

SUGGESTED AMENDMENT

TO

AASB 116

as applied to

NOT-FOR-PROFIT ENTITIES

Submission by

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INTRODUCTION

Our firm provides specialist financial and administration consulting services solely to Local Government throughout Australia, but principally within New South Wales. Our senior principal, David Maxwell is a Fellow of the Institute of Chartered Accountants and an Associate of Local Government Managers Australia with over 29 years experience as Local Government Auditor, Principal Accounting Officer, Chief Executive Officer and Consultant.

We have also developed a range of spreadsheet templates designed taking advantage of common features in computer mainframes to assist Council officers in the preparation of the Annual Financial Statements, and these are marketed under the name of Coalface Software Solutions. Our templates complying with the NSW Local Government Code of Accounting Practice and Financial Reporting are used by over 50% of the Councils in that State.

Coalface Software Solutions sponsors the NSW Annual Financial Statements Award presented by the NSW LGMA Financial Professionals Group, judges by nominees of the NSW Local Government Auditors Association, Finance Professionals Group and Coalface Software Solutions. We will shortly forward a copy of the judges remarks for the 2004 Statements Award to staff of the Board.

PROPOSED AMENDMENT

To permit a not-for-profit entity to elect to adopt an accounting policy for compliance with paragraphs 39 & 40 of AASB 116, or for compliance with paragraphs Aus39.1, Aus40.1 and Aus40.2.

DISCUSSION

1. Local government, alone among reporting entities, is effectively required to report its transactions both by nature and by function.

Local government, too, provides the most frequent examples of the transfer of assets between classes and functions. For example, the old administration offices become the new library, the old library becomes the new art gallery, the old art gallery becomes the new child care centre, etc. In contrast, most State and Federal Government departments are single or similar purpose organisations, and any significant change in use involves transfer of an asset from one register to an entirely different asset register.

2. Where revaluation increments/decrements are required to be offset within asset classes, any attempt to identify the components of revaluation reserve attributable to individual assets must necessarily involve some form of apportionment of the amounts offset against the other amounts standing to the credit of revaluation reserve for that class of asset.



The Standard provides no information on appropriate methods or bases of such apportionment.

3. AASB 116.41 permits the “revaluation reserve included in equity in respect of an item of property, plant and equipment [to] be transferred directly to retained earnings when the asset is derecognised.”

In the case of local government, where there is no form of contributions by owners as owners (i.e. share capital, etc.), the arguments against adopting this procedure sound thin, and we consider it appropriate to make this transfer.

However, unless an apportionment is made (see 2. above), it will be impossible to identify the amount to be transferred.

4. Determination of the amount standing in revaluation reserve is not an onerous procedure. Provided an entity can identify the cost (ie. accounting cost, including deemed cost) of an asset, and the amount of the most recent revaluation, the net amount of revaluation increments in revaluation reserve, or decrements written off to profit and loss, can be immediately determined.

All of the assets accounting software generally used in local government has this capability. However, we are not aware of any assets accounting software that also has the capability of recording offsets of revaluation increments/decrements within asset classes.

5. Local governments - particularly those in larger rural and remote areas - are responsible for multiple garbage disposal facilities where there are obligations for future reinstatement. Accordingly, UIG Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* applies.

Without in any way denigrating the abilities of the accounting staff in such Councils, we would anticipate much confusion and greater inaccuracy in combining the effects of changes in estimates of future restoration liabilities with the offset of revaluation increments and decrements (see UIG 1.Aus6.1).

In such instances, it would be much simpler for the accounting staff involved to be able to positively identify the amount standing to the credit of revaluation reserve for such assets in order to then apply the requirements of UIG Interpretation 1.



(A number of State jurisdictions have mandated that ALL Councils recognise and measure certain assets on a fair value basis. It is not a case of the Council voluntarily selecting a more complex accounting procedure.)

We anticipate problems with some Local Government accounting software suites in accommodating the requirements of UIG Interpretation 1, and will be entering into discussions with selected suppliers recommending the enhancement of their software products.

6. Although our records are not complete, it is our recollection that early versions of AAS 10 *Revaluations of Non-Current Assets* permitted the adoption of either procedure.
7. The circumstances outlined in this submission are largely limited to local government, and as an interim measure the election of either procedure could be contained within the proposed re-issue of AAS 27 *Accounting for Local Governments*, although we consider that ultimately AASB 116 should be amended.

We submit that the matter should also be raised for consideration in the course of the IFRS - IPSAC convergence project.

We shall be pleased to supply any further information that you may require.

