Office of Local Government

MANDATES OF OPTIONS AND MAJOR POLICY DECISIONS FOR NSW LOCAL GOVERNMENT UNDER AUSTRALIAN ACCOUNTING STANDARDS

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Strengthening local government

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Mandates of options and major policy decisions under Australian Accounting Standards

Purpose

Australian Accounting Standards provide certain accounting policy options. This document sets out the mandated options for NSW Local Government entities within the Australian Accounting Standards and other OLG requirements and should be read in conjunction with the latest version of the Local Government Code of Accounting Practice and Financial Reporting (Code).

This document is effective from the date of issue until it is superseded.

Options / Requirements	OLG Mandate	***Code Reference***
Reserve accounting		
Legislation or Australian Accounting Standards may require agencies to create and recognise reserve accounts in their annual financial statements.	NSW Local Government entities must not create and recognise reserve accounts in their annual financial statements unless required by specific legislation or Australian Accounting Standards.	*Statement of Changes in Equity and Note C4*
Trust Funds		
Additional disclosures are provided to enable users to understand the impact of particular transactions.	Trust funds that do not meet the asset/liability recognition criteria are not brought to account in the financial statements but are shown in the notes for information purposes. Mandate disclosure of types, purposes and movements of trust funds by broad categories.	*Note A1-1*
AASB 9 *Financial Instruments*		
Regular way contracts – AASB 9 para 3.1.2 provides the option of using either trade date or settlement date accounting for purchases or sales of financial assets under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned (paras B3.1.3 to B3.1.6 and Appendix A).	Mandate trade date accounting, i.e., date on which the entity commits itself to purchase or sell the asset (refer AASB 9 para B3.1.5).	*Notes C1-2 and C1-4*

Options / Requirements	OLG Mandate	*Code Reference*
AASB 9 para 4.1.5 allows an entity to irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an ‘accounting mismatch’) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.	Not mandated by OLG – Local Government entities are able to make the designation and should document the reasons for such a designation.	
Irrevocable designation of financial liabilities at fair value through profit or loss is permitted when either (para 4.2.2): • It eliminates or significantly reduces an accounting mismatch; • a group of financial liabilities or financial assets and financial liabilities is managed, and its performance is evaluated on a fair value basis; *or* • a financial liability contains one or more embedded derivatives that meet certain conditions (para 4.3.5).	Not mandated by OLG – Local Government entities are able to make the designation and should document the reasons for such a designation.	
AASB 9 para 5.7.5 allows an entity to make an irrevocable election to designate at fair value through other comprehensive income an investment in an equity instrument that is neither held for trading nor a contingent consideration recognised by an acquirer in a business combination.	Designation of equity instruments at fair value through other comprehensive income is expected to be applied only in limited circumstances. Not mandated by OLG – Local Government entities are able to make the designation and should document the reasons for such a designation.	*Note C1-2*
AASB 9 para 5.5.15(a)(ii) allows an accounting policy choice of the general approach	Mandate application of the simplified approach (i.e., loss allowance at an amount equal to	*Note C1-4*

Options / Requirements	OLG Mandate	*Code Reference*
or the simplified approach of recognising a loss allowance for expected credit losses on trade receivables with a significant financing component, contract assets with a significant financing component and lease receivables.	lifetime expected credit losses) to all trade receivables with a significant financing component, contract assets with a significant financing component and lease receivables.	
AASB 9 para B5.5.35 allows using a provision matrix as a practical expedient for determining expected credit losses on trade receivables.	Not mandated by OLG – if expected credited loss (ECL) is material for Local Government entities, then the most appropriate method for determining ECL is used. Local Government entities need to consider how current and forward-looking information might affect their customers' historical default rates and, consequently, how the information would affect their current expectations and estimates of expected credit losses.	*Note C1-4*
AASB 9 para 5.5.10 allows an entity to assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.	Not mandated by OLG, however likely to have little impact given the use of the simplification method for the majority of financial assets held by Local Government entities.	*Not illustrated in the Code since all financial assets have been assessed for impairment using the simplified approach.*
AASB 9 para 7.2.21 allows an entity to continue to apply the hedge accounting requirements of AASB 139 instead of the requirements of AASB 9.	Not mandated by OLG – Local Government entities are not permitted to take out derivative instruments.	
Hedge accounting requirements of AASB 9 should be applied prospectively (para 7.2.22) with the exception of	Not mandated by OLG – Local Government entities are not permitted to take out derivative instruments.	

Options / Requirements	OLG Mandate	*Code Reference*
accounting for the forward element of forward contracts [refer para 7.2.26(b)] where there is a choice to apply prospectively or retrospectively.		
Hedges of firm commitments – a hedge of foreign currency risk of a firm commitment may be accounted for as either a fair value hedge or cash flow hedge (para 6.5.4).	Not mandated by OLG – Local Government entities are not permitted to take out derivative instruments.	
AASB 10 *Consolidated Financial Statements*		
A parent may elect not to present consolidated financial statements where certain conditions are satisfied, in accordance with AASB 10, para 4 and 4.1.	Mandate that a parent council must present consolidated financial statements.	*Note A1-1*
AASB 15 *Revenue from Contracts with Customers*		
AASB 15 para 4 allows entities to apply AASB 15 to a portfolio of contracts (or performance obligations) with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying AASB 15 to the portfolio would not differ materially from applying it to the individual contracts (or performance obligations) within that portfolio.	Local Government entities **may** adopt this practical expedient. A portfolio basis can only be used if it is not materially different from applying the standard to individual contracts. Councils can choose whichever approach is more practical for them.	
AASB 15 para Aus8.1 allows not-for-profit public sector entities not to apply the requirements of AASB 15 and accompanying Application Guidance to short-term licences and licences for which the transaction price is of low value.	Mandate Local Government entities to adopt this expedient for both short-term licenses and low-value licenses: • short-term licenses: licences that have a term of 12 months or less • low-value licenses: licenses for which the individual	*Note B2-2*

Options / Requirements	OLG Mandate	*Code Reference*
	transaction price is $10,000 or under. **Note** this expedient is not available to licences that include variable consideration.	
AASB 15 para 63 allows entities to not adjust the promised consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.	Mandate Local Government entities to adopt this expedient. Little benefit for councils to calculate significant financing component for less than one year.	
AASB 15 para 94 allows entities to recognise the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the entity would otherwise recognise is one year or less.	Mandate Local Government entities to adopt this expedient. Little benefit for councils to capitalise costs where the contract length is less than one year.	
AASB 15 para 121 allows entities not to disclose the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period and an explanation of when the entity expects to recognise that amount as revenue for a performance obligation if either of the following conditions is met: (a) the performance obligation is part of a contract that has an original expected duration of one year or less; or (b) the entity recognises revenue from the satisfaction of the performance obligation in	Not mandate but allow the option to use this practical expedient. Councils need to consider whether the disclosure will add value.	

Options / Requirements	OLG Mandate	*Code Reference*
accordance with paragraph B16.		
AASB 15 para B16 allows entities to recognise revenue to which the entity has a right to invoice, in the amount that corresponds directly with the value to the customer of the entity's performance completed to date.	Not mandated but allow the option to use this practical expedient. Not considered relevant to councils but allow them to use this if applicable.	
According to AASB 15 para B43, if a customer has a material right to acquire future goods or services and those goods or services are similar to the original goods or services in the contract and are provided in accordance with the terms of the original contract, then an entity may, as a practical alternative to estimating the stand-alone selling price of the option, allocate the transaction price to the optional goods or services by reference to the goods or services expected to be provided and the corresponding expected consideration.	Not mandated but allow the option to use this practical expedient. Not considered relevant to councils but allow them to use this if applicable.	
AASB 16 *Leases*		
AASB 16 para 4 allows entities to not apply AASB 16 to leases of intangible assets except for those rights held by a lessee under licensing agreements as stated in para 3(e).	Mandate Local Government Entities to adopt this election.	*Note C2*
AASB 16 para 5 allows entities to not apply some requirements (specifically, the requirement to create a lease liability and corresponding right-of-use asset) of AASB 16 to short term leases or low value assets.	Mandate Local Government Entities to adopt this expedient for: • leases that meet the definition of short-term. i.e., where the lease term at commencement of the lease is 12 months or less. This excludes leases with a purchase option.	*Note C2*

Options / Requirements	OLG Mandate	*Code Reference*
	• leases of assets that are valued at $10,000 or under when new.	
AASB 16 para 15 allows entities that are lessees to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.	Allow Local Government entities to adopt this expedient on a class of asset basis.	*Commentary number 3 - Note C2*
AASB 16 para Aus25.1 allows not-for-profit entities that are lessees to elect to measure right-of-use assets on a class-by-class basis at initial recognition at fair value in accordance with AASB 13 *Fair Value Measurement* for leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives.	Recommend but not mandate that Local Government entities do **not** adopt this election, i.e., recommend that leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives, shall be measured at cost. Measuring the fair value of the right of use assets for leases below market value is challenging due to the lack of guidance on this subject.	*Note C2 - Leases at significantly below market value / concessionary leases*
AASB 16 Aus 25.2 allows right-of-use assets arising under leases that have significantly below-market terms and conditions principally to enable a not-for-profit entity to further its objectives to be treated as a separate class of assets.	Not mandated but allow the option to use this practical expedient – unlikely to be material given ability to use cost model for measurement of right of use asset.	*Note C2 – Leases at significantly below market value / concessionary leases*
AASB 16 para 29 allows lessees subsequent to initial recognition to measure the right-of-use asset applying cost or fair value under AASB 116 or AASB 140. AASB 16 para 35(b) allows entities that are lessees to elect to apply the revaluation model	Mandate Local Government entities apply the cost model to all right-of-use assets, including right-of-use assets arising from concessionary leases (i.e., leases that have significantly below-market terms and conditions principally to enable the entity to further its objectives).	*Note C2*

Options / Requirements	OLG Mandate	*Code Reference*
to all of the right-of-use assets that relate to a class of property, plant and equipment to which the lessee applies the revaluation model in AASB 116. AASB 16. para Aus35.1 allows not-for-profit public sector entities to measure a class of right-of-use assets at cost or at fair value if the entity applies the revaluation model to the related class of property, plant and equipment.	The right-of-use asset is in substance an intangible asset and the revaluation exercise would be costly and comprise of significant estimation. Whilst the tangible assets of councils are required to be held at fair value, there is no reason to apply the same requirement to right-of-use assets. The right of use would be presented as a separate class of asset and therefore it would not affect any other assets.	
AASB 16 para 47(a) allows entities that are lessees to present right-of-use assets separately in the statement of financial position.	Mandate Local Government entities to present right-of-use assets and lease liabilities separately in the statement of financial position, i.e., as separate financial statement line items.	*Statement of Financial Position*
AASB 16 para 50 allows entities to classify cash payments for the interest portion of the lease liability applying the requirements of AASB 107	Interest paid under lease arrangements are classified as operating cash flows.	*Statement of Cash Flows*
AASB 101 *Presentation of Financial Statements*		
AASB 101 para 10A allows either: • The presentation of a single statement of profit or loss and other comprehensive income (statement of comprehensive income); or • two statements: a separate statement of profit or loss and a statement presenting comprehensive income (displaying components of other comprehensive income; i.e., non-owners' changes in equity, such as asset revaluation surplus movements).	Mandate the presentation of two statements being: • an income statement and • a statement of comprehensive income.	*Commentary number 1 – Income Statement and Statement of Comprehensive Income*

Options / Requirements	OLG Mandate	*Code Reference*
For each component of equity, an entity must present, either in the statement of changes in equity or in the notes, an analysis of other comprehensive income by item (para 106A).	Mandate the analysis of other comprehensive income by item must be presented in the statement of changes in equity.	*Statement of Changes in Equity*
An entity shall present an analysis of expenses using a classification based on either their nature or their function in the entity, whichever provides information that is reliable and more relevant (para 99).	Mandate that expenses be presented on the basis of their nature.	*Commentary number 7 – Income Statement and Statement of Comprehensive Income*
An entity shall present current and non-current assets / liabilities as separate classifications in its statement of financial position except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, an entity shall present all assets and liabilities in order of liquidity (para 60).	Mandate the current / non-current presentation.	*Statement of financial position*
When an entity's normal operating cycle is not clearly identifiable, its duration is assumed to be 12 months (para 68 and 70).	Mandate adoption of a 12-month operating cycle.	*Commentary number 2 - Statement of financial position*
AASB 107 *Statement of Cash Flows*		
Cash flows from operating activities must be reported using either the (para 18): • Direct method; or • indirect method.	Mandate the direct method.	*Commentary number 1 - Statement of Cash Flows*
The Standard allows certain cash flows to be reported on a net basis, in limited circumstances (para 22-24) i.e: • Cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer	Mandate that relevant cash flows must be reported net, in the limited circumstances referred to in paras 22-24. Cash flows must be reported gross in all other circumstances (para 18 and 21).	*Statement of Cash Flows*

Options / Requirements	OLG Mandate	Code Reference
rather than those of the entity; and • cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.		
Interest paid and interest and dividends received may be classified as operating or financing / investing flows (para 33).	Mandate interest paid and interest and dividends received to be classified as operating cash flows.	*Commentary number 5 - Statement of Cash Flows*
Dividends paid may be classified as (para 34): • A financing cash flow; or • a cash flow from operating activities.	Mandate dividends paid to be classified as operating cash flows.	*Commentary number 5 - Statement of Cash Flows*
Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition (para 7).	Mandate short-term deposits with a maturity of three months or less to be classified as cash and cash equivalents.	*Commentary number 4 – Note C1-1*
AASB 116 *Property, Plant and Equipment (PP&E)*		
Cost model or revaluation model (fair value) (para 29)	Mandate fair value (i.e., revaluation model) for councils. Mandate cost model for joint organisations.	*Commentary number 10 – Note C1-8*
Gross or net restatement option (para 35) i.e., where PP&E is revalued, any accumulated depreciation is treated in one of two ways: • Restated proportionately with the change in gross carrying amount so that the carrying	Mandate use of: • Gross restatement where an asset is revalued using the cost approach; • Net restatement where an asset is revalued using the income approach or market approach.	*Commentary number 11 – Note C1-8*

Options / Requirements	OLG Mandate	*Code Reference*
amount of the asset after revaluation equals its revalued amount (gross restatement); • eliminated against the gross carrying amount of the asset and the net carrying amount restated to the revalued amount of the asset (net restatement).		
Asset revaluation surplus may be transferred to accumulated surplus on derecognition or progressively as the asset is used (para 41).	Mandate the transfer of asset revaluation surplus on derecognition.	*Commentary number 12 – Note C1-8*
AASB 116 requires the disclosure of the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction [para 74(b)].	Mandate that employee-related costs that have been capitalised in particular fixed assets' accounts must be separately disclosed under 'Employee related expenses'.	*Note B3-1*
AASB 121 *The Effects of Changes in Foreign Exchange Rates*		
An entity may present its financial statements in any currency (para 38) i.e., presentation currency.	Mandate the use of Australian dollars.	*Note 1(b)*
AASB 123 *Borrowing Costs*		
NFP public sector entities have the option to expense or capitalise (para Aus8.1).	Mandate that borrowing costs relating to qualifying assets (those that take a substantial period of time to prepare for intended use) are capitalised.	*Commentary number 6 – Expenses*
AASB 138 *Intangible Assets*		
Cost model or revaluation model (fair value) (para 72).	Mandate the fair value (i.e. revaluation model) option where there is an active market for the intangible. It is expected that intangible assets held by councils and JO's will be at cost less accumulated amortisation and impairment losses since it is considered uncommon for an active market to exist.	*Commentary number 6 - Note C1-10*

Options / Requirements	OLG Mandate	*Code Reference*
AASB 140 *Investment Property*		
An entity may elect to use as its accounting policy either the fair value model or the cost model (para 30).	Mandate the fair value model.	*Note C1-9*
AASB 1053 *Application of Tiers of Australian Accounting Standards*		
Public sector entities, whether FP or NFP (other than the Australian Government, State, Territory and Local Governments and General Government Sectors of the Australian Government, State and Territory Governments) may elect to apply: • Tier 1 (Australian Accounting Standards) reporting requirements; or • Tier 2 (Australian Accounting Standards – Reduced Disclosure Requirements) reporting requirements.	Councils are required to prepare Tier 1 general purpose financial statements. OLG has determined that JO's should prepare Tier 2 general purpose financial statements.	
AASB 1058 *Income of Not-for-profit Entities*		
AASB 1058 para 18 mandates that local governments, government departments, general government sectors (GGSs) and whole of governments shall recognise an inflow of resources in the form of volunteer services as an asset (or an expense, when the definition of an asset is not met) if both of the following conditions are met: (a) the fair value of those services can be measured reliably; and (b) the services would have been purchased if they had not been donated. AASB 1058 para 19 allows any not-for-profit entity (including those listed in para 18), as an accounting policy choice, to elect to recognise volunteer	Local Government entities are prohibited from recognising volunteer services unless the mandatory criteria in paragraph 18 are met. The valuation of volunteer services is a judgemental process and results in recognition of income and expenses with a nil net result in the income statement. If councils want to acknowledge the level of volunteer services, which would not have been purchased if they were not donated, then we encourage councils to include this information in the unaudited section of the annual report rather than in the financial statements.	*Note A1-1*

Options / Requirements	OLG Mandate	*Code Reference*
services, or a class of volunteer services, if the fair value of those services can be measured reliably, whether or not the services would have been purchased if they had not been donated.		