Financial Reporting Operations Framework

For Victorian Government departments

Updated February 2019

Effective from 1 July 2019

The Secretary

Department of Treasury and Finance

1 Treasury Place

Melbourne Victoria 3002

Australia

Telephone: +61 3 9651 5111

Facsimile: +61 3 9651 2062

dtf.vic.gov.au

Authorised by the Victorian Government

1 Treasury Place, Melbourne, 3002

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Contents

[Introduction 1](#_Toc785439)

[Purpose and context 1](#_Toc785440)

[Legal status 1](#_Toc785441)

[Application and compliance 2](#_Toc785442)

[Commencement, DTF role and currency 2](#_Toc785443)

[Structure 3](#_Toc785444)

[Definitions 4](#_Toc785445)

[1. Specific accounting issues 6](#_Toc785446)

[1.1 The classification and treatment of controlled and administered items 6](#_Toc785447)

[1.1.1 Treatment of controlled items 6](#_Toc785448)

[1.1.2 Treatment of administered items 6](#_Toc785449)

[1.2 Materiality and other thresholds 8](#_Toc785450)

[1.3 Contributed capital 9](#_Toc785451)

[1.3.1 Contributed capital reconciliation requirements and time frames – actuals 9](#_Toc785452)

[1.3.2 Contributed capital journal entry reconciliation requirements – estimates 9](#_Toc785453)

[1.3.3 Treatment of contributed capital entries in departmental and portfolio agency accounts 9](#_Toc785454)

[1.3.4 Recognition of appropriation for contributed capital 9](#_Toc785455)

[1.3.5 Treatment of reductions in, or returns of, contributed capital 9](#_Toc785456)

[1.3.6 Recording of equity investments in entities 10](#_Toc785457)

[1.4 Accounting for motor vehicle leasing 13](#_Toc785458)

[1.4.1 Recording of VicFleet journal entries 13](#_Toc785459)

[1.4.2 VicFleet trust multi-user account 13](#_Toc785460)

[1.4.3 Application of Capital Assets Charge (CAC) 13](#_Toc785461)

[1.5 Accounting for the sale of departmental assets 15](#_Toc785462)

[1.5.1 Treatment of the sale of departmental assets 15](#_Toc785463)

[1.6 Redundancy payments 17](#_Toc785464)

[1.6.1 Treatment of Voluntary Departure Packages (VDPs) and Targeted Separation Packages (TSPs) 17](#_Toc785465)

[1.6.2 Treatment of significantly large redundancy programs 17](#_Toc785466)

[1.6.3 Treatment of related long service leave payouts on VDPs and TSPs 17](#_Toc785467)

[1.7 Superannuation expenses and liabilities 18](#_Toc785468)

[1.7.1 Accounting for contributions to superannuation schemes 18](#_Toc785469)

[1.7.2 Treatment of the accumulated superannuation liability incurred pre-1 July 1998 18](#_Toc785470)

[1.8 Annual leave 19](#_Toc785471)

[1.8.1 Transfer of annual leave balances between departments 19](#_Toc785472)

[2. The Victorian Government Chart of Accounts 20](#_Toc785473)

[2.1.1 The Victorian Government Chart of Accounts 20](#_Toc785474)

[2.1.2 Mandated segments for direct mapping to the new Victorian Government Chart of Accounts in SRIMS 20](#_Toc785475)

[3. Machinery of government 21](#_Toc785476)

[Attachments 22](#_Toc785477)

[Attachment 1: Contributed capital scenarios and examples 22](#_Toc785478)

[Attachment 2: VicFleet lease accounting transactions 28](#_Toc785479)

[Attachment 3: Sample journal entries for the sale of departmental assets 31](#_Toc785480)

# Introduction

## Purpose and context

The Financial Reporting Operations Framework (FROF) serves to assist Victorian Government departments, by providing supporting information and guidance on the financial data submission requirements outlined in Department of Treasury and Finance Information Requests (DTFIRs), and specific technical guidance to assist accounting and reporting practices.

The FROF includes mandatory requirements for departments on matters includingfinancial reporting requirements, specific accounting issues and machinery of government changes. It also includes extensive guidance material.

## Legal status

The FROF is issued by the Deputy Secretary, Budget and Finance Division at the Department of Treasury and Finance (DTF). The FROF is mandated for departments by direction of the Assistant Treasurer in the *Standing Directions 2018 under the Financial Management Act 1994* (Standing Directions).[[1]](#footnote-1)

The following diagram illustrates where the FROF fits into the broader financial management framework for Victorian public sector agencies.

Figure 1: The Financial Reporting Operations Framework within Victoria's Financial Management Framework

 

## Application and compliance

The FROF applies to all Victorian departments.[[2]](#footnote-2) The FROF also applies where, on a department’s behalf, service delivery is undertaken by a portfolio agency.

The *Financial Management Act 1994* (FMA) requires departments and Victorian public sector agencies to comply with requirements regarding financial management. While the Standing Directions only mandate the FROF for departments, other agencies subject to aspects of the FMA are expected to comply with its related requirements.

The Accountable Officer of each department must ensure the FROF is applied by complying with the mandatory requirements (see ‘Structure’).[[3]](#footnote-3)

The Accountable Officer may delegate implementation of certain FROF requirements to departmental officers (unless otherwise instructed in the requirement). However, departments should note that ultimate accountability for any delegated requirements still remains with the Accountable Officer.

Departments are subject to the compliance requirements of the Standing Directions regarding the FROF. This includes public attestation of compliance in annual reports. Refer to Standing Directions 4.1 and 5.1 for more information.

It is expected agencies using public resources should manage and account for those resources transparently, consistently with stated Government policies, and, as far as possible, consistently with other agencies.

The FROF should be read in conjunction with the FMA, Ministerial Directions, Financial Reporting Directions, and any DTFIRs issued, where relevant.

Other agencies are not bound by the FROF, but may voluntarily adopt it where relevant.

## Commencement, DTF role and currency

This updated version of the FROF is effective from **1 July 2019**.

DTF manages and implements the FROF on behalf of the Deputy Secretary, Budget and Finance Division. To ask a question or provide feedback on the FROF, email financial.frameworks@dtf.vic.gov.au.

The FROF may be amended and re-issued from time to time. Please check the DTF website to ensure you are working with the latest version.

## Structure

Each element of the FROF consists of two components:

* mandatory sections; and
* non-mandatory guidance material.

This document is divided into the following chapters:

1. Specific accounting issues;
2. The Victorian Government chart of accounts; and
3. Machinery of government.

Relevant attachments are also provided.

The chapters are presented as follows:



 More information can be found here

# Definitions

|  |  |
| --- | --- |
| Term | Definition |
| **Additions to the Net Assets Base (ATNAB)** | An appropriation that provides for an increase in the assets of a department’s statement of financial position. |
| **Administered item** | An item that will generally be characterised by the relevant department lacking the capacity to benefit from that item in the pursuit of the department’s objectives, and the department lacking the capacity to deny or regulate access of others to that benefit. |
| **Appropriation** | An authority given by an Act of Parliament to draw certain sums out of the Consolidated Fund, now or at some future point in time, for the purposes stated, up to the limit (if any) of the amount in the particular Act.  |
| **Assets** | Service potential or future economic benefits controlled by an entity (e.g. a department) as a result of past transactions or other past events. Assets may be physical (e.g. plant, equipment, buildings, trains, information technology systems) or non-physical (e.g. intellectual property, intangible assets). Assets may also be current (one year or less) or non-current (having service potential that is consumed over a period of more than one year). |
| **Capital Assets Charge (CAC)** | A charge levied on the written-down value of controlled non-current physical assets in a department’s balance sheet, which aims to attribute to agency outputs the opportunity cost of capital used in service delivery.  |
| **Carrying over/value** | The amount/value at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses. |
| **Consolidated Fund** | The Government’s primary financial account, established by the FMA, that receives all Consolidated Revenue under the *Constitution Act 1975* and other moneys as defined in section 9 of the FMA. |
| **Contributed capital** | The recognition and reporting of the investment by the State in departments and their portfolio agencies, as reflected in a department’s financial statements. |
| **Controlled item** | Generally refers to the capacity of a department to benefit from that item in the pursuit of its objectives and to deny or regulate the access of others to that benefit. |
| **Department** | Has the same meaning as para (a) of *department* in section 3 of the FMA.  |
| **Depreciation** | The systematic allocation of the cost or fair value of a tangible asset over its useful life.  |
| **Equity investment in controlled agencies** | Refers to the Government’s equity investment in a department and other controlled agencies of the State, in its capacity as owner (see *Contributed Capital* definition). |
| **Finance lease** | A lease under which the lessor effectively transfers to the lessee substantially all the risks and benefits incidental to the lease and where legal ownership may or may not be actually transferred. |
| ***Financial Management Act 1994* (FMA)** | One of the key pieces of legislation underpinning the financial management framework of Victoria. The purposes of this Act are: 1. to improve financial administration of the public sector;
2. to make better provision for the accountability of the public sector; and
3. to provide for annual reporting to the Parliament by departments and public sector agencies.
 |
| **Physical assets** | Applies to non-financial assets such as property, plant and equipment other than inventories and consumables. |
| **Public Account** | The Government’s principal bank account. All cash transactions relating to the Consolidated Fund, the Trust Fund and Advances under sections 36 and 37 of the FMA are processed through the Public Account. |
| **State Resource Information Management System (SRIMS)** | SRIMS is the State’s central ledger, which supports DTF in its ‘head office’ role in being able to provide the Government with financial and performance information from departments and agencies to support whole of government decision-making and accountability obligations. |
| **State Administration Unit (SAU)** | The SAU serves two primary functions: 1. as a mechanism for recording transaction flows and balances in the Public Account; and
2. a means of capturing certain relationships and balances between the Government (with DTF as the ‘corporate head office’) and departments (such as Contributed Capital balances).
 |
| **Trust accounts** | Separate accounts in the Trust Fund, which contain moneys set aside for specific purposes. The specific purpose for the establishment of each trust account is defined by the Minister, pursuant to sections 19 or 23 of the FMA, or is contained in a separate statute. |

* + 1. Specific accounting issues
			1. The classification and treatment of controlled and administered items

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| --- |
| **Mandatory requirements** |
| * + - * 1. Treatment of controlled items

A department must classify all items[[4]](#footnote-4) as ‘controlled’ unless they clearly meet the criteria for classification as ‘administered’ as per *Accounting Standard AASB 1050* *Administered Items*.* + - * 1. Treatment of administered items

Unless contributing to output delivery, an item must be classified as administered where an Act or binding agreement means the department has no influence on any of the following:eligibility; timing; oramount of the item.Transactions relating to items of an administered nature, must be posted to the administered entity (SAU branch) of the department’s ledger. Administered items must be:included in the financial statements; and disclosed separately in Budget documents and in a department’s financial and output reports.  |

Guidance

Departments are required to classify revenues, expenses, assets and liabilities as either ‘controlled’ or ‘administered’. Under Accounting Standard AASB 1050 *Administered Items*, Government departments are required to report separately on their controlled and administered items. Administered revenue and expenses are shown as ‘Receipts on behalf of the State’ and ‘Payments made on behalf of the State’ in financial statements and Appropriation Bills.

Administered items do not form part of a department’s outputs, and in the case of administered expenses, funding is provided under a separate appropriation.

The decision to classify an asset or liability as ‘administered’ rather than ‘controlled’ will affect the impact of items such as the Capital Asset Charge (CAC) on the department’s operations, and the way in which the asset or liability is presented in the Budget papers (refer to Resource Management Framework (RMF) Section 7.1 on CAC).

##### Further guidance on definitions of controlled vs administered

Some administered transactions are straightforward in recognition – for example, crime compensation payments, awarded by a court or tribunal, or revenues or taxes collected by a department on behalf of the State, would normally be classified as administered items. Sometimes, the way an output is defined can affect the classification of a revenue or expense between the administered or controlled categories (see examples below):

* + - The administrative process of making grant payments is part of an output of the department and must be classified as a controlled expense. However, the actual grants being paid to the recipients could be classified as an administered item if they meet the criteria for administered items stated in Mandatory requirement 1.1.2(a); and
		- Revenues, expenses, assets or liabilities arising in connection with the discharge of the function of making crime compensation payments (as distinct from the payments themselves) or collecting revenues (as distinct from the revenues themselves) on behalf of the State would normally be classified as controlled.

An item classified as ‘administered’ does not diminish in any way the management responsibility of the department which administers it to manage the transaction. This includes maintaining proper ledger entries and other accounting records in relation to the item. The classification only changes the way in which the item will be disclosed for budgeting and reporting purposes.

Relevant materials

##### Accounting standards

 AASB 1050 *Administered Items*

##### Resource Management Framework

 RMF section *The State’s Appropriation Framework*

 RMF Section 7.1 – *Capital Assets Charge*

* + - 1. Materiality and other thresholds

### Indicative materiality thresholds

The determination of materiality in departmental and whole of government budgeting and reporting is often subjective. In some cases, particular items that are not material in a financial sense may be significant in political or strategic terms (i.e. the item may be material by nature rather than amount). Departments should exercise careful judgement in these cases.

An item may be seen as being material if a reasonable person would consider that the item has a significant impact on the department’s or the State's reputation, financial performance or position, or financial management.

While it is difficult to set specific quantifiable targets for deciding whether or not an item is material, the following quantitative thresholds may be used as initial guidance in considering the materiality of an item:

* + - an amount equal to or greater than 10 per cent of the appropriate base amount[[5]](#footnote-5) may be presumed to be material unless there is evidence or convincing arguments to the contrary;
		- an amount between 5 per cent and 10 per cent of the appropriate base amount – the decision on whether to include or omit it should be carefully assessed;
		- an amount equal to or less than 5 per cent of the appropriate base amount may be presumed not to be material unless there is evidence, or convincing argument, to the contrary; and
		- transactions with a person in authority (e.g. a board member or a Minister) would normally be considered material unless they are for routine business such as out‑of-pocket expenses.

### Non-current physical asset capitalisation thresholds

* + - Accounting Standard AASB 116 *Property, Plant and Equipment* does not prescribe an asset capitalisation threshold. Departments may establish a threshold for practical financial reporting purposes on the basis of materiality. As guidance, most departments are using a threshold of $5 000 for the capitalisation of assets.
		- Portable computers that may be subject to risk of loss/theft, but are below a department's recognition threshold, should be recorded on an asset register but not recognised as an asset in the financial statements.
		- An item held by the department for which it is currently assessed that there is no service potential should continue to be recorded on an asset register despite being attributed a value of zero.

Relevant materials

##### Accounting Standards

 AASB 116 *Property, Plant and Equipment*

* + - 1. Contributed capital

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| **Mandatory requirements** |
| * + - * 1. Contributed capital reconciliation requirements and time frames – actuals

A department must reconcile the contributed capital/equity investment balances twice a year.[[6]](#footnote-6) The contributed capital/equity investment reconciliations must be certified by the relevant Chief Finance Officer (CFO) and provided to DTF as per the instructions in the relevant DTFIR.[[7]](#footnote-7)* + - * 1. Contributed capital journal entry reconciliation requirements – estimates

A department must ensure that if it submits any estimate variations that require the recognition of contributed capital, then the corresponding matching journal entries are also undertaken by the agency in which they are recognising the contributed capital.[[8]](#footnote-8)* + - * 1. Treatment of contributed capital entries in departmental and portfolio agency accounts

All equity investments in controlled agencies, including cash and other assets, must be recognised as contributed capital in the department’s administered entity.Equity transfers reflected in the controlled entities (accounts 50110 to 50127) must:flow to the relevant entity at the carrying value recorded by the originating entity;be recognised in the departmental administered entity as an equity investment (accounts 21205, 21207, 21400, 21410, 21450 or 21460) in accordance with relevant accounting policies; andflow through to the portfolio agency.* + - * 1. Recognition of appropriation for contributed capital

A department must recognise all appropriations for contributed capital in the department’s controlled departmental entity.* + - * 1. Treatment of reductions in, or returns of, contributed capital

A department must record all returns of capital to the Consolidated Fund (e.g. asset sales) in the administered entity of the department to reflect the return of the asset back to Government (i.e. DTF).[[9]](#footnote-9)  |
| * + - * 1. Recording of equity investments in entities

A department must record equity investments in their own portfolio agencies. A department must not recognise contributed capital in another department or another department’s portfolio agencies.Transfers of assets between departments must be shown as adjustments to contributed capital, unless otherwise determined by the relevant Minister.[[10]](#footnote-10)Departments must not recognise equity investments, funded from appropriation in organisations external to their departmental portfolio agencies, such as local government, universities or denominational hospitals. |

Guidance

##### What is contributed capital?

Contributed capital is the recognition and reporting of the ‘investment’ made in a portfolio agency or sector of Government, which is reflected in a department’s set of accounts.

More specifically, contributed capital arrangements may arise from the following situations:

administrative restructures (such as machinery of government changes) pursuant to FRD 119A *Transfers through Contributed Capital*;

other arrangements pursuant to FRD 119A; and

increases to the following parliamentary appropriations:

* + - Annual Appropriation Increase in ATNAB (account 50010);
		- Annual Appropriation Increase in ATNAB under section 32 of the FMA (account 50015);
		- Annual Appropriation Increase in ATNAB under section 29 of the FMA (account 50020); and
		- Special Appropriation – ATNAB (account 50030).

Paragraphs 48 to 59 of the Accounting Standard AASB 1004 *Contributions* provides specific guidance on when it is appropriate to recognise contributions by owners by government departments.

##### When is contributed capital recognised?

Primarily, when funding for assets or working capital is provided to an agency in a department’s portfolio, funds are initially appropriated to the department in the form of ATNAB appropriation, which the department recognises in its controlled entity.

A journal entry is then created which transfers the funding through to its administered entity, and an equity investment in the agency is recognised in the administered balance sheet. The agency itself also will record an ‘equity injection’ (recognising the contributed capital) from the department.

Non-financial assets may also be transferred between the department and its agencies as adjustments to contributed capital. These transfers are also reflected as an increase or decrease in the equity investment in the department’s administered entity.

In DTF, the central SAU carries an investment that reflects the aggregation of departmental contributed capital balances for both controlled and administered entities.

##### Accounts used in the recognition and treatment of contributed capital

#### 1. Contributed capital recognition:

Transfers of contributed capital between departments and their portfolio agencies are facilitated by the following accounts:

Equity transfers from other government entities (Fixed Assets) – account 50110;

Equity transfers from other government entities (Other Net Assets) – account 50115;

Equity transfers to other government entities (Fixed Assets) – account 50120;

Equity transfers to other government entities (Other Net Assets) – account 50125; and

Equity transfers to Central SAU – account 50127.

#### 2. Equity investments arising from equity transfers

Equity investments in departmental controlled entities arising from equity transfers are recognised in the department’s administered entity reflecting the sector of government in which the investment lies, utilising the following accounts:

Equity investment in general government (GG) controlled entities – account 21205;

Equity investment in general government (GG) controlled entities (Fixed Asset Transfers) – account 21207;

Equity investment in public non-financial corporations (PNFC) – account 21400;

Equity investment in public non-financial corporations (PNFC) (Fixed Asset Transfers) – account 21410;

Equity investment in public financial corporations (PFC) – account 21450; and

Equity Investment in public financial corporations (PFC) (Fixed Asset Transfers) – account 21460.

Outline of contributed capital reconciliation process

##### Departmental

The contributed capital/equity investment outflows to agencies must reconcile as per below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Department’s controlled contributed capital transferred to/from Agencies | **Must agree** | Departments administered equity investment in the Agency | **Must agree** | Agency’s contributed capital received/returned |

##### Transaction flows

The contributed capital transactions flow through the following statements:

departmental administered items note (note this part is not reported);

Administered Items – on behalf of the State (DTF Annual Report). DTF reports the State’s investment in all its controlled entities, as an administered asset;

general government cash flow statement shown as a net contribution to other sectors of Government balance sheet; and

Annual Financial Report (whole of State) – eliminated.

Refer to Attachment 1: *Contributed capital scenarios and examples* for further guidance.

Relevant materials

##### Accounting standards

 AASB 1004 *Contributions*

 Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*

##### Financial reporting directions

 FRD 119A *Transfers through Contributed Capital*

##### Resource Management Framework

 RMF Section 3.5 – *Funding Assets*

##### Financial Reporting Operations Framework

 FROF Section 1.1 – *The classification and treatment of controlled and administered items*

 FROF Section 1.5 – *Accounting for the sale of departmental assets*

##### VPS manuals

 *Model Report for Victorian Government Departments*

 *Victorian public sector operating manual on machinery of government changes*

* + - 1. Accounting for motor vehicle leasing

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| --- |
| **Mandatory requirements** |
| * + - * 1. Recording of VicFleet journal entries

Journal entries provided to departments by the DTF VicFleet area must be recorded in departmental accounting ledgers. Journal entries must follow the appropriate rules pertaining to the account codes and authority codes in SRIMS. * + - * 1. VicFleet trust multi-user account

Departments may access the VicFleet trust account through a multi-user account (Trust sub-account), to process vehicle sale transactions. Any surplus in the Trust may be used to fund ongoing vehicle expenses, however any deficit must be immediately reimbursed.* + - * 1. Application of Capital Assets Charge (CAC)

The CAC is **not** applicable to leased vehicles covered by this section.  |

Guidance

Motor vehicles in the Victorian Government are governed by the Standard Motor Vehicle Policy (SMVP), which is a whole of Victorian Government framework to optimise the management and use of Government vehicle assets. This section outlines the accounting treatment for motor vehicles held under the VicFleet finance lease arrangement.

##### Core accounting treatment

Motor vehicle leases are accounted for as a finance lease.

The accounting entries, broadly summarised, are as follows:

* + - DTF – VicFleet, as lessor, records a lease receivable for the capital value of the vehicle. The department/agency, as lessee, records a corresponding lease liability for the amount owed. Both the lease receivable and the lease liability reduce each month as lease repayments are generated.
		- DTF – VicFleet arranges payment of the lease operating costs (e.g. annual vehicle insurance and registration renewal, end of life costs, interest etc.) and recoups these through the lease repayments during the lease period. The department/agency records the lease operating costs as expenses incurred each month.
		- As the arrangement is a finance lease, Accounting Standard AASB 117 *Leases* requires the capital value of the vehicle also be accounted for as an asset in the department/agency’s books.
		- Transactions between departments/agencies and VicFleet must mirror each other. This will be monitored by DTF at a whole of government level as part of the consolidation in SRIMS of the State’s accounts.
		- SRIMS transactions should balance to zero within each entity and within each entity the authority should also balance to zero.
		- Accounting Standard AASB 117 *Leases* requires the lease liability be split between current and non-current, for financial reporting purposes. The split is provided by VicFleet to the client departments on a monthly basis.

##### Accounting transactions

Details relating to the substantiation behind the accounting treatment and journals are identified in Attachment 2. Note that authority coding, inter-entity account and inter-fund transactions do not apply to agencies operating outside of the Public Account.

##### Under/over variance transactions

‘Under/over variance’ of lease liability – is the difference between the total cost of asset against lease liability and accumulated depreciation. This variance has to be manually calculated and included in the disposal journal (Attachment 2) from the disposal client file.

‘Under/over variance’ of lease operating costs – is the difference between the total budgeted amount charged to the department/agency during the life of the lease and the actual amount incurred.

The variance results in an adjustment that is either reimbursed to the lessee or charged to the lessee, in the disposal client file. The unders and overs relating to lease operating expenses are transacted in the appropriation accounts.

Unders/overs of lease operating costs incurred throughout the life of the lease and after the lease has been finalised are made up of three components:

costs incurred during vehicle usage – e.g. fuel, insurance, vehicle registration, driver training, roadside assistance, scheduled servicing (prepaid);

costs incurred on selling the vehicle (end of life costs);

lease financing cost (VicFleet borrowings with Treasury Corporation of Victoria) less lease interest cost recovered during the lease.

Sufficient funding should be set aside by departments to fund any shortfalls in vehicle under/over expenditure.

The VicFleet trust account

Departments are able to access the VicFleet trust account through the use of a separate multi-user account, which is one of a number of sub-accounts within the trust. These multi-user accounts should only be utilised for the purpose of processing vehicle sale transactions. Should a deficit arise in the VicFleet trust account, this should be reimbursed immediately from appropriation.

Proceeds from the sale of vehicles under the VicFleet lease are paid directly into the trust account.

Relevant materials

##### Accounting standards

 AASB 117 *Leases*

##### Financial Reporting Directions

 FRD 26A – *Accounting for VicFleet Motor Vehicle Lease Arrangements on or after 1 February 2004*

##### Resource Management Framework

 RMF Section 4.3 – *The Trust Fund and trust accounts*

* + - 1. Accounting for the sale of departmental assets

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| --- |
| **Mandatory requirements** |
| * + - * 1. Treatment of the sale of departmental assets

A department must record the sale of a departmental asset (unless otherwise advised by DTF) in its administered accounts. |

Guidance

This section applies to all asset sales of a department (other than inventory and consumables) where the sales proceeds are required to be paid into the Consolidated Fund. It does **not** apply to the asset sales of departments where the funds are legally able to be retained in a departmental trust account.

The acquisition and recording of assets by a department for use in the delivery of services, is treated as a controlled transaction.

When a departmental asset is sold however, the transaction is viewed as a sale by the State (i.e. it is an administered transaction). To reflect this, a department is required to transfer the assets being sold out of its controlled accounts into its administered accounts, at the assets’ carrying value.

The sale of the asset is then effected in the administered accounts, where the proceeds from the disposal and the gain/loss on disposal on the assets are recorded. The cash proceeds are then remitted by the department to Consolidated Fund (via the reallocation of revenue to central SAU account), with the corresponding reduction in contributed capital (matching the carrying value of the assets sold).

The central agency’s SAU recognises the cash from the sale into Consolidated Fund, and a corresponding reduction in the State’s investment in its controlled entities.

All returns of capital from agencies must be recognised as a reduction in their investment in controlled entities in the administered entity of the department.

Attachment 3: *Sample journal entries for the sale of departmental assets* provides sample journal entries required to account for asset sales paid to the Consolidated Fund and the return of contributed capital, where there is either a gain or loss on the sale of an asset. Additional sample journal entries have been included for assets received or given away free of charge.

##### Section 29 arrangements

If there is an associated FMA section 29 annotated receipts arrangement, the amount recognised is the proceeds remitted to Consolidated Fund from the sale. There is also a corresponding increase in the department’s ATNAB appropriation authority limit. Refer to the Resource Management Framework Section 4.1 for further guidance.

##### Impact of correct accounting entries for DTF

It is important for departments to follow this guidance closely in its accounting for asset sales, as the correct treatment will minimise the potential risk of material mis-statement of the State’s accounts.

Relevant materials

##### Financial Reporting Operations Framework

 FROF Section 1.3 – *Contributed capital*

 FROF Attachment 3 – *Sample journal entries for the sale of departmental assets*

##### Resource Management Framework

 RMF Section 4.1 – *Appropriation of certain revenue and asset proceeds* – Section 29 of the FMA

* + - 1. Redundancy payments

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| **Mandatory requirements**  |
| * + - * 1. Treatment of Voluntary Departure Packages (VDPs) and Targeted Separation Packages (TSPs)

Departments must treat separation packages (encompassing VDPs and TSPs) as operating expenses.* + - * 1. Treatment of significantly large redundancy programs

If a department wishes to implement a redundancy program that will require significant one-off expenditure above normal operating costs, it may choose to either:* make a business case to Government for additional funds to enable it to meet the expenditure incurred; or
* apply to use its accumulated surplus.
	+ - * 1. Treatment of related long service leave payouts on VDPs and TSPs

Any related long service leave payout must be disconnected from the separation package (VDP or TSP) and accounted for separately as per the mandatory section in the long service leave section. |

Guidance

Redundancy payments are operating expenses. Therefore, for budgeting purposes, the cost of planned separations of staff contributing to output delivery must be included in the costing of the relevant outputs.

Redundancies, whether voluntary or targeted, must be implemented in accordance with Government employee relations policies and legislation.

Since separation payments do not give rise to any ongoing asset of the department, they should be expensed through the operating statement rather than treated as an investment. If the amounts involved are sufficiently large to have a material effect on the department’s operating result, note disclosures may be required.

Relevant materials

##### Resource Management Framework

 RMF Section 4.13 – *Long Service Leave and Long Service Leave equivalent*

* + - 1. Superannuation expenses and liabilities

|  |
| --- |
| **Mandatory requirements**  |
| * + - * 1. Accounting for contributions to superannuation schemes

Departments must budget for, and fully fund, employer and employee contributions to staff superannuation schemes. Any expenses relating to these contributions which have not been paid in cash by 30 June will constitute a liability (creditors). * + - * 1. Treatment of the accumulated superannuation liability incurred pre-1 July 1998

Departments must **not** include, in their balance sheets, the accumulated superannuation liability balances incurred in respect of the defined benefit schemes before 1 July 1998[[11]](#footnote-11). This liability is reported by DTF as an administered item. |

Guidance

Up until the mid-1990s, the Victorian Public Service (VPS) operated a defined benefits superannuation scheme, which paid VPS employees on retirement a pension dependent on the number of years of service and other factors. This eventually led to the accumulation of a substantial unfunded superannuation liability for Government. This liability now sits in the accounts of DTF’s administered entity and is being actively managed by DTF.

Employees employed in the VPS subsequent to the closure of the defined benefit schemes have their employer departments make contributions to defined contribution schemes. As these schemes sit outside of the VPS, departments are only required to record a superannuation expense to the funds – no corresponding liability is recorded as the State has no liability to pay out superannuation to the employees – the obligation sits with the superannuation scheme.

Relevant materials

##### Resource Management Framework

 RMF Section 4.13 – *Long Service Leave and Long Service Leave equivalent*

* + - 1. Annual leave

|  |
| --- |
| **Mandatory requirements** |
| * + - * 1. Transfer of annual leave balances between departments

When employees are transferred between departments *as a result of a machinery of government change*, the accumulated liability and any SAU balances associated with the annual leave must be transferred between the two departments. For all other transfers of employees between departments (e.g. due to job transfers, promotions etc.), only the accumulated liability is transferred between the two departments. SAU amounts associated with any annual leave balances are not transferred. |

### Accrued leave versus provided leave

For financial reporting purposes, an employee’s annual leave should be accrued to reflect the service period served by the employee. Accrued leave may differ from provided leave if an entity provides the total annual leave entitlement to its employees in advance (e.g. at the beginning of the reporting period).

When an entity accrues annual leave, it should recognise an expense (employee benefits) and a liability (provision for annual leave). The annual leave accrual should be inclusive of the latest pay rate and any applicable leave loading. For part-time employees, the annual leave accrual may be calculated pro rata of the full-time annual leave entitlement.

### On-costs

Similarly, an entity should accrue for on-costs, such as payroll tax and workers’ compensation insurance. On-costs should be recognised as liabilities, when the employment service to which they relate, has occurred. Note that provisions for on-costs are to be disclosed separately from provisions for employee benefits.

Relevant materials

##### Resource Management Framework

 RMF Section 4.13 – *Long Service Leave and Long Service Leave equivalent*

##### VPS manuals

 *Victorian public sector operating manual on machinery of government changes*

* + 1. The Victorian Government Chart of Accounts

|  |
| --- |
| **Mandatory requirements** |
| * + - * 1. The Victorian Government Chart of Accounts

Departments are required to map their chart of accounts to these segments in the Victorian Government Chart of Accounts (VGCoA) in SRIMS:* entity;
* account;
* authority;
* output; and
* related party.
	+ - * 1. Mandated segments for direct mapping to the new Victorian Government Chart of Accounts in SRIMS

As part of the VGCoA project, departments have agreed to, and are required to adopt, the following segments into their own (departmental) chart of accounts, which then map into the VGCoA in SRIMS:* entity;
* account;
* authority; and
* output.

For each of the above mandated segments, departments are required to include an additional element in their chart of accounts to be used to record the SRIMS account that the departmental segment maps to. The segment is required to be set to a mandatory setting, to ensure the SRIMS chart of accounts segment is always populated when any new segments that map to the SRIMS chart are created. |

Guidance

The VGCoA comprises a common set of segments or codes used in combination by government departments and agencies in the submission of data to DTF. The collection of financial and performance data under the VGCoA structure supports consistent planning, monitoring and reporting across government.

The VGCoA is used in SRIMS.

The VGCoA consists of the following five segments:

* **entity** – identifies the accounting or individual legal entity. This segment provides for the ‘sectorisation’ of transactions into government reporting groups (e.g. the general government sector);
* **account** – identifies the transaction type or nature of each transaction. This segment forms the basis of financial (accounting) statements;
* **authority** – identifies the legal authority for transactions (revenue or expenses) within the Public Account (includes the Consolidated Fund and the Trust Fund). This segment forms the basis for reporting on the Public Account;
* **output** – identifies the services or tasks being undertaken in the delivery of agreed outputs. This segment provides information for performance and service delivery reporting requirements; and
* **related party** – identifies the counterparty to a transaction within government.

The Whole of Government Chart of Accounts project

Most departments have had their own separate and distinct charts of accounts, which have mapped into the VGCoA. This approach has had its limitations, with the lack of consistency between departments being a significant issue when machinery of government changes occur. The inconsistency also has meant additional training costs when financial professionals move between departments.

After extensive consultation, final agreement was reached in July 2016 by departmental CFOs on the design and implementation of a common departmental Chart of Accounts, mandating the four segments of:

* + - entity;
		- account;
		- authority; and
		- output.

In addition, departments are also required to adopt these business-specific segments:

* + - cost centre – identifies management/budget responsibility business units, or physical locations; and
		- project – identifies a temporary set of tasks or initiatives, may be used for asset projects in reporting to DTF.

These segments are not required to be mapped in SRIMS. However, these segments underpin departmental management reporting, and supports easier data transfers in the event of any machinery of government changes.

The following table summarises the Whole of Government Chart of Accounts project:

|  |  |  |  |
| --- | --- | --- | --- |
| Segment | Segment length (characters) | Requirement to adopt | Mapping to SRIMS |
| Entity | 3 | Mandatory | Mandatory |
| Authority | 5 | Mandatory | Mandatory |
| Account | 4 | Mandatory | Mandatory |
| Output | 5 | Mandatory | Mandatory |
| Cost centre | 4 | Mandatory | Not required |
| Project | 5 | Mandatory | Not required |

* + 1. Machinery of government

This section has now been replaced with the *Victorian public sector operating manual on machinery of government changes* issued October 2016. Refer to ‘Chapter 6: Accounting for MoG changes’ in the operating manual for specific accounting and disclosure requirements.

# Attachments

## Attachment 1: Contributed capital scenarios and examples

### Guidance

This attachment lists a number of scenarios and examples covering the main types of investments and adjustments to equity investments/contributed capital.

#### Scenario 1 – Transfers between departments and their agencies

The transfer of contributed capital, arising from appropriations for Additions to the Net Asset Base, are the most common form of transfers between departments and their agencies. The department records the Government’s equity investment in the agency in its administered entity. The agency recognises the contributed capital received.

**Example:** A department transfers equity of $120 comprising $100 other net assets and
$20 fixed assets to an agency within its portfolio.

#### Step A – Department receives contributed capital via appropriation, and then transfers the contributed capital plus the fixed assets out of its controlled entity.

|  |
| --- |
| Department – Controlled |
| DR Equity transfers to other government entities (Other Net Assets) | 100 |
| CR Contributed capital – Additions to the Net Asset Base (ATNAB) | 100 |
| DR Equity transfers to other government entities (Fixed Assets) | 20 |
| CR Fixed assets | 20 |

#### Step B – Department recognises the investment in its agency in its administered entity.

|  |
| --- |
| Department – Administered |
| DR Equity investment in general government, public non-financial corporations (PNFC) or public financial corporations (PFC) (Other net assets) | 100 |
| CR Equity transfers from other government entities (Other net assets) | 100 |
| DR Equity investment in general government, PNFC or PFC (Fixed assets) | 20 |
| CR Equity transfers from other government entities (Fixed assets) | 20 |

#### Step C – Agency recognises the contributed capital transfers of both fixed and other net assets received from the department.

|  |
| --- |
| Agency |
| DR Bank | 100 |
| CR Equity transfers from other government entities (Other net assets) | 100 |
| DR Fixed assets | 20 |
| CR Equity transfers from other government entities (Fixed assets) | 20 |

#### Scenario 2 – Transfers between agencies in different portfolios

Transfers may arise between agencies. These transfers may also result in a move between departmental portfolios requiring adjustment at both the agency and departmental level.

**Example:** An agency transfers fixed assets at a carrying amount of $20 to another agency.

#### Step A – The agency (Agency A) transfers the asset out of its accounts, back to its department.

|  |
| --- |
| Agency A |
| DR Equity transfers to other government entities (Fixed assets) | 20 |
| CR Fixed assets | 20 |

#### Step B – Agency A’s department (Department A) receives the assets back from Agency A, then transfers it to the department receiving the assets (Department B).

|  |
| --- |
| Department A – Administered |
| DR Fixed assets | 20 |
| CR Equity transfers from other government entities (Fixed assets) | 20 |
| DR Equity transfers to other government entities (Fixed assets) | 20 |
| CR Fixed assets | 20 |

#### Step C – Department A reduces its investment in its agency.

|  |
| --- |
| Department A – Administered |
| DR Equity transfers to other government entities (Fixed assets) | 20 |
| CR Equity investment in general government, PNFC or PFC | 20 |

#### Step D – The receiving department (Department B) records the receipt of the asset through the recognition of the investment in its agency (Agency B).

|  |
| --- |
| Department B – Administered |
| DR Equity investment in general government, PNFC or PFC | 20 |
| CR Equity transfers from other government entities (Fixed assets) | 20 |

#### Step E – The receiving agency (Agency B) records the receipt of the asset.

|  |
| --- |
| Agency B |
| DR Fixed assets  | 20 |
| CR Equity transfers from other government entities (Fixed assets) | 20 |

#### Scenario 3 – Adjustments resulting from mergers and splits – an agency merges with another and remains within the same departmental portfolio.

**Example:** An agency (Agency A) merges with another agency (Agency B) but remains within the same departmental portfolio with equal and opposite contributed capital transactions.

When the transactions are equal and opposite and remain within the departmental portfolio then the equity investment in the department's administered entity does not change. However, the reconciliation of the equity investment needs to reflect the change in the equity investment in its agencies i.e. the merged agency.

#### Step A – Agency A reduces its assets in recognition of the merger with Agency B.

|  |
| --- |
| Agency A  |
| DR Contributed capital | 100 |
| CR Fixed assets | 100 |

#### Step B – Entry recording the merging of Agency A with Agency B

|  |
| --- |
| New merged agency (Agency A+B) |
| DR Fixed assets | 100 |
| CR Contributed capital | 100 |

#### Scenario 4 – Adjustments resulting from mergers and splits – an agency merges with another, which results in a move to a different departmental portfolio.

**Example:** An agency (Agency A) merges with another agency (Agency B) in another departmental portfolio.

#### Step A – Agency A transfers its assets back to its portfolio department (Department A).

|  |
| --- |
| Agency A (within Department A) |
| DR Equity transfers to other government entities (Fixed assets) | 20 |
| CR Fixed assets | 20 |

#### Step B – Department A records the receiving of Agency A’s assets in its administered entity, and de‑recognises its investment in Agency A.

|  |
| --- |
| Department A – Administered |
| Transfer carrying value of assets back to Department A’s administered entity from Agency A |
| DR Fixed assets | 20 |
| CR Equity transfers from other government entities (Fixed assets) | 20 |
| Transfer carrying value of assets from Department A’s administered entity to its controlled entity |
| DR Equity transfers to other government entities (Fixed assets) | 20 |
| CR Fixed assets | 20 |
| Department A de-recognises its investment in Agency A |  |
| DR Equity transfers to other government entities (Fixed assets) | 20 |
| CR Equity Investment in general government, PNFC, or PFC (Fixed asset transfers) | 20 |

#### Step C – Department A transfers Agency A’s assets to its controlled entity and then transfers the assets to the other department (Department B).

|  |
| --- |
| Department A – Controlled |
| Transfer carrying value of assets from Department A’s administered entity to its controlled entity |
| DR Fixed assets | 20 |
| CR Equity transfers from other government entities (Fixed assets) | 20 |
| Transfer of assets from Department A to Department B  |
| DR Equity transfers to other government entities (Fixed assets) | 20 |
| CR Fixed assets | 20 |

#### Step D – Department B receives the assets of Agency A from Department A.

|  |
| --- |
| Department B – Controlled |
| Department B receives the assets of Agency A from Department A |
| DR Fixed assets | 20 |
| CR Equity transfers from other government entities (Fixed assets) | 20 |
| Department B transfers the equity in Agency A to its administered entity |
| DR Equity transfers to other government entities (Fixed assets) | 20 |
| CR Fixed assets | 20 |

#### Step E – Department B increases its investment in Agency B with the assets of Agency A.

|  |
| --- |
| Department B – Administered |
| DR Equity Investment in general government, PNFC, or PFC | 20 |
| CR Equity transfers from other government entities (Fixed assets) | 20 |

#### Step F – Agency B recognises the increase in investment from Department B with the assets of Agency A.

|  |
| --- |
| Agency B (with Agency A’s assets merged) |
| DR Fixed assets | 20 |
| CR Equity transfers from other government entities (Fixed assets) | 20 |

#### Scenario 5 – Agency transfers fixed assets back to its portfolio department

**Example:** An agency (Agency A) transfers its fixed assets at a carrying amount of $10 back to its portfolio department. The carrying value is the asset's value less accumulated depreciation for which depreciation has been expensed by the agency reducing the value of the assets to their carrying value. It is assumed that there are no revaluations impacting on the carrying value.

#### Step A – Agency A transfers its assets back to its portfolio department.

|  |
| --- |
| Agency A |
| DR Accumulated depreciation | 10 |
| DR Equity transfers to other government entities (Fixed assets) | 10 |
| CR Fixed assets | 20 |

#### Step B – Department recognises the assets from Agency A in its administered entity and de-recognises the equity investment in Agency A.

|  |
| --- |
| Department A – Administered |
| Transfer of carrying value of assets back to departmental administered entity |
| DR Fixed assets | 10 |
| CR Equity transfers from other government entities (Fixed assets) | 10 |
| Transfer of carrying value of assets from department’s administered entity to its controlled entity |
| DR Equity transfers to other government entities (Fixed assets) | 10 |
| CR Fixed assets | 10 |
| Removal of investment in the agency reflected in the department’s administered entity |
| DR Equity transfers to other government entities (Fixed assets) |  10 |
| CR Equity investment in general government, PNFC or PFC (Fixed asset transfers) | 10 |

#### Step C – Department recognises the assets from Agency A in its controlled entity.

|  |
| --- |
| Department A – Controlled |
| DR Fixed assets | 10 |
| CR Equity transfers from other government entities (Fixed assets) | 10 |

#### Scenario 6 – Transfers arising from administrative restructures (i.e. machinery of government changes)

For guidance refer to the *Victorian public sector operating manual on machinery of government changes* issued October 2016.

## Attachment 2: VicFleet lease accounting transactions

#### Lessee – Initial take up and monthly expenditure

Applies to participating departments/agencies. Authority and inter fund/entity transaction coding does not apply to agencies operating outside of the Public Account, or to vehicles taken up by other trust fund accounts.

|  |  |  |  |
| --- | --- | --- | --- |
| Entry | Account code | Authority code | Category |
| **Initial take-up of vehicle – journal provided by VicFleet** |  |  |  |
| Dr Motor vehicles under VicFleet leaseCr VicFleet motor vehicle finance lease liability – new leases | 26912‑2692030915 / 41115 | 31XX31XX | Non‑current assetCurrent or non‑current liability |
| **Monthly amortisation – journal provided by VicFleet** |  |  |  |
| Dr Amortisation – motor vehicles under VicFleet leaseCr Motor vehicles under VicFleet lease accumulated amortisation | 8181026922‑26930 | 20XX3000 | Operating expenseNon‑current asset |
| **Monthly lease expense – journal provided by VicFleet** |  |  |  |
| Dr Operating supplies and consumablesDr Finance lease interest – VicFleet motor vehicle leaseDr VicFleet motor vehicle finance lease liability Dr VicFleet motor vehicle lease liability – new leasesCr Accounts payable  | 860008201030910 / 4111030915 / 4111530110 / 30210 | 20XX20XX31XX31XX3000  | Operating expenseOperating expenseCurrent or non‑current liabilityCurrent or non‑current liabilityCurrent liability |
| **Payment of invoice**Dr Accounts payableCr SAU Inter-entity account\*(or for entities/agencies operating outside of the Public Account)Cr Bank account – Cash on hand and other bank accounts\*\* Account 10400 is to be used by entities operating outside the Public Account. Only Public Account entities can use account 45000. | 30110 / 302104500010400 | 300020XX or 31XX 0000 | Current liability AssetAsset |

Lessee – Sale of vehicle journal entries required at the end of the life of the vehicle lease

**Note**: The asset and liability accounts relating to the motor vehicle to be sold must be transferred to VicFleet Trust to enable the department to access profit from the sale. If the motor vehicle sells for a loss, the Vehicle Lease Trust must be supplemented. **Authority and inter‑fund/entity transaction coding does not apply to entities/agencies operating outside of the Public Account.**

|  |  |  |  |
| --- | --- | --- | --- |
| Entry | Account code | Authority code | Category |
| **Transfer of asset into the Vehicle Lease Trust – journal provided by VicFleet (does not apply to entities outside of the Public Account or other trust fund accounts)****Assumes the department is transferring the asset into the VicFleet Trust:** |
| Dr/Cr Motor vehicles under VicFleet leaseDr/Cr Motor vehicles under VicFleet lease accumulated amortisationDr/Cr VicFleet motor vehicle finance lease liabilityDr VicFleet motor vehicle finance lease liability – new leasesDr/Cr Operating supplies and consumables (for under / over variance of lease liability – manual calculation) | 26912‑2692026922‑2693030910 / 4111030915 / 4111586000 | 00000000000000000000 | Non‑current assetNon‑current assetLiabilityLiabilityExpense |
| **Sale of asset – journal provided by VicFleet (departments must use the trust authority segment)** |
| Dr Gross value of assets disposed – plant, equipment and motor vehiclesCr Accumulated depreciation assets disposedCr Gross sale proceeds – plant, equipment and motor vehiclesDr VicFleet motor vehicle finance lease liabilityDr/Cr Operating supplies and consumables (for under/over variance of lease liability – manual calculation)Dr/Cr Trust fund inter-entity accountDr/Cr Accounts payableDr/Cr SAU inter-entity account | 77300773507650030910 / 4111086000455003011045000 | 46024602460246024602460230003000 | RevenueRevenueRevenueLiabilityExpenseLiabilityLiabilityLiability |
| **Recognising under / over operating costs over the life of the leased vehicle** |  |  |  |
| Dr/Cr Accounts payableDr/Cr SAU inter-entityDr/Cr Operating supplies and consumables (for under / over variance)Dr/Cr Trust fund inter-entity | 30110450008600045500 | 3000300046024602 | LiabilityExpenseExpenseLiability |
| **Trust top‑up** |  |  |  |
| Cr SAU inter‑entity accountDr Transfer between fundsCr Transfer between fundsDr SAU inter‑entity account | 47000908007990047000 | 300020XX46024602 | AssetExpenseRevenueAsset |

### End‑of‑year rollover process

As part of DTF’s end‑of‑year rollover process, DTF will roll the balances of the*VicFleet motor vehicle finance lease liability – new leases* accounts into the original accounts.

This ensures the accounts for new finance leases are cleared to zero for the following financial year, and only the value of finance leases entered into in the new financial year will be seen in these accounts. The rollover process will work as follows:

* Balances in account 39015 will be rolled to account 30910; and
* Balances in account 41115 will be rolled to account 41110.

## Attachment 3: Sample journal entries for the sale of departmental assets

### Example one – Department sells an asset for more than the carrying value (gain on disposal)

In this example, the original cost of the asset disposed is $110, the net carrying value of the asset is $100, and the profit on sale is $25.

The accounting entries to record the sale, the profit on sale, and the return of funds to the Consolidated Fund are detailed below:

#### Step A – Department transfers net carrying value of asset to be disposed from its controlled entity to its administered entity – (branch SAU).

|  |  |
| --- | --- |
| Controlled | Administered |
| DR Contributed capital (equity transfer to other entities) | 100 | DR Asset | 110 |
| DR Accumulated depreciation | 10 | CR Accumulated depreciation | 10 |
| CR Asset | 110 | CR Contributed capital (equity transfer from other entities) | 100 |

#### Step B – Department records the impact on the administered operating statement where the asset is sold at a profit of $25 with cash proceeds/receivable of $125.

|  |
| --- |
| Administered |
| DR Cash/receivable | 125 |
| CR Revenue – gross sale proceeds | 125 |
| DR Revenue – gross value of asset disposed | 110 |
| CR Revenue – accumulated depreciation of asset disposed | 10 |
| CR Asset | 110 |
| DR Accumulated depreciation | 10 |

#### Step C – Department remits $100 of the sale to Consolidated Fund as a return of capital. The remainder, equivalent to the profit on sale, is treated as an ‘expense’ in the departmental administered accounts. This treatment of the profit component is consistent with all other administered revenue items where the cash is remitted to the central SAU.

|  |
| --- |
| Administered |
| DR Contributed capital (equity transfer to Central SAU) | 100 |
| DR Reallocation of revenue to Central SAU | 25 |
| CR Cash | 125 |

#### Step D – DTF (as the central agency) records the sale proceeds and profit on sale in the central SAU (Consolidated Fund), as a reduction in the SAU’s investment in controlled entities, and the profit on sale component as ‘revenue’.

|  |
| --- |
| DTF – central SAU |
| DR SAU Bank | 125 |
| CR Investment in controlled entities (transfer to central SAU) | 100 |
| CR Reallocation of revenue from branch SAU | 25 |

### Example two – Department sells/disposes of an asset for less than the carrying value (loss on disposal)

In this example, the original cost of the asset disposed is $110, the net carrying value of the asset disposed is $100, and the loss on sale is $5.

The accounting entries to record the sale, the loss on sale, and the return of funds to the Consolidated Fund are detailed below:

#### Step A – Department transfers net carrying value of asset to be disposed from its controlled entity to its administered entity (branch SAU).

|  |  |
| --- | --- |
| Controlled | Administered |
| DR Contributed capital (equity transfer to other entities) | 100 | DR Asset | 110 |
| DR Accumulated depreciation | 10 | CR Accumulated depreciation | 10 |
| CR Asset | 110 | CR Contributed capital (equity transfer from other entities) | 100 |

#### Step B – Department records the impact on the administered operating statement where the asset is sold at a loss of $5 with cash proceeds/receivable of $95.

|  |
| --- |
| Administered |
| DR Cash/receivable | 95 |
| CR Revenue – gross sale proceeds | 95 |
| DR Revenue – gross value of asset disposed | 110 |
| CR Revenue – accumulated depreciation of asset disposed | 10 |
| CR Asset | 110 |
| DR Accumulated depreciation | 10 |

#### Step C – Department remits $95 of the sale to Consolidated Fund as a return of capital. The remainder, equivalent to the loss on sale, is treated as ‘revenue’ in the departmental administered accounts. This treatment of the profit component is consistent with all other administered revenue items where the cash is remitted to the central SAU.

|  |
| --- |
| Administered |
| DR Contributed capital (equity transfer to central SAU) | 100 |
| CR Reallocation of revenue to central SAU | 5 |
| CR Cash | 95 |

#### Step D – DTF (as the central agency) records the sale proceeds and loss on sale in the central SAU (Consolidated Fund), as a reduction in the SAU’s investment in controlled entities, and the loss on sale component as an ‘expense’.

|  |
| --- |
| DTF – central SAU |
| DR SAU Bank | 95 |
| CR Investment in controlled entities (transfer to central SAU) | 100 |
| DR Reallocation of revenue from branch SAU | 5 |

### ****Example three –**** Department gives away an asset free of charge

In this example, the original cost of the asset being given away free of charge is $110, the net carrying value of the asset is $100.

#### Step A – Department transfers net carrying value of asset to be given away from its controlled entity to its administered entity (branch SAU).

|  |  |
| --- | --- |
| Controlled | Administered |
| DR Contributed capital (equity transfer to other entities) | 100 | DR Asset | 110 |
| DR Accumulated depreciation |  10 | CR Accumulated depreciation | 10 |
| CR Asset | 110 | CR Contributed capital (equity transfer from other entities) | 100 |

#### Step B – Department records the impact on the administered operating statement where the asset is given away free of charge.

|  |
| --- |
| Administered |
| DR Expense – asset given free of charge  | 100 |
| DR Accumulated depreciation | 10 |
| CR Asset | 110 |

**Note:** where the asset is not held by the department of the Minister making the contribution, the asset must be returned by the entity holding the asset to the administering department as a return of contributions by owners, in accordance with Financial Reporting Direction (FRD) 117A *Contributions of existing non-financial assets to third parties.*

### ****Example four –**** Department receives an asset free of charge

In this example, the carrying value of the asset being received free of charge is $100.

**Note:** as the acquisition and recording of assets by a department for use in the delivery of services is treated as a controlled transaction, there is no requirement to transfer the asset to its administered entity (branch SAU).

#### Step A – Department records the impact on the controlled operating statement where the asset is received free of charge.

|  |
| --- |
| Controlled |
| DR Asset  | 100 |
| CR Revenue – asset received free of charge  | 100 |

Subsequent measurement of the asset is performed in accordance with the requirements of FRD 103F *Non-financial physical assets*.

### ****Example five –**** Department swaps/exchanges an asset with another controlled entity

Internal swaps or exchanges of assets should be assessed to determine whether the arrangement meets the criteria to be recognised as a transfer through contributed capital in accordance with the requirements of FRD 119A *Transfers through Contributed Capital*.

1. See Standing Direction 4.4. [↑](#footnote-ref-1)
2. ‘Department’ is defined as having the same meaning as para (a) of *department* in section 3 of the FMA. [↑](#footnote-ref-2)
3. See Standing Direction 4.4. [↑](#footnote-ref-3)
4. For example, revenue, expenses, assets or liabilities. [↑](#footnote-ref-4)
5. Examples of appropriate base amounts could include, but are not limited to, ‘net purchases of non-financial assets’, ‘total expenses from transactions’, or ‘total assets’. [↑](#footnote-ref-5)
6. This coincides with the mid‑year and annual financial reporting requirements. [↑](#footnote-ref-6)
7. The certified contributed capital/equity investment reconciliations are required to support acquittal of balances as required by the Victorian Auditor-General’s Office. [↑](#footnote-ref-7)
8. If there is insufficient time to undertake the matching process between a department and its agency, then the department must provide an explanation to DTF and come to an agreement. [↑](#footnote-ref-8)
9. Such returns will also be adjusted in the SAU as a reduction in the Government’s investment in its agencies. [↑](#footnote-ref-9)
10. Equity transfers between departments are generally as a result of machinery of government changes. [↑](#footnote-ref-10)
11. These balances are recorded centrally by DTF. [↑](#footnote-ref-11)