

Day 1 Session 2 (iii)
Chart of Accounts and GFS

Notes

- **Cash and accrual information**

- Different accounts to record non cash transactions
- Different concepts of revenues and expenses, assets, liabilities and equity.
- Timing of recording of transactions will be different. E.g. supplier invoices recording expenditure/expenses
- Need to change timing and source of transaction recording.
- Need to separate expense and investment outlays.
- Notional non-cash expenses recorded but no budget allocation available. Payment authorisation may depend on sufficient budget.
- Cash Flow Statement remains critical management document, and assumes greater importance under cash budgets.
- Off GL reconciliations?
- Are there valuation treatment differences between the two frameworks?

- **Conformance with GFS, SNA, IFRS**

- ABS GFS is conceptually consistent with SNA93, but with some methodological differences..
- IPSAS is consistent with IFRS except where IFRS does not take account of public sector differences.
- In order for a chart of accounts to support GFS reporting it will need to include both the economic classification and the functional classifications including
- Fund, Function/Program, Organizational Unit, Location, Activity, Character and Object in alignment with Classifications of Functions of Government (COFOG).

The Whole of Government financial reporting under the Australian AASB1049 covers only the GGS

The sector classifications are

1. General Government Sector (GGS)
2. Public Non Financial Corporations Sector (PNFC)
3. Public Financial Corporations Sector (PFC)

The fourteen major functions reported are:

- General public services;
- Defence;
- Public order and safety;
- Education;
- Health;
- Social security and welfare;
- Housing and community amenities;
- Recreation and culture;
- Fuel and energy;

- Agriculture, forestry and fishing;
- Mining, manufacturing and construction;
- Transport and communication;
- Other economic affairs; and

- Other purposes.

This classification differs slightly to the IMF who recognise ten major functions. The IMF has amalgamated five Economic major functions into a single Economic Affairs major function and established of an Environmental Protection major function.

Considerations in the Australian context

- Australia has introduced accrual based output budgeting, so both budget statements and general purpose financial statements are prepared on same basis.
- Accounting Standards specifically introduced to guide non-profit entities such as governments and departments.
- Australian reporting based on AASB 1049 and ABS GFS. Work to this effect commenced in 1991 in Australia and is ongoing.
- Specific Australian application of GFS (1991), prepared by Australian Bureau of Statistics, and updated as GFS (1991) is updated. Known as ABS GFS.
- ABS GFS is accrual based, conforms with SNA93, except as is specifically noted.
- AASB 1049 conforms with IPSAS and IFRS, except as specifically noted and discussed in the Standard.
- AASB 1049 establishes reporting framework, is largely harmonised with ABS GFS, but where there are differences, generally the ABS GFS version prevails.
- AASB 1049 requires GFS economic classification to be used. Largely affects higher aggregation levels. GGS.
- Mostly transaction classifications are now harmonised between the two frameworks.
- GFS external reporting obligations can be satisfied through information obtained from the reported financial statements of departments, including Notes to the statements.
- Some GFS measures performed outside the GL, and then included as notes in the reported financial statements.

These include for example the GFS measure of underlying cash balance

Calculation of the Underlying Cash Balance

Accounting operating result as presented under Australian Accounting Standards, being:

- Plus** accounting operating result (a)
- Less** non-cash revenue (a)
- Plus** non-cash expenses (b)
- Less** increase in operating assets (c)
- Plus** increase in operating liabilities (d)
- Less** Future Fund income

PLUS

Financing adjustments# to remove cash flows more appropriately viewed as financing in GFS, including:

Plus net interest on swap transactions (AOFM only)

Plus other cash Public Debt Interest (PDI) adjustments (AOFM only)

Plus net International Development Association/Asian Development Fund discount payments (AusAID only)

PLUS

Capital adjustments* to reflect accrual net capital investment for the period (rather than accounting for the use of capital through depreciation).

Investments are recognised in the period it occurs, being:

Plus cash sales of Property, Plant & Equipment (PPE) + intangibles

Less cash purchases of PPE + intangibles

Less assets acquired under finance leases

Notes to above calculation:

The **accounting operating result** is adjusted as follows as part of underlying cash derivation:

- (a) – adjust operating revenue used in fiscal balance calculation for non-cash elements not adjusted through working capital adjustments below
- (b) – adjust operating expenses used in fiscal balance calculation for non-cash elements not adjusted through working capital adjustments below
- (c) – increase in working capital (operating) assets is a use of cash, for example prepayments and receivables
- (d) – increase in working capital (operating) liabilities means less cash is used, for example goods purchased on credit

- Financing adjustments – certain cash flows are regarded as financing transactions and therefore their impacts are removed from net cash from operating activities when calculating underlying cash balance figures. Currently these adjustments mainly relate to certain public debt cash flows.

*** - Capital adjustments** are included in the calculation of the underlying cash balance as it involves a net call on financial markets and implementation of Government policy. Underlying cash balance incorporates net cash capital expenditure including any prepayments. Capital expenditure is defined as purchases less sales of fixed assets such as equipment and intangible assets such as spectrum

Based on the GFS framework, the AASB1049 major fiscal aggregates presented in budget documents include:

- Fiscal Balance – is an accrual measure that shows whether the Government has to borrow from financial markets to cover its activities
- Underlying Cash Balance is a cash measure that shows whether the Government has to borrow from financial markets to cover its activities
- Net debt – a common measure of the strength of the Government's financial position and comprises selected financial assets and liabilities
- Net worth – is equal to assets minus liabilities and is a measure of the strength of the Government's financial position. It is a broader measure than net debt

- Net financial worth – is equal to financial assets minus liabilities and is a measure of the strength of the Government's financial position but avoids valuation issues with non-financial assets in measuring net worth

Policies: Dual Chart of Accounts – Issues and Challenges in setting up and maintaining of dual chart of accounts

- Cash and accrual information
- Conformance with GFS, SNA, World Bank

Policies

Issues and Challenges related to dual chart of accounts

Group Task	Group Response
Discuss differences between Malaysian accounting standards and IPSAS. Principle and broad terms only.	
Has there been any harmonisation between Malaysian standards and GFS? What are issues related to such a task?	
What are the differences between cash and accrual transactions?	
What are the accrual transactions which are not found in cash ledgers?	
What are the differences between cash chart of accounts and accrual chart of accounts?	

What are the impacts of cash budgeting and accrual reporting on budget management?	
What are the impacts of cash budgeting and accrual reporting on GL reporting?	
Are these impacts different for Accountant General's Department and departments or agencies? If so, how?	
Are there other issues which you would wish to raise for discussion?	
Drawing these conclusions together to contribute to an implementation strategy.	