-for-Profit Public Sector Entities ED 262 proposes amendments to AASB 13 to relieve NFP public sector entities from certain specified disclosures. It proposes disclosure relief in relation to certain requirements applying to assets within Level 3 of the fair value hierarchy, which are within the scope of AASB 116 *Property, Plant and Equipment.*	ED262 is closed for comments	Consider how the proposed amendments may impact your financial statements disclosures.
Reporting service performance information The AASB is developing a standard that establishes the principles for NFP entities to report service performance information.	ED expected in July 2015	Nothing as yet.

Questions?
Please contact Kaveh Daemi if you would like to discuss any of these Standards.
Please email accpol if you have any feedback or would like to subscribe to The Looking Glass.