



FRR 3D Expenses

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 normal text under the “Application Guidance” sub-headings, provides support on interpreting and applying the mandatory policy items and other matters.

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3D.1 RECOGNITION AND DISCLOSURE OF EXPENSES

REFERENCES

- *Framework for the Preparation and Presentation of Financial Statements*
- *AASB 101 Presentation of Financial Statements*
- *AASB 1054 Australian Additional Disclosures*

POLICY

- **The notes must include a breakdown of each material category of expense shown on the face of the Statement of Comprehensive Income.**
- **The notes to the financial statements must include the value and reason/basis for the waiver of material debts during the financial period.**
- **In addition to AASB 1054.10, the notes to the financial statements must also disclose the amount quoted for the external audit fee for that particular financial year (as per the external auditor's External Audit Plan).**

APPLICATION GUIDANCE

Recognition of Expenses

Pursuant to the Framework, an expense should be recognised in an agency's Statement of Comprehensive Income when, and only when, the following criteria are satisfied:

- a decrease in future economic benefits related to a reduction in assets and/or an increase in liabilities has occurred; and
- the consumption or loss of future economic benefits has a cost or value that can be measured reliably.

A further criterion for the recognition of an expense is that it possesses a cost or value that can be measured with reliability. In many cases, cost or value must be estimated. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. When, however, a reasonable estimate cannot be made, the expense is not recognised in the Statement of Comprehensive Income.

An item that, at a particular point in time, fails to meet the recognition criteria, may qualify for recognition at a later date as a result of subsequent circumstances or events (e.g. litigation against an agency disclosed as a contingent liability where updated legal advice advises the litigation is now likely to succeed). An item that possesses the essential characteristics of an expense but fails to meet the criteria for recognition may nonetheless warrant disclosure in the notes. This is appropriate when knowledge of the item is considered to be relevant to the evaluation of the financial performance of the entity by the users of the Statement of Comprehensive Income.

Timing of Recognition

Under the accrual basis of accounting, expenses are recognised when incurred, usually when goods are received or services are consumed. This may not be when the goods or services are actually paid for. The point at which an expense is recognised is dependent on the nature of the transaction or other event that gives rise to the expense. Examples include:

- where future economic benefits acquired by an agency are consumed immediately or soon after acquisition e.g. supplies, the expense qualifies for recognition in the reporting period in which the acquisition of the future economic benefit occurs;
- where future economic benefits are expected to be consumed over several reporting periods e.g. most non-current physical assets, expenses (depreciation) should be allocated systematically to the reporting period during which the future economic benefits are expected to be consumed;
- where expenditure produces no future economic benefits e.g. fines paid, an expense is recognised immediately; and
- where a liability is incurred without the recognition of an asset (e.g. wages payable), an expense is recognised simultaneously with the recognition of the liability.

Examples of Expenses

The definition of expenses encompasses losses as well as expenses that arise from the ordinary activities of the entity. Losses would include losses on the sale of non-current assets, write downs of inventory and decrements in fair values of financial instruments classified as held at fair value through profit or loss. Losses, including losses defined under the FPMS, are dealt with separately in this FRR.

Agencies are directed to FRR 3C Employee Benefit Expenses and Key Management Personnel Remuneration for the Minimum Reporting Requirements applicable to wages, salaries and other employee entitlements/costs.

Initial Project Costs

Costs are often incurred in relation to a project before it is known conclusively whether they will result in an asset of an agency. Where asset recognition criteria are not met, any such costs must be expensed as incurred. (Refer to NCAP 1 Recognition of Assets for definition and recognition criteria). Circumstances involving initial costs could include construction projects, service concession arrangements and expenditure incurred in the research phase of a development project under AASB 138.

Departments should also be aware of the Project Commencement Approval Policy (<https://www.treasury.qld.gov.au/resource/project-commencement-approval-policy/>) applicable to accountable officers and Ministers when approving the commencement of a high-value project.

Construction Costs - Work in Progress

Where an agency is constructing an asset for its own use, costs incurred during construction that are directly attributable to bringing the asset to a location and condition necessary for its intended use must be capitalised as work in progress. After the asset is installed and ready for use the asset is classified as part of the class to which it belongs. Examples of work in progress costs are contained in NCAP 1 Recognition of Assets.

However, not all funds that are provided for capital works purposes necessarily result in a capitalised asset. Those costs that cannot be directly attributed to the construction of the asset or to bringing the asset to a location and condition necessary for its intended use must be expensed. Examples of such costs are administration and other general overheads, training expenses, advertising and promotional expenses and costs of opening a new facility.

Aggregated expenditure on an asset must exceed prescribed asset recognition thresholds for the relevant asset class to qualify for capitalisation. Refer to NCAP 1 Recognition of Assets for definition and recognition criteria.

3D.2 GRANTS AND SUBSIDIES EXPENSES

FRR 3D.2 only applies to expenses within the scope of FRR 3E Distinction between Grants and Procurement, that are NOT a procurement transaction according to the criteria in FRR 3E.2 Classification of Arrangements between Grants and Procurement.

REFERENCES

- *Framework for the Preparation and Presentation of Financial Statements*
- *AASB 137 Provisions, Contingent Liabilities and Contingent Assets*
- FRR 3E Distinction between Grants and Procurement

POLICY

- Where the terms of a grant or subsidy have been satisfied during the reporting period, but the full amount relevant to the period has not yet been disbursed, an agency must recognise an expense and a liability (payable) in respect of the present obligation at reporting date.
- Where an agency has examined the relevant terms and conditions of the grant arrangements, and:
 - it is less likely than more likely that a present obligation exists in terms of the Framework for the Preparation and Presentation of Financial Statements; or
 - it is improbable that an outflow of economic resources will be required to settle the obligation; or
 - a reliable measurement of any future payment cannot be made,
 then a contingent liability must be disclosed in the notes to the financial statements (where the amount is material).
- Agencies shall not recognise any prepayment assets in relation to grants and subsidies paid.

APPLICATION GUIDANCE

As specified in FRR 3E, the grantor agency does not receive approximately equal value in return for the grant payments made in a transaction that meets the classification criteria of a grant.

This is because economic benefits are provided to other parties, such as the general public, rather than directly back to the grantor agency. The grantor therefore does not control any asset (as defined in the conceptual framework) once the grant is paid and should not recognise any prepayment asset(s) when it makes a grant payment.

Return of grant revenue previously paid out by the agency in an earlier financial year will, except in rare situations, be treated as “other revenue”. After the agency makes the initial grant payment, any subsequent return of grant funds from the grant recipient is considered a separate transaction. The current year’s grant expense should not be distorted by the recoupment of prior year grants.

Recognition of accrued grant expenses

At year end, a third party grantee may have incurred costs or work-in-progress (WIP) on a grant funded project that they have yet to bill the grantor agency for the next instalment of grant funding. The grantor agency should not recognise a liability (accrued grant expense) unless both of the following conditions are met:

- The terms and conditions in the grant agreement establish a present obligation for the grantor to pay for the work performed to date (in many cases, a present obligation will not exist for payment until a certain milestone has passed), AND
- The grantor is readily able to obtain a reliable estimate of the amount of “unbilled WIP” incurred/recognised by the grantee. For this purpose, it is not expected the grantor would need to go to unreasonable lengths to ascertain or estimate this information, including imposing unreasonable access conditions to “look into” to the grantee’s books or systems.

It is expected that only in very few circumstances would these conditions be satisfied.

Example: A grant agreement specifies that the grantor is liable to pay funding instalments on completion of set milestones. The grantor should not recognise any accrued grant expenses for milestones that are partially complete at year end. Only when the milestone is complete and the grantor has been officially notified of its completion (and has not yet been invoiced for the instalment), would it be appropriate to recognise an accrued grant expense. Upon receiving an invoice, the accrued liability becomes a grant payable.

3D.3 FINANCE/BORROWING COSTS

REFERENCES

- *AASB 123 Borrowing Costs*

POLICY

- **All finance/borrowing costs of not-for-profit agencies must be expensed in the period in which they are incurred, as permitted by paragraph Aus1.0 of AASB 123.**

3D.4 LOSSES AND INSURED LOSSES

REFERENCES

- *Financial Accountability Act 2009 (FA Act) (s.21, s.72)*
- *FPMS (s.16, s.17)*

POLICY

- **A loss which is subject to an insurance recovery must be separately disclosed on a gross basis with a cross-reference to the note where any recovery revenue is recognised. The reimbursement receivable must be treated as a separate asset to any provision that is recognised.**
- **Receivables and income in respect of insurance recoveries must not be recognised unless it is virtually certain that the insurer will accept the claim.**
- **Insurance premiums paid to the Queensland Government Insurance Fund (QGIF) must be separately disclosed as “Other expenses – Insurance premiums QGIF”.**
- **WorkCover premiums are not disclosed under this item, but under “Employee Expenses”.**

APPLICATION GUIDANCE

Losses are defined by the Australian Accounting Standards Board in its *Glossary of Defined Terms* as a ‘decrease in economic benefits’. The term ‘losses’ includes bad debts written-off, thefts, accidental and wilful damage or property destruction and losses due to negligence.

For whole-of-government (woG) reporting purposes in Tridata, insurance recoveries from the QGIF are to be accounted for against the expense recognised in respect of the loss. Therefore, whilst for agency financial reporting purposes, QGIF insurance recoveries are recognised as revenue, for woG reporting in Tridata, these recoveries are credited against the relevant expense and as such, not recognised as revenue.

3D.5 LOSSES UNDER THE *FINANCIAL AND PERFORMANCE MANAGEMENT STANDARD 2019*

REFERENCES

- *FA Act (s.21, s.48, s.72)*
- *FPMS (s.16, s.17)*

POLICY

- **Losses recognised in accordance with s.16 and s.17 of the FPMS are expenses for financial reporting purposes.**
- **Disclosure is required of the total amount for each class of material loss under s.16 and s.17 of the FPMS. Such losses must be separately identified in the notes to the agency's financial statements within the 'Other Expenses' note.**

APPLICATION GUIDANCE

Section 17(2) of the FPMS requires a written record of material losses be kept, and describes the details about the losses that are to be recorded. Material loss, for property of a department or statutory body, is defined in the FPMS (Schedule 1 Dictionary).

Section 72 of the FA Act gives the accountable officer authorisation to write off losses for controlled assets. Only the Treasurer has authority to write off losses associated with administered assets unless a specific delegation has been provided to an accountable officer, or an officer or employee of Queensland Treasury, by the Treasurer under s.48 of the FA Act.

3D.6 SPECIAL PAYMENTS

REFERENCES

- FA Act (s.72)
- FPMS (s.15)

POLICY

- **Agencies must disclose within the 'Other Expenses' note the total amount for each class of special payments.**
- **In addition, that note must include a description of the nature of all special payments greater than \$5,000. At their discretion, agencies may also disclose the nature of special payments of \$5,000 or less.**
- **Agencies are to include in their significant accounting policies, a note that explains the recording and reporting arrangements for special payments.**

APPLICATION GUIDANCE

Special payments are defined in the FA Act as including 'ex gratia expenditure and other expenditure that is not under a contract'. A payment is 'ex gratia' when it is not legally due either under a contract or otherwise e.g. when a payment is made to a contractor on the grounds of hardship because of an excessive loss on a fixed price contract.

It is not always possible to distinguish between an ex gratia payment and one that may be a legal obligation. Therefore, the nature of the payment should be the determining factor. Out-of-court settlements arising from the normal course of operations of an agency should be treated as special payments. An 'extra-contractual' payment occurs when there is no clear legal obligation to make a payment under the contract terms, however, a court might hold that an obligation exists e.g. a contractor who incurs additional costs as a result of an agency's inaction.

3D.7 REPORTABLE GIFTS

REFERENCES

- *Public Sector Commission Gifts and Benefits Directive*
- *Public Sector Commission Gifts and Benefits Guideline*

POLICY

- **Reportable gifts made by a department must be disclosed under “Grants and Subsidies Expenses” and classified as a donation/gift in the notes to the financial statements.**

APPLICATION GUIDANCE

Reportable gifts that involve the provision of something in a physical form are not special payments, as “payment” implies a direct transfer of cash to the person who receives the benefit. For other guidance, refer to the Public Sector Commission’s publications, Gifts and Benefits Directive and Gifts and Benefits Guideline available at:

<https://www.forgov.qld.gov.au/pay-benefits-and-policy/directives-policies-circulars-and-guidelines>