



# QUEENSLAND TREASURY

## 2020-21 FINANCIAL REPORTING REQUIREMENTS

### FOR QUEENSLAND GOVERNMENT AGENCIES

## FRR 2C Changes in Accounting Policies and Estimates

### INTRODUCTION

*Policy items*, indicated by **shaded bold print**, form the Minimum Reporting Requirements (MRRs).

Pursuant to sections 38(2) and 39(2) of the *Financial and Performance Management Standard 2019* (FPMS), departments and statutory bodies must prepare their financial statements in accordance with the MRRs. All of the MRRs are mandatory for departments. Statutory bodies comply with the FPMS by applying the parts of the MRRs that are considered relevant to their circumstances.

*Application Guidance*, indicated by plain text under the "Application Guidance" sub-headings, provides support on interpreting and applying the mandatory policy items and other matters.

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### 2C.1 EARLY ADOPTION OF ACCOUNTING STANDARDS REQUIRES QUEENSLAND TREASURY APPROVAL

#### REFERENCES

- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*

#### POLICY

- **Unless specifically permitted by the FRRs, should an agency propose to adopt a new or amended accounting standard or interpretation ahead of the commencement date specified in that standard/interpretation (where allowed by the standard/ interpretation), it must initially obtain approval from Queensland Treasury. This is due to the potential effect on the Total State Sector and General Government Sector financial statements i.e. whole-of-Government (woG) financial reporting, pursuant to AASB 1049 Whole of Government and General Government Sector Financial Reporting.**

## 2C.2 ACCOUNTING POLICY CHANGES REQUIRE CONSULTATION WITH QUEENSLAND TREASURY

### REFERENCES

- *Framework for the Preparation and Presentation of Financial Statements (FPP)*
- *Conceptual Framework for Financial Reporting (CF)*
- *AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors*

### POLICY

- **Where a voluntary change in accounting policy is being considered and the impact will be material for the agency's own financial statements, Treasury must be consulted before that change is made to assess possible impacts on woG financial reporting.**
- **Departments must also consider possible budgetary and funding implications as part of the consultation process.**

### APPLICATION GUIDANCE

Accounting policies adopted by an agency must be applied consistently and in an understandable manner ensuring the resulting financial information satisfies the concepts of relevance, reliability and comparability. This will assist in ensuring that the substance of the underlying transactions and other events is reported fairly and accurately.

AASB 108 requires accounting policies to be developed in relation to transactions, other events or conditions on the basis of Australian Accounting Standards and associated implementation guidance that are an integral part of those standards (if any) that apply to those transactions, other events or conditions. Should a circumstance arise where there is no Australian Accounting Standard that applies to the transaction, other event or condition, then management is required to use judgement consistent with the criteria detailed in paragraphs 10-12 of AASB 108.

AASB 108 envisages two circumstances in which a change in accounting policy might be made, either when required by an Australian Accounting Standard; or when determining a voluntary change in accounting policy that results in more relevant and reliable information. A flowchart illustrating how to deal with a change in accounting policy is provided in the Appendix to this FRR. Agencies should refer to paragraphs 7-27 of AASB 108 for the principles and requirements governing changes in accounting policies.

**AASB 4 Insurance Contracts Exemption**

AASB 4 *Insurance Contracts* contains an exemption from the requirements of AASB 108 (in respect of insurance contracts and reinsurance contracts, paragraphs 13, 14, 22 – 24).

**Distinction between Changes in Accounting Policy, Estimates and Errors**

A distinction needs to be made between a change in an accounting policy, a change in an accounting estimate and a correction of an error. All of these items are defined in paragraph 5 of AASB 108.

For non-current physical assets, a change in the threshold for the recognition of an asset would be a change in an accounting policy because there will be a change in the differentiation between assets and expenses. For example, if a tier 2 statutory body set its asset recognition threshold at \$2,000, then all assets purchased below that amount would be expensed. If the threshold was raised to \$5,000, then a policy decision has been made to recognise assets and expenses at higher values.

By way of contrast, a change in the residual value or useful lives of non-current assets would be a change in an accounting estimate because management has made a change in its estimate of the residual value and/or the useful lives of such assets.

However, if a non-current physical asset had a useful life of five years and was being depreciated on a straight line basis but, for a period of time was being depreciated at a rate of 10%, then an error would have been made and would have to be corrected.

Should there be any difficulty in distinguishing between a change in an accounting policy and a change in an accounting estimate, the change is to be treated as a change in an accounting estimate.

**Prospective vs Retrospective Application**

**Changes in accounting estimates** are to be applied **prospectively** except where the change gives rise to changes in assets, liabilities or owner's equity in which case the carrying amounts of the relevant accounts are to be adjusted. This is in contrast to **changes in accounting policy** which have **retrospective** application.

**Machinery-of-Government (moG) Changes**

Where a program relocates from one agency to another under a machinery-of-Government transfer, any changes in accounting policy, changes in accounting estimates or correction of errors must be undertaken consistent with the terms of AASB 108 and the guidance in FRR 2A *Basis of Financial Statement Preparation* and 2F *Machinery-of-Government Changes*.

**APPENDIX 1 FLOWCHART – ACCOUNTING POLICIES**

