FRR 2C Accounting Policies, Estimates and Errors

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.

TABLE OF CONTENTS

2C.1 ADOPTION OF ACCOUNTING STANDARDS AND ACCOUNTING POLICIES

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.**

- **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 reliable and more relevant 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.

Distinction between Accounting Policies and Accounting Estimates

AASB 108 distinguishes between accounting policies, accounting estimates and prior period errors, as defined in paragraph 5 of AASB 108.

Example: For a class of property, plant and equipment, accounting policies ordinarily include selecting either the cost or revaluation model for subsequent measurement and the determination of asset recognition thresholds. (For Tier 1 agencies, the NCAPs specify the accounting policy to be applied – see below). The requirement (where appropriate) to depreciate an asset under accounting standards is also an accounting policy.

Accounting estimates are then developed to achieve the objectives set out by the accounting policy adopted. This includes determining the initial useful life or fair value for such assets and subsequent changes to the useful life / fair value assessment over time. Similarly, changes to any inputs used to arrive at accounting estimates, such as the valuation method or inputs to a valuation model used to determine fair value, are also changes in accounting estimates under AASB 108. These initial estimates, and subsequent changes as and where required, enable the underlying accounting policy to be achieved.

To ensure uniformity of accounting policies for woG reporting, some accounting policy choices are mandated by the FRRs or NCAPs and Tier 1 agencies are unable to change these accounting policies without approval being granted under section 59 of the *Financial Accountability Act 2009*. Agencies are permitted to change their accounting policies where consistency is not required at woG level, such as choosing to account for a lease of a low value asset on or off balance sheet. Tier 2 statutory bodies not consolidated into WoG have more freedom to set their own accounting policies as appropriate to their particular circumstances.

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.*

2C.2 DISCLOSURE OF ACCOUNTING POLICY INFORMATION

REFERENCES

- AASB 101 *Presentation of Financial Statements*
- AASB Practice Statement 2 *Making Materiality Judgements*

APPLICATION GUIDANCE

Under AASB 101, agencies should only disclose **material** accounting policy information. Accounting policy information relating to material transactions and balances is likely to be material where one or more of the five scenarios in paragraph 117B of AASB 101 applies.

The most effective accounting policy disclosure is entity-specific by focusing on how the agency has applied the requirements of the Australian Accounting Standards to its own circumstances rather than including lengthy duplication of accounting standard requirements or ‘boilerplate’ disclosures.

Summarised requirements of the accounting standards are permitted in accounting policy notes where accounting recognition/measurement is particularly complex or key estimates and judgements require such disclosure for context, such that financial statement users would have difficulty understanding the transactions and balances without standardised descriptions of the relevant accounting standard requirements.

APPENDIX 1 DECISION TREE – ACCOUNTING POLICIES