

# Preparing position papers for accounting matters and valuation

Position papers are a key record of decisions for accounting matters and the outcomes of valuations. This fact sheet provides guidance on identifying topics and the type of information to include.

Helping to inform key decision makers in a timely way will support earlier delivery of financial statements and improve the quality of oversight.

## Identifying areas for analysis

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Entities can identify areas for analysis by undertaking a risk assessment of transactions and balances in the financial statements. This will help to identify complex areas where there is a greater risk of error. These areas will often require regular assessment, position papers and reporting to senior management and audit committees. There are usually two key areas requiring papers—accounting matters, and valuation processes and outcomes.

Accounting matters could include:

- material, complex or significant one-off transactions
- new accounting standards or changes in accounting policies
- past issues identified, including material misstatements and disclosure deficiencies.

Valuation processes and outcomes could include:

- confirmation of asset valuation methodology and model
- confirmation of the depreciation or amortisation methodology (including componentisation), annual assessment of useful lives, and residual values
- key assumptions used to perform the asset valuation and changes from prior valuations
- outcome analysis to understand why, or why not, the valuation has changed, and whether the changes align with valuation assumption and business changes.

Prepare position papers if you consider any of the above accounting matters or valuation processes material for your financial statements.

## Early consideration

Engaging with auditors early in the process provides a common understanding of any accounting matters and valuation outcomes. It also allows time to work through complexities and alternate views.

Earlier resolution allows audit committees and those charged with governance time to consider the accounting position papers and valuation analyses before 30 June.

Fact sheet



## Preparing position papers

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For each accounting issue, and major valuation, prepare a position paper detailing your analysis.

Each position paper should be prepared according to the specific circumstances of the transaction or valuation. They should also be tailored to the needs of the key readers including audit committees and senior management.

Financial statement disclosures can be based on the information in the position papers, particularly relating to:

- the impact of new accounting standards
- estimates and assumptions, and any required sensitivity analysis
- fair value disclosures required under *AASB 13 Fair Value Measurement*.

## Content of position papers

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Always tailor position papers to meet the needs of your organisation and be specific to the accounting or valuation matter being analysed.

Consider including the following areas in position papers:

- Purpose—why the paper is being prepared.
- Background—the knowledge necessary to understand the paper. It should contain a history of the circumstances specific to the entity.
- Specific guidance material—standards, laws, policies and materiality, highlighting areas relevant to the paper.
- Analysis—consider the key facts and circumstances relevant to the entity
  - refer to detailed requirements of accounting standards and other prescribed requirements, including relevant guidance material
  - consider the actual application of the standards, including quantitative outcomes, for example journals, when the position is practically applied
  - consider more than the desired point of view, analysing the alternative approaches that are available under accounting standards
  - analyse valuation changes including root cause analysis
  - include quantitative assessments and sensitivities
  - include transition arrangements and any required proposed disclosures.

- Conclusion or recommendation—add the outcome of the assessment.

In addition to the relevant accounting standard on the Australian Accounting Standards Board's website, there is support material that helps you understand and interpret standards.

## Example position papers

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Four examples are provided in this fact sheet to help you prepare position papers:

1. Accounting matter—application of a new accounting standard
2. Accounting matter—analysis of a new transaction
3. Valuation—confirmation of asset/liability valuation methodology
4. Valuation—analysis of a valuation outcome.

Remember to tailor each paper to your circumstances and your management and committees' requirements.



## 1. Example layout—Application of a new accounting standard

Heading	Content									
Purpose	<p>Explain why the paper is being prepared.</p> <p>For example:</p> <p><i>This paper discusses the accounting and financial implications from the introduction of the new accounting standard AASB XX. It provides information on the impact on xx in the budget and financial statements.</i></p>									
Background	<p>Knowledge necessary to understand the new accounting standard. This should be specific to the entity.</p> <p>For example:</p> <p><i>AASB xx applies to xx from xx. A summary of the requirements of the new standards is xx. The following background and interpretative supporting materials from the AASB have been assessed—xx.</i></p> <p><i>A material portion of Sunshine Entity's xx will be required to be assessed for any changes as a result of the change to AASB xx.</i></p>									
Application to entity	<p>Outline the specifics of the standard to the entity. Include an analysis of available options under the standard, and the process used/or proposed to be by the entity to determine the optimal approaches to apply. Guidance material from AASB should be included in this analysis. If the paper refers to a proposed change in accounting policy, include justification for increased relevance.</p> <p>Include quantitative outcomes, with forward estimates covering the budget cycles. Proposed journals can be prepared. Financial reporting outcomes can be prepared including the impact of new standards note including transition adjustments, and the probable new disclosures required from the new standard.</p> <p>For example:</p> <p><i>Sunshine Entity has identified the impact of the options under the standard by analysing xx.</i></p> <p><i>Sunshine Entity has assessed the following recognition and measurement principles for each of the key elements of AASB xx.</i></p> <table border="1"> <thead> <tr> <th>Element</th> <th>Impact assessment and materiality</th> <th>Outcome</th> </tr> </thead> <tbody> <tr> <td><i>Element 1</i></td> <td><i>Sunshine Entity has xx options for this element. Option 1—affects the xx and yy balances by xx. Option 2—affects the xx balance only by xx.</i></td> <td><i>Recommended option x. Refer journal and disclosures below.</i></td> </tr> <tr> <td><i>Element 2</i></td> <td colspan="2"><i>Sunshine Entity's budget will be adjusted by xx, dividends and taxation by xx etc. from option x. The proposed journals are xx. The proposed disclosures are xx.</i></td> </tr> </tbody> </table>	Element	Impact assessment and materiality	Outcome	<i>Element 1</i>	<i>Sunshine Entity has xx options for this element. Option 1—affects the xx and yy balances by xx. Option 2—affects the xx balance only by xx.</i>	<i>Recommended option x. Refer journal and disclosures below.</i>	<i>Element 2</i>	<i>Sunshine Entity's budget will be adjusted by xx, dividends and taxation by xx etc. from option x. The proposed journals are xx. The proposed disclosures are xx.</i>	
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<i>Element 2</i>	<i>Sunshine Entity's budget will be adjusted by xx, dividends and taxation by xx etc. from option x. The proposed journals are xx. The proposed disclosures are xx.</i>									
Consultation	<p>Document which stakeholders were engaged as part of the assessment.</p>									
Conclusion	<p>Add the outcome of the assessment. Where it is considered material to the business, add the recommended approach to the adoption of the standard, including the transition adjustments, proposed disclosures, and impact to future results.</p> <p>For example:</p> <p><i>Sunshine Entity has assessed that there will be no change to the timing of recognition of xx and measurement of yy.</i></p> <p><i>Sunshine Entity has identified that measurement of transaction zz will be impacted by the application of the new standard. Of the two measurement options available, we recommend Option 1, and the impact is xx. Proposed journals and disclosures are xx.</i></p>									



## 2. Example layout—New accounting transaction

Heading	Content									
Purpose	<p>Explain why the paper is being prepared.</p> <p>For example:</p> <p><i>Sunshine Entity is proposing to enter into a contract to xx. This paper assesses the accounting options and recommended outcome from the contract.</i></p>									
Background	<p>Document the known facts and circumstances of the (proposed) arrangement which will be needed for understanding and application of the accounting outcome/s.</p> <p>For example:</p> <p><i>Sunshine Entity has/proposes to enter an arrangement to provide xx service/procure xx service/construct xx asset etc. The proposed deed/contract contains the following key elements:</i></p> <ul style="list-style-type: none"> <li>• <i>Xx delivery elements</i></li> <li>• <i>Xx financial contributions</i></li> <li>• <i>Xx time frame.</i></li> </ul> <p><i>As an entity under the xx Act, Sunshine Entity applies the xx government standards, xx policies, as well as xx Australian Accounting Standards relevant to this transaction.</i></p>									
Analysis and options	<p>For the circumstances of the transaction, document which key accounting standard/s will apply for recognition and measurement. Highlight those areas requiring significant judgement, the analysis of options available and the implications of those alternative views. Guidance material from AASB should be included in this analysis.</p> <p>For example:</p> <p><i>Sunshine Entity has identified the impact of the options under the standard by analysing xx.</i></p> <p><i>Sunshine Entity has assessed the following recognition and measurement principles for each of the key elements of AASB xx.</i></p> <table border="1"> <thead> <tr> <th>Element</th> <th>Impact assessment and materiality</th> <th>Outcome</th> </tr> </thead> <tbody> <tr> <td><i>Element 1</i></td> <td><i>Sunshine Entity has xx options for this element. Option 1—affects the xx and yy balances by zz. Option 2—affects the xx balance only by zz.</i></td> <td><i>Recommended option x. Refer journal and disclosures below.</i></td> </tr> <tr> <td><i>Element 2</i></td> <td></td> <td></td> </tr> </tbody> </table>	Element	Impact assessment and materiality	Outcome	<i>Element 1</i>	<i>Sunshine Entity has xx options for this element. Option 1—affects the xx and yy balances by zz. Option 2—affects the xx balance only by zz.</i>	<i>Recommended option x. Refer journal and disclosures below.</i>	<i>Element 2</i>		
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<i>Element 2</i>										
Consultation	Document which stakeholders were engaged as part of the assessment.									
Conclusion	<p>Conclude on the substance of the arrangement and the applicable accounting requirements. The conclusion should contain recommendations relating to:</p> <table border="1"> <thead> <tr> <th>Conclusion</th> <th>Consider points</th> </tr> </thead> <tbody> <tr> <td>Recognition</td> <td> <ul style="list-style-type: none"> <li>• What type of transactions and/or balances should be recognised.</li> <li>• When should the transactions and/or balances be recognised (including narrative disclosure).</li> </ul> </td> </tr> <tr> <td>Measurement</td> <td> <ul style="list-style-type: none"> <li>• What are the principles of measurement for each transaction and/or balances.</li> <li>• What are the risks of measurement and processes to be implemented to measure the transaction and or/balance.</li> </ul> </td> </tr> <tr> <td>Reporting</td> <td> <ul style="list-style-type: none"> <li>• Proposed presentation and disclosures (quantitative and narratives) to be included in the financial statements.</li> </ul> </td> </tr> </tbody> </table> <p>Add any requirement to change business processes and consider implications for resourcing and timing of financial statement preparation.</p>	Conclusion	Consider points	Recognition	<ul style="list-style-type: none"> <li>• What type of transactions and/or balances should be recognised.</li> <li>• When should the transactions and/or balances be recognised (including narrative disclosure).</li> </ul>	Measurement	<ul style="list-style-type: none"> <li>• What are the principles of measurement for each transaction and/or balances.</li> <li>• What are the risks of measurement and processes to be implemented to measure the transaction and or/balance.</li> </ul>	Reporting	<ul style="list-style-type: none"> <li>• Proposed presentation and disclosures (quantitative and narratives) to be included in the financial statements.</li> </ul>	
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Reporting	<ul style="list-style-type: none"> <li>• Proposed presentation and disclosures (quantitative and narratives) to be included in the financial statements.</li> </ul>									



### 3. Example layout—Approach to a valuation methodology

Heading	Content
Purpose	<p>Explain why the paper is being prepared.</p> <p>For example:</p> <p><i>Outline Sunshine Entity's approach to valuing assets in accordance with Australian Accounting Standards and Queensland Treasury's Non-Current Asset Policies.</i></p>
Background	<p>Knowledge necessary to understand the valuation. This can be business history and accounting and valuation matters over time.</p> <p>For example:</p> <p><b>Sunshine Entity's History</b> <i>Sunshine Entity was formed in xx through a merger between xx and xx. The assets are regulated by xx.</i></p> <p><b>Accounting Background</b> <i>As an entity under the xx Act, Sunshine Entity applies the xx standards, as well as Australian Accounting Standards.</i></p> <p><i>Under AASB13 Fair Valuation Measurement, Sunshine Entity applies current replacement cost/income-based approach/market-based approach to determine fair value for xx class of assets. This basis is considered most appropriate because xx. The highest and best use of the assets is considered to be xx.</i></p> <p><i>The Unit of Account is based on xx. Assets are componentised to xx.</i></p>
Accounting Guidance	<p>Overview of the reporting framework and list applicable accounting standards.</p> <p>For example:</p> <p><i>Sunshine Entity applies the following framework and standards:</i></p> <ul style="list-style-type: none"><li>• <i>Financial Reporting Requirements, specifically FRR 4B xxx</i></li><li>• <i>AASB 116 Property Plant and Equipment</i></li><li>• <i>Xx.</i></li></ul>
Key Principles	<p>Any additional principles, decisions, entity guides are an integral part of the analysis.</p> <p>For example:</p> <p><i>Sunshine Entity uses the following materiality principles in the valuation analysis:</i></p> <ul style="list-style-type: none"><li>• <i>Xx.</i></li></ul> <p><i>Sunshine Entity uses the following approved systems/models/guides for the valuation:</i></p> <ul style="list-style-type: none"><li>• <i>quantity surveyor results for volume assessments</i></li><li>• <i>unit cost calculation methodology</i></li><li>• <i>discount rate calculation</i></li><li>• <i>overhead allocation methodology.</i></li></ul> <p><i>The following key assumptions have changed from the last valuation: xx.</i></p>
Consultation	<p>Document which stakeholders were engaged as part of the assessment.</p>
Conclusion	<p>Document why the approach is appropriate and complies with laws and standards.</p>



## 4. Example layout—Analysis of a valuation outcome

Heading	Content
Purpose	<p>Explain why the paper is being prepared.</p> <p>For example:</p> <p><i>Approve Sunshine Entity's valuation of xx in accordance with Australian Accounting Standards.</i></p>
Background	<p>Knowledge necessary to understand the valuation. This can be entity history, and accounting and valuation matters over time.</p> <p>For example:</p> <p><i>As an entity under the xx Act, Sunshine Entity applies the xx standards, as well as Australian Accounting Standards.</i></p> <p><i>Under AASB13 Fair Valuation Measurement, Sunshine Entity applies current replacement cost/income-based approach/market-based approach to determine fair value for xx class of assets.</i></p> <p><i>The Unit of Account is based on xx, and valuations are prepared for each of the following units of account xx.</i></p>
Valuation Guidance	<p>Overview of the valuation framework and list applicable accounting standards. Any additional principles, decisions, entity guides are an integral part of the analysis.</p> <p>For example:</p> <p><i>Sunshine Entity applies the following framework and standards:</i></p> <ul style="list-style-type: none"> <li>• <i>Financial Reporting Requirements, specifically FRR 4B xxx</i></li> <li>• <i>AASB 116 Property Plant and Equipment</i></li> <li>• <i>Xx.</i></li> </ul> <p><i>Sunshine Entity uses the following materiality principles in the valuation analysis:</i></p> <ul style="list-style-type: none"> <li>• <i>xx.</i></li> </ul> <p><i>Sunshine Entity uses the following approved models/guides for the valuation:</i></p> <ul style="list-style-type: none"> <li>• <i>discount rate calculation,</i></li> <li>• <i>overhead allocation methodology</i></li> <li>• <i>asset project management methodology</i></li> <li>• <i>condition assessment criteria.</i></li> </ul>
Key Analysis	<p>Describe the key elements of the valuation. This includes the methodology used and inputs to the valuation. Describe where judgement or estimation is used. In these circumstances of judgement, include alternatives considered by management.</p> <p>Prepare proposed notes to support the valuation, including changes to key estimates and judgements and the required sensitives.</p> <p>For example:</p> <p><i>Sunshine Entity uses the following key assumptions:</i></p> <ul style="list-style-type: none"> <li>• <i>unit cost elements— are sourced from xx, they are tested for appropriateness for Sunshine Entity through xx, they are calculated by xx</i></li> <li>• <i>growth rates—are based on xx</i></li> <li>• <i>terminal values—methodology is xx, tested through xx</i></li> <li>• <i>future impacts of xx.</i></li> </ul> <p><i>The valuation is most sensitive to the following assumptions:</i></p> <ul style="list-style-type: none"> <li>• <i>xx, with the valuation changing by ww, if the assumption changes by vv%</i></li> <li>• <i>xy, with the valuation changing by aa, if the assumption changes by bb%.</i></li> </ul> <p><i>The disclosures required under AASB xx are xx.</i></p>
Consultation	<p>Document which stakeholders were engaged as part of the assessment.</p>
Recommendation	<p>To approve the valuation outcome.</p> <p>For example:</p> <p><i>Approve/recommend for approval the annual asset valuation outcome, supporting assumptions, and proposed disclosures for financial reporting.</i></p>





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