

BRIEFING – DIFFERENCES BETWEEN GFS AND AAS



Question:

Are there differences between Government Finance Statistics (GFS) and the accounting standards (AAS)?

Answer:

The Australian Accounting Standards Board and the Public Sector Accounting Standards Board, through a detailed process that includes extensive consultation with the accounting profession, jointly develop Australian Accounting Standards (AAS). These standards form part of the framework for general purpose financial reporting, which is undertaken for the objective of "...provision of information to users that is useful for making and evaluating decisions about the allocation of scarce resources".¹

The Government Finance Statistics (GFS) reporting framework is a sophisticated statistical system, which is consistent with international statistical standards (the System of National Accounts SNA93) and the guidance published by the International Monetary Fund (IMF) in the form of the Government Statistics Manual. The GFS reporting framework is designed to provide comprehensive statistical information and assessments to support economic analysis of the public sector. The GFS framework, information and data analysis thereon reflects the needs of fiscal analysts and other technical users interested in the analysis of government operations.

Differences arise between the frameworks due to the dissimilar objectives, focuses and definitions of element of financial statements between the two frameworks, as shown in the table below.

	AAS framework definitions per Statement of Accounting Concept SAC 4 'Definition and Recognition of the Elements of Financial Statements'²	GFS framework definitions per Government Finance Statistics Manual 2001³
Objective	Provision of information to users that is useful for making and evaluating decisions about the allocation of scarce resources".	To provide comprehensive statistical information and assessments to support economic analysis of the public sector

Continued...

¹ *Statement of Accounting Concepts SAC 2 Objective of General Purpose Financial Reporting, paragraph 26*

² *Statement of Accounting Concepts SAC 4 Definition and Recognition of the Elements of Financial Statements, paragraphs 14, 18, 26, 48, 78, 111 and 117*

³ *Government Finance Statistics Manual 2001, pages 39, 40 and 44*

	AAS framework definitions	GFS framework definitions
Key concept	Future economic benefits – synonymous with the notion of service potential, this term describes an asset's scarce capacity to provide benefits to the entities that use them	Flows – monetary expressions of economic actions engaged in or by units and other events affecting the economic status of units that occur within an accounting period Stocks – units holding of assets and liabilities at a specific time and the unit's resulting net worth
Revenues	Inflows or other enhancements, or savings in outflows, of future economic benefits in the form of increases in assets or reductions in liabilities of the entity, other than those relating to contributions by owners, that result in an increase in equity during the reporting period	All transactions that increase the net worth of the general government sector.
Expenses	Consumptions or losses of future economic benefits in the form of reductions in assets or increases in liabilities of the entity, other than those relating to distributions to owners, that result in a decrease in equity during the reporting period	All transactions that decrease the net worth of the general government sector.
Assets	Future economic benefits controlled by the entity as a result of past transactions or other past events	Assets over which general government units enforce ownership rights and from which they may derive economic benefits by holding them or using them over a period of time.
Liabilities	Future sacrifices of economic benefits that the entity is presently obliged to make to other entities as a result of past transactions or other past events	Obligations to provide economic value to another institutional unit.
Equity	Residual interest in the assets of the entity after deduction of its liabilities	Termed 'net worth' and defined as total assets less total liabilities

The differing frameworks result in varying accounting treatments. Australian Accounting Standard 31 Financial Reporting by Governments outlines the requirements of financial reporting for the public sector. The following table shows

how the treatment of selected items varies depending on whether they are accounted for using the AAS framework or the GFS framework.⁴

Issue	AAS 31 Treatment	GFS Treatment
Asset writedowns	Treated as part of operating expenses.	Treated as revaluations, except for mutually agreed writedowns, and therefore removed from expenses.
Gains and losses on assets	Treated as part of operating revenues/expenses.	Treated as revaluations and therefore removed from revenues/expenses.
Provisions for bad and doubtful debts	Treated as part of operating expenses and included in the balance sheet as an offset to assets.	Act of creating provisions is not considered an economic event and is therefore not considered an expense or included in the balance sheet. The Commonwealth does not comply with this requirement.
Interest flows related to swaps and other financial derivatives	Treated as operating revenues and expenses.	Treated as financing transactions and so not included in revenues and expenses.
Acquisition of defence weapons platforms	Treated as capital expenditure. Defence weapons platforms appear as an asset on the balance sheet. Depreciation expense on assets is recorded in the operating statement.	Treated as an expense. Defence weapons platforms do not appear as an asset on the balance sheet and no depreciation is recorded in the operating statement.
Commonwealth general government sector investments in public corporations	Investments in public corporations are valued at historic cost in the balance sheet.	Investments in public corporations are valued at current market value. For publicly listed corporations, the share price is used to calculate market value. For non-listed corporations, the current value of net assets is used.
Public debt net interest	Premiums and discounts on the repurchase of debt are included in public debt net interest expenses at the time of repurchase, regardless of whether the stock is cancelled at that time. Issue premiums and discounts are amortised over the life of the stock.	Repurchase premiums and discounts are treated as economic revaluations at the time the debt is repurchased (provided it is valued at historical cost). The GFS cash flow statement includes repurchase premiums or discounts in the year that the repurchased stock is cancelled or matures.

Continued...

⁴ *Mid-Year Economic And Fiscal Outlook 2001-02 Appendix D: External reporting standards and budget concepts* (http://www.budget.gov.au/2001-02/MYEFO/MYEFOFull-10.htm#P772_112640; accessed 13 November 2002)

Issue	AAS 31 Treatment	GFS Treatment
Finance leases	Treats finance leases as if an asset were purchased from borrowings. That is, the lease payment is split into an interest component (which is shown as an operating expense) and a principal component. The asset and the liability are recorded on the balance sheet. However, this convention does not apply to the cash flow statement, which does not record the acquisition of the asset or the liability.	As per the accounting standard, except that the GFS cash flow statement includes the acquisition of the asset as a supplementary item for the calculation of the surplus/deficit (underlying cash balance).