

PART 3: AUSTRALIAN ACCOUNTING STANDARDS FINANCIAL STATEMENTS

This part presents financial statements prepared in accordance with applicable Australian Accounting Standards (AAS), including AAS No. 31 *Financial Reporting by Governments*, except where departures from the standard are identified in Note 1. This part also provides notes showing disaggregated information and month of June figures.

A reconciliation between the Australian Government's general government AAS 31 and Government Finance Statistics (GFS) revenue, expenses and operating result is provided in Appendix A.

Table 28: Statement of financial performance for the Australian Government general government sector

	Note	2004-05 Estimate at 2005-06 Budget \$m	Month of June 2005(a) \$m	2004-05 Outcome \$m
Revenues				
Taxation				
Income taxation	4	156,380	13,634	159,499
Indirect taxation	5	28,904	2,341	28,692
Fringe benefits tax		3,050	61	3,089
Other taxes		1,636	165	1,725
Total taxation revenue		189,970	16,201	193,005
Non-taxation				
Sales of goods and services		4,900	538	4,880
Interest and dividends	6	6,873	712	6,942
Net foreign exchange gains		0	20	20
Proceeds from the sale of assets		823	199	1,243
Other sources of non-taxation revenue	7	3,845	1,450	4,941
Total non-taxation revenue		16,442	2,920	18,027
Total revenue		206,411	19,121	211,032
Expenses				
Goods and services				
Employees	8	22,911	2,327	22,687
Suppliers	9	16,848	2,783	16,656
Depreciation and amortisation	10	4,409	562	4,290
Net writedown of assets		3,434	2,997	7,704
Net foreign exchange losses		384	-57	444
Value of assets sold		770	204	1,117
Other goods and services expenses	11	7,078	869	7,215
Total goods and services		55,834	9,685	60,112
Subsidies benefits and grants				
Personal benefits		91,137	8,229	91,153
Subsidies		11,212	1,782	11,654
Grants	12	39,474	3,490	38,824
Total subsidies benefits and grants		141,823	13,500	141,630
Borrowing costs				
Interest		6,186	508	6,172
Other borrowing costs		15	4	19
Total interest and other borrowing costs		6,200	513	6,190
Total expenses		203,858	23,698	207,932
Operating result		2,554	-4,577	3,100

(a) The month of June is derived by deducting May year-to-date published data from the annual outcome. Statistically, June movements in some series relate to earlier published months that are not reissued.

Table 29: Statement of financial position for the Australian Government general government sector

	Note	2004-05 Estimate at 2005-06 Budget \$m	2004-05 Outcome \$m
Assets			
Financial assets			
Cash		927	1,808
Receivables	13	29,829	30,314
Investments		47,263	50,740
Equity accounted investments		402	399
Accrued revenue		490	695
Other financial assets		18	12
Total financial assets		78,929	83,969
Non-financial assets			
Land and buildings	14	18,757	20,335
Infrastructure		39,398	39,274
Heritage and cultural assets		6,698	7,275
Intangibles		1,693	1,842
Inventories		5,299	4,524
Other non-financial assets		1,832	1,565
Total non-financial assets		73,678	74,815
Total assets		152,607	158,783
Liabilities			
Debt			
Government securities		55,705	55,726
Loans		4,537	4,664
Leases		201	149
Deposits		365	403
Other debt		1,076	1,070
Total debt		61,885	62,011
Provisions and payables			
Employees and superannuation	15	98,676	99,350
Suppliers		2,145	2,619
Personal benefits payable		8,347	8,545
Subsidies payable		912	1,463
Grants payable	16	9,842	9,862
Other provisions and payables		10,596	11,294
Total provisions and payables		130,519	133,134
Total liabilities		192,403	195,145
Net assets	17	-39,797	-36,362
Equity			
Accumulated results		-75,157	-74,466
Reserves		35,361	38,104
Capital		0	0
Total equity		-39,797	-36,362

Table 30: Statement of cash flows for the Australian Government general government sector

	Note	2004-05 Estimate at 2005-06 Budget \$m	Month of June 2005(a) \$m	2004-05 Outcome \$m
Operating activities				
Cash received				
Taxation	18	186,133	16,501	187,191
Sales of goods and services		5,087	467	4,865
Interest		3,537	462	3,471
Dividends		3,808	38	3,838
GST input credit receipts		2,908	895	2,883
Other		2,931	-182	2,851
Total operating cash received		204,405	18,183	205,098
Cash used				
Payments to employees		19,496	1,894	18,556
Payments to suppliers		20,255	3,490	19,640
Subsidies paid		10,127	1,028	9,935
Personal benefits		88,867	7,907	88,594
Grant payments		38,352	2,815	37,367
Interest and other financing costs		5,995	357	5,998
GST payments to taxation authority		120	1	60
Other		6,859	170	6,710
Total operating cash used		190,072	17,663	186,862
Net cash from operating activities		14,333	520	18,237
Investing activities				
Cash received				
Proceeds from asset sales program		0	0	0
Proceeds from sales of property, plant and equipment and intangibles		422	165	547
Net loans, advances and HECS		0	0	0
Other net investing cash received		401	75	694
Total investing cash received		823	241	1,242
Cash used				
Purchase of property, plant and equipment and intangibles		5,652	890	5,369
Net loans, advances and HECS		1,135	916	957
Other net investing cash paid		7,854	-1,789	11,714
Total investing cash used		14,640	17	18,040
Net cash from investing activities		-13,818	224	-16,799
Financing activities				
Cash received				
Other		0	-87	39
Total financing cash received		0	-87	39
Cash used				
Net repayments of borrowings		-188	-65	-136
Other		1,366	124	1,395
Total financing cash used		1,178	59	1,259
Net cash from financing activities		-1,178	-146	-1,220
Net increase/decrease in cash held	3	-663	597	218

(a) The month of June is derived by deducting May year-to-date published data from the annual outcome. Statistically, June movements in some series relate to earlier published months that are not reissued.

Notes to the financial statements

Note 1: External reporting standards and accounting policies

The *Charter of Budget Honesty Act 1998* requires that the final budget outcome be based on external reporting standards and that departures from applicable external reporting standards be identified.

The financial statements included in this section of the Final Budget Outcome have been prepared on an accrual basis in accordance with applicable Australian Accounting Standards (AAS), including AAS 31 *Financial Reporting by Governments* (AAS 31).

AAS requires governments to prepare accrual-based general purpose financial reports. This means that assets, liabilities, revenues and expenses are recorded in financial statements when transactions have an economic impact on the government, rather than when the cash flow associated with these transactions occurs. Consistent with AAS, a statement of financial performance, a statement of financial position and a statement of cash flows have been prepared for the year ended 30 June 2005.

The accounting policies in this part are generally consistent with the requirements of AAS. While the scope for financial reporting recommended in AAS 31 is the whole of government (that is, the Australian Government public sector), in accordance with the *Charter of Budget Honesty Act 1998*, the presentation of financial outcomes in Part 3 covers the general government sector only.

AAS would suggest the gross amount of goods and services tax (GST) be included in the Australian Government's financial statements. However, under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, GST is collected by the Australian Taxation Office as an agent for the States and Territories (the States), and appropriated to the States. Therefore, accrued GST revenues and associated payments to the States are not recorded in the financial statements.

Note 2: Adoption of Australian Equivalents to International Financial Reporting Standards to apply from the first reporting period beginning on or after 1 January 2005

Under the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997*, each wholly-owned entity is responsible for ensuring their financial reports comply with Finance Minister's Orders (FMOs), which also require compliance with Australian Accounting Standards. To this end, each entity has undertaken steps to prepare for the adoption of Australian Equivalents to International Financial Reporting Standards (AEIFRS) as applicable to that entity. The transition plan adopted by each entity was disclosed in their 2003-04 and 2004-05 financial reports.

At a whole of government level, the Australian Government (through the Department of Finance and Administration) has provided resources to assess the impacts of AEIFRS, and provided advice to Australian Government entities and the Australian Government on transitional planning issues, the impacts of AEIFRS and policy guidance. This has included:

- the release of a number of *FinanceBriefs* relating to the adoption of international financial reporting standards to assist controlled entities in the implementation of AEIFRS;
- Finance providing regular updates to keep Chief Financial Officers (CFOs) of Australian Government entities informed on progress and issues relating to international adoption. Finance also set up a consultative group of a cross-section of CFOs to discuss practical implementation issues and areas of concern regarding interpretation between the entities and auditors; and
- the preparation of revised accounting policies to take effect from 1 July 2005, with retrospective restatement of comparative information, included as guidance in the 2004-05 FMOs. The accounting policies of controlled entities of the Australian Government have been reviewed, taking into account AEIFRSs and relevant *FinanceBriefs* issued by Finance.

Expected key differences in accounting policies

The Australian Government is required to prepare the first financial report under AEIFRS at 30 June 2006, on the basis that the Australian Government will be a first time adopter under AASB 1, *First time Adoption of Australian Equivalents to International Financial Reporting Standards*.

Changes in accounting policies under AEIFRS are applied retrospectively as if the new policy had always applied, except in relation to the exemptions available and prohibitions under AASB 1. This means that an AEIFRS compliant balance sheet will be prepared as at 1 July 2004. This will enable the 2005-06 financial statements to report

comparatives under AEIFRS. Final decisions on the accounting policies to be applied will be made by the Minister for Finance in the preparation of the FMOs for 2005-06.

The quantitative impacts of AEIFRS represent Australian Government entities' best estimates of the impacts of the changes as at reporting date. The actual effects of the impacts of AEIFRS may differ from these estimates due to:

- continuing review of the impacts of AEIFRS on Australian Government entities' operations;
- ongoing amendments to the AEIFRS and AEIFRS Interpretations;
- the issuing of new Standards and Interpretations; and
- emerging interpretation as to the accepted practice in the application of AEIFRS and the AEIFRS Interpretations.

The anticipated impacts are largely the result of applying AASB 5 *Assets Held for Sale and Discontinued Operations*, AASB 102 *Inventories*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, AASB 116 *Property, Plant and Equipment*, AASB 119 *Employee Benefits*, AASB 138 *Intangible Assets*, AASB 139 *Financial Instruments: Recognition and Measurement*, and AASB 140 *Investment Properties*.

The following represents the material estimated impacts and movements in these financial statements as if prepared under AEIFRS. It should not be taken as an exhaustive list of all the differences between current AAS and the AEIFRS, but it does represent the major expected changes.¹

Property, plant and equipment

The expected impact of applying AASB 116 *Property, Plant and Equipment* is an increase in the operating result of \$6 million. The expected impact on land and buildings, infrastructure, plant and equipment is \$49 million, and provisions is \$43 million.

The expected impact of applying the AASB 116 requirement for property, plant and equipment assets to be measured at fair value at 1 July 2004 is an increase in the asset revaluation reserve of \$14 million and an increase in land and buildings, infrastructure, plant and equipment of \$14 million.

Employee benefits

The expected impacts of applying AASB 119 *Employee Benefits* to superannuation cannot be reliably determined at this point in time due to differences in interpretation in respect to the methodology used to calculate the discount rate.

¹ These impacts do not include those relating to the Department of Defence, as reliable estimates were not available for the preparation of the Final Budget Outcome for 2004-05.

Part 3: Australian Accounting Standards Financial Statements

The expected impact on employee provisions of applying AASB 119 to non-current annual leave is a decrease of \$14 million. The expected impact on the operating result is immaterial.

Inventory

The expected impact of adopting AASB 102 *Inventories* is a reduction in inventories of \$5 million.

Change in accounting policy

The impact of applying AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* is an increase in the operating result of \$1,792 million.

Intangible assets

The expected impact of applying AASB 138 *Intangible Assets* is an increase in the operating result of \$15 million, and a reduction in intangible assets of \$60 million and a reduction in the asset revaluation reserve of \$20 million.

Financial instruments

AEIFRS include an option for entities not to restate comparative information in respect of financial instruments in the first AEIFRS report. It is expected that the Australian Government will use this option. Therefore the amounts for financial instruments presented in the *2004-05 Final Budget Outcome* are not expected to change as a result of the adoption of AASB 139 *Financial Instruments: Recognition and Measurement*.

Investment property

The expected impact of applying AASB 140 *Investment Property* is an increase in the operating result of \$2 million. The impact on assets is to reduce land and buildings by \$21 million and recognise investment properties of \$21 million. The asset revaluation reserve is expected to decrease by \$2 million.

Assets held for sale

The expected impact of applying AASB 5 *Non-Current Assets Held for Sale and Discontinued Operations* is to reduce land and buildings, infrastructure, plant and equipment by \$82 million and recognise assets held for sale of \$82 million.

The following table provides a reconciliation between the current Australian Accounting Standards and the expected impact of adopting AEIFRS.

	30 June 2004	30 June 2005
	\$m	\$m
Reconciliation of equity		
Total equity under AGAAP	-42,686	-36,353
Adjustments to accumulated results	-1,799	16
Adjustments to reserves	-47	-49
Total equity under AEIFRS	-44,532	-36,386
Reconciliation of accumulated results		
Total accumulated results under AGAAP	-77,949	-74,457
Adjustments:		
Investment properties	11	21
Assets held for sale	161	82
Land and buildings, infrastructure, plant and equipment and intangible assets	-205	-114
Inventories	-5	-5
Employee provisions	14	14
Other provisions	-42	-43
Change in accounting policy	-1,792	0
Revaluation	0	2
Total reserves	59	59
Total accumulated Results under AEIFRS	-79,748	-74,441
Reconciliation of reserves		
Total reserves under AGAAP	35,263	38,104
Adjustments:		
Asset revaluation reserve	-47	-49
Total reserves under AEIFRS	35,216	38,055
Reconciliation of contributed equity		
Total contributed equity under AGAAP	0	0
Adjustments:		
Total contributed equity under AEIFRS	0	0
Reconciliation of net result from ordinary activities for year ending 30 June 2005		
Net result from ordinary activities under AGAAP		3,108
Adjustments:		
Fair value gains		2
Employees		963
Suppliers		15
Personal benefits		1,792
Depreciation and amortisation		10
Value of assets sold		-1
Borrowing costs		-2
Net result from ordinary activities under AEIFRS		5,887

Note 3: Reconciliation of cash

	2004-05 Estimate at 2005-06 Budget \$m	2004-05 Outcome \$m
Operating result (revenues less expenses)	2,554	3,100
less Revenues not providing cash		
Foreign exchange gains	0	20
Gains from asset sales programme	0	0
Gains from sale of assets	53	1,243
Other	1,005	2,424
Total revenues not providing cash	1,058	3,687
plus Expenses not requiring cash		
Increase/(decrease) in employee entitlements	3,536	4,197
Depreciation/amortisation expense	4,409	4,290
Provision for bad and doubtful debts	384	-659
Provision for diminution in value of assets	837	1,690
Losses from asset sales programme	0	0
Losses from sale of assets	0	1,097
Foreign exchange losses	384	444
Other	3	652
Total expenses not requiring cash	9,553	11,710
plus Cash provided by working capital items		
Decrease in inventories	0	834
Decrease in receivables	0	3
Decrease in other financial assets	0	0
Decrease in other non-financial assets	329	358
Increase in benefits subsidies and grants payable	3,921	4,924
Increase in suppliers' liabilities	0	375
Increase in other provisions and payables	289	855
Total cash provided by working capital items	4,539	7,349
less Cash used by working capital items		
Increase in inventories	373	0
Increase in receivables	670	0
Increase in other financial assets	51	235
Decrease in benefits subsidies and grants payable	0	0
Decrease in other provisions and payables	0	0
Decrease in suppliers' liabilities	162	0
Total cash used by working capital items	1,255	235
equals <i>Net cash from/(to) operating activities</i>	14,333	18,237
<i>Net cash from/(to) investing activities</i>	-13,818	-16,799
Net cash from operating activities and investment	515	1,438
<i>Net cash from/(to) financing activities</i>	-1,178	-1,220
equals Net (decrease)/increase in cash	-663	218

Note 3(a): Consolidated Revenue Fund

The cash balance reflected in the statement of financial position for the Australian Government general government sector (Table 29) includes the reported cash balances controlled and administered by Australian Government agencies subject to the *Financial Management and Accountability Act 1997* and the reported cash balances controlled and administered by entities, subject to the *Commonwealth Authorities and Companies Act 1997* (CAC Act), that implement public policy through the provision of primarily non-market services.

Revenues or monies raised by the Executive Government automatically form part of the Consolidated Revenue Fund by force of section 81 of the Australian Constitution. For practical purposes, total Australian Government general government sector cash, less cash controlled and administered by CAC Act entities, plus special public monies, represents the Consolidated Revenue Fund referred to in section 81 of the Australian Constitution. On this basis, the balance of the Consolidated Revenue Fund is shown below.

	2004-05 Estimate at 2005-06 Budget \$m	2004-05 Outcome \$m
Total general government sector cash	927	1,808
<i>less</i> CAC Agency cash balances	859	1,070
<i>plus</i> Special public monies	81	87
Balance of Consolidated Revenue Fund at 30 June	149	825

Note 4: Income taxation revenue

	2004-05 Estimate at 2005-06 Budget \$m	2004-05 Outcome \$m
Individuals and other withholding		
Gross income tax withholding	97,990	98,250
Gross other individuals	23,640	24,003
<i>less</i> Refunds	13,700	13,734
Total individuals and other withholding	107,930	108,519
Companies	40,610	43,106
Superannuation funds		
Contributions and earnings	5,090	5,083
Superannuation surcharge	1,290	1,326
Total superannuation funds	6,380	6,410
Petroleum resource rent tax	1,460	1,465
Total income taxation revenue	156,380	159,499

Note 5: Indirect taxation revenue

	2004-05 Estimate at 2005-06 Budget \$m	2004-05 Outcome \$m
Excise duty		
Petroleum and other fuel products	13,620	13,682
Crude oil	650	668
Other excise	7,740	7,631
Customs duty	5,714	5,548
Other indirect tax	1,180	1,164
GST	36,300	35,473
<i>less</i> transfers to states and territories in relation to GST revenue	36,300	35,473
GST revenue	0	0
Mirror taxes	347	307
<i>less</i> transfers to states and territories in relation to mirror tax revenue	347	307
Mirror tax revenue	0	0
Total indirect taxation revenue	28,904	28,692

Note 6: Interest and dividend revenue

	2004-05 Estimate at 2005-06 Budget \$m	2004-05 Outcome \$m
Interest		
Interest from other governments		
State and Territory debt	29	29
Housing agreements	174	174
Total interest from other governments	203	202
Interest from other sources		
Swap interest	2,165	2,146
Advances	17	0
Deposits	0	0
Bills receivable	6	7
Bank deposits	188	170
Indexation of HECS receivable and other student loans	319	297
Other	828	944
Total interest from other sources	3,524	3,564
Total interest	3,727	3,766
Dividends		
Dividends from associated entities	3,126	3,143
Other dividends	19	33
Total dividends	3,146	3,176
Total interest and dividends	6,873	6,942

Note 7: Other sources of non-taxation revenue

	2004-05 Estimate at 2005-06 Budget \$m	2004-05 Outcome \$m
Assets now recognised	623	1239
Gains on derivative financial instruments	0	0
Industry contributions	290	305
International Monetary Fund related revenue	38	37
Royalties	783	853
Seigniorage	106	107
Other	2,005	2,400
Total other sources of non-taxation revenue	3,845	4,941

Note 8: Employees expenses

	2004-05 Estimate at 2005-06 Budget \$m	2004-05 Outcome \$m
Salaries and wages(a)	11,922	11,361
Leave and other entitlements	1,404	1,431
Separations and redundancies	75	95
Workers compensation premiums	0	0
Other (including superannuation)	9,509	9,800
Total employee expenses	22,911	22,687

(a) Salaries and wages do not include superannuation.

Note 9: Suppliers expenses

	2004-05 Estimate at 2005-06 Budget \$m	2004-05 Outcome \$m
Supply of goods and services	14,738	14,698
Operating lease rental expenses	1,687	1,798
Other	423	160
Total suppliers	16,848	16,656

Note 10: Depreciation and amortisation expenses

	2004-05 Estimate at 2005-06 Budget \$m	2004-05 Outcome \$m
Depreciation		
Specialist military equipment	2,517	2,267
Buildings	532	690
Heritage and cultural assets	43	43
Other infrastructure, plant and equipment	986	914
Total depreciation	4,078	3,914
Total amortisation	331	376
Total depreciation and amortisation	4,409	4,290

Note 11: Other goods and services expenses

	2004-05 Estimate at 2005-06 Budget \$m	2004-05 Outcome \$m
Health care payments	4,238	4,204
Development Cooperation Program	1,312	1,291
Other	1,528	1,719
Total other goods and services expenses	7,078	7,215

Note 12: Grants expenses

	2004-05 Estimate at 2005-06 Budget \$m	2004-05 Outcome \$m
State and territory governments	25,320	25,483
Non-profit organisations	1,541	1,413
Overseas	1,040	1,035
Private sector	1,423	1,138
Local governments	318	311
Multi-jurisdictional sector	5,347	5,461
Other	4,485	3,983
Total grants	39,474	38,824

Note 13: Receivables

	2004-05 Estimate at 2005-06 Budget \$m	2004-05 Outcome \$m
Taxes Receivable	11,519	10,219
Advances and Loans	11,879	15,358
Other Receivables	6,431	4,737
Total receivables	29,829	30,314

Note 14: Total non-financial assets

	2004-05 Estimate at 2005-06 Budget \$m	2004-05 Outcome \$m
Land and buildings		
Land	4,863	6,140
Buildings	13,894	14,195
Total land and buildings	18,757	20,335
Infrastructure		
Specialist military equipment	30,988	31,065
Other	8,411	8,209
Total infrastructure	39,398	39,274
Intangibles		
Computer software	1,585	1,672
Other	108	170
Total intangibles	1,693	1,842
Heritage and cultural assets	6,698	7,275
Total heritage and cultural assets	6,698	7,275
Inventories	5,299	4,524
Total inventories	5,299	4,524
Other non-financial assets		
Prepayments	1,440	1,375
Other	392	189
Total other non-financial assets	1,832	1,565
Total non-financial assets	73,678	74,815

Note 15: Employee and superannuation liabilities

	2004-05 Estimate at 2005-06 Budget \$m	2004-05 Outcome \$m
Superannuation	90,691	91,172
Leave and other entitlements	4,271	4,136
Accrued salaries and wages	117	134
Workers compensation claims	1,484	1,586
Separations and redundancies	34	50
Workers compensation premiums	1,702	1,812
Other	376	459
Total employee and superannuation liability	98,676	99,350

Note 16: Grants payable

	2004-05 Estimate at 2005-06 Budget \$m	2004-05 Outcome \$m
State and Territory governments	4,000	3,911
Non-profit organisations	72	84
Private sector	671	812
Overseas	1,311	1,313
Local governments	5	9
Other	3,782	3,734
Total grants payable	9,842	9,862

Note 17: Net asset movements

	2004-05 Estimate at 2005-06 Budget \$m	2004-05 Outcome \$m
Opening net assets	-42,207	-42,686
Operating result	2,554	3,100
Asset revaluation reserve	187	3,099
Other movements	-330	125
Closing net assets	-39,797	-36,362

Note 18: Taxation receipts — cash

	2004-05 Estimate at 2005-06 Budget \$m	2004-05 Outcome \$m
Total taxation receipts	222,030	222,560
less payments to states and territories in relation to GST revenue	35,550	35,063
less payments to states and territories in relation to mirror tax revenue	347	307
Taxation receipts	186,133	187,191

