

# CHAPTER SIX

## BUDGETED FINANCIAL STATEMENTS

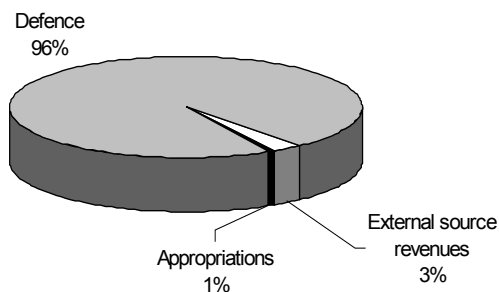
### ANALYSIS OF BUDGETED FINANCIAL STATEMENTS

An analysis of the Defence Materiel Organisation's budgeted financial statements for 2005-06 is provided below. The DMO's budget and forward estimates include funding required to support approved activities and an estimate of the DMO's share of planned future activities associated with the Defence Capability Plan. As the DMO will become a prescribed agency from 1 July 2005, no comparative information is available.

#### Statement of Financial Performance

The Agency is budgeting for a break-even operating result for 2005-06, with total revenue and expenses of \$7,125.4m. The DMO earns revenue from the following sources:

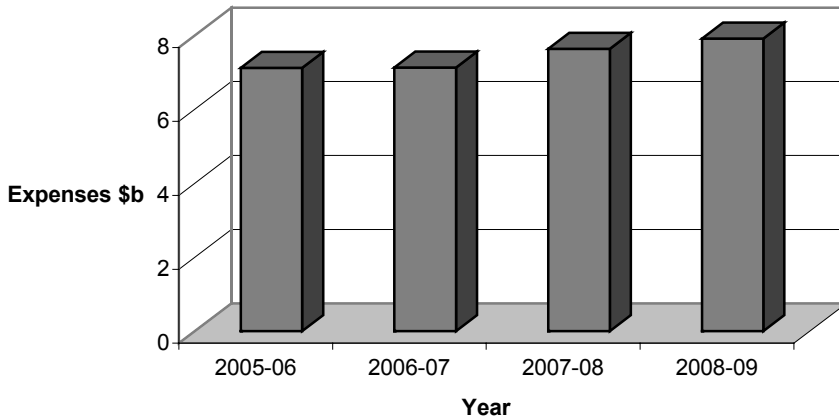
**Chart 6.1: Analysis of Revenues: 2005-06**



The price received from Defence for the delivery of Outputs 1.1 and 1.2 is recorded as revenue to the extent that the DMO delivers goods and services to Defence during the year. Amounts received for goods and services not yet delivered to Defence, eg inventory, are recorded as a liability (unearned revenue) in the DMO financial statements.

The trend in total agency expenses across the budget and forward estimate years is illustrated in the following chart:

**Chart 6.2: Expenses by budget year and forward estimate years**

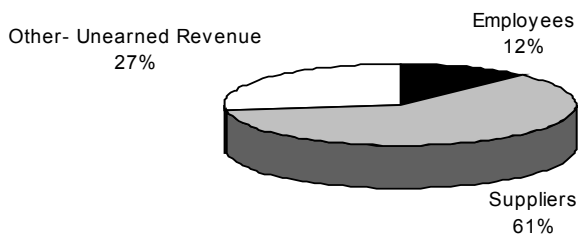


### Statement of Financial Position

The Agency has net assets of \$4,821.7m, with the prime asset being inventory of \$4,750.5m in 2005-06. The DMO only reports work in progress for assets under construction to the extent that the DMO is not able to recognise a revenue and expense associated with construction costs incurred. For budget purposes, it is assumed that all work in progress will be recognised as construction costs in the budget year and accordingly no asset is reported.

The following chart illustrates the breakdown in liabilities:

**Chart 6.3: Analysis of Liabilities: 2005-06**



**Table 6.1: Budgeted Departmental Statement of Financial Performance (for the period ended 30 June)<sup>(1)</sup>**

	Budget Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000
<b>REVENUE</b>				
<b>Revenues from ordinary activities</b>				
Revenues from Government	44,211	45,200	46,131	46,820
Goods and services	6,976,161	6,999,550	7,523,151	7,801,890
Revenue from sales of assets	33,537	34,208	34,892	35,590
Other	71,500	54,000	36,500	36,500
<b>Revenues from ordinary activities</b>	<b>7,125,409</b>	<b>7,132,958</b>	<b>7,640,674</b>	<b>7,920,800</b>
<b>EXPENSE</b>				
<b>Expenses from ordinary activities (excluding borrowing costs expense)</b>				
Employees	358,296	363,780	369,036	368,057
Suppliers	6,590,587	6,609,481	7,131,316	7,420,322
Depreciation and amortisation	72,989	72,989	70,430	61,831
Write-down of assets and impairment of assets	70,000	52,500	35,000	35,000
Value of assets sold	33,537	34,208	34,892	35,590
<b>Expenses from ordinary activities (excluding borrowing costs expense)</b>	<b>7,125,409</b>	<b>7,132,958</b>	<b>7,640,674</b>	<b>7,920,800</b>
<b>Operating surplus or (deficit) from ordinary activities</b>	-	-	-	-
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>	-	-	-	-

**Note**

- Revenue for goods and services includes the DMO's expected share of revenue from Defence for planned activities which have not yet been approved by the Government. These amounts are as agreed with Defence and are detailed below.

	Budget Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000
Revenue for not yet approved activities	340,970	843,005	1,556,152	2,369,059

**Table 6.2: Budgeted Departmental Statement of Financial Position  
(as at 30 June)**

	<b>Budget Estimate 2005-06</b>	<b>Forward Estimate 2006-07</b>	<b>Forward Estimate 2007-08</b>	<b>Forward Estimate 2008-09</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>ASSETS</b>				
<b>Financial assets</b>				
Cash	50,270	50,270	50,270	50,270
Receivables	84,404	109,270	133,457	147,435
<b>Total financial assets</b>	<b>134,674</b>	<b>159,540</b>	<b>183,727</b>	<b>197,705</b>
<b>Non-financial assets</b>				
Infrastructure, plant and equipment	242,727	258,646	267,071	268,210
Inventories	4,750,511	4,929,934	5,074,013	5,228,083
Intangibles	81,211	57,877	37,102	24,926
Other non-financial assets	595,000	595,000	595,000	595,000
<b>Total non-financial assets</b>	<b>5,669,449</b>	<b>5,841,457</b>	<b>5,973,186</b>	<b>6,116,219</b>
<b>Total assets</b>	<b>5,804,123</b>	<b>6,000,997</b>	<b>6,156,913</b>	<b>6,313,924</b>
<b>LIABILITIES</b>				
<b>Provisions</b>				
Employees	121,390	122,922	126,335	128,137
<b>Total provisions</b>	<b>121,390</b>	<b>122,922</b>	<b>126,335</b>	<b>128,137</b>
<b>Payables</b>				
Suppliers	591,704	591,704	591,704	591,704
Other payables	269,369	464,711	617,214	772,423
<b>Total payables</b>	<b>861,073</b>	<b>1,056,415</b>	<b>1,208,918</b>	<b>1,364,127</b>
<b>Total liabilities</b>	<b>982,463</b>	<b>1,179,337</b>	<b>1,335,253</b>	<b>1,492,264</b>
<b>Net Assets</b>	<b>4,821,660</b>	<b>4,821,660</b>	<b>4,821,660</b>	<b>4,821,660</b>
<b>EQUITY</b>				
<b>Parent entity interest</b>				
Retained surpluses or accumulated deficits	4,821,660	4,821,660	4,821,660	4,821,660
<b>Total parent entity interest</b>	<b>4,821,660</b>	<b>4,821,660</b>	<b>4,821,660</b>	<b>4,821,660</b>
<b>Total equity</b>	<b>4,821,660</b>	<b>4,821,660</b>	<b>4,821,660</b>	<b>4,821,660</b>

**Table 6.3: Budgeted Departmental Statement of Cash Flows  
(for the period ended 30 June)**

	<b>2005-06 Budget Estimate</b>	<b>Forward Estimate 2006-07</b>	<b>Forward Estimate 2007-08</b>	<b>Forward Estimate 2008-09</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>OPERATING ACTIVITIES</b>				
<b>Cash received</b>				
Goods and services	7,132,064	7,079,776	7,559,412	7,849,225
Appropriations	44,211	45,200	46,131	46,820
GST Input Credit Receipts	549,832	545,150	583,764	607,109
Other	88,480	90,250	92,055	93,896
<b>Total cash received</b>	<b>7,814,587</b>	<b>7,760,376</b>	<b>8,281,362</b>	<b>8,597,050</b>
<b>Cash used</b>				
Employees	356,644	362,248	365,624	366,255
Suppliers	5,723,262	5,772,063	6,263,717	6,548,893
Inventory	1,096,468	1,015,340	1,010,177	1,023,999
GST Payments to Suppliers	549,832	545,150	583,764	607,109
<b>Total cash used</b>	<b>7,726,206</b>	<b>7,694,801</b>	<b>8,223,282</b>	<b>8,546,256</b>
<b>Net cash from or (used by) operating activities</b>	<b>88,381</b>	<b>65,575</b>	<b>58,080</b>	<b>50,794</b>
<b>INVESTING ACTIVITIES</b>				
<b>Cash received</b>				
Proceeds from sales of property, plant and equipment	33,537	34,207	34,892	35,590
<b>Total cash received</b>	<b>33,537</b>	<b>34,207</b>	<b>34,892</b>	<b>35,590</b>
<b>Cash used</b>				
Purchase of property, plant and equipment	121,918	99,782	92,972	86,384
<b>Total cash used</b>	<b>121,918</b>	<b>99,782</b>	<b>92,972</b>	<b>86,384</b>
<b>Net cash from or (used by) investing activities</b>	<b>(88,381)</b>	<b>(65,575)</b>	<b>(58,080)</b>	<b>(50,794)</b>
<b>FINANCING ACTIVITIES</b>				
<b>Total cash received</b>	-	-	-	-
<b>Total cash used</b>	-	-	-	-
<b>Net cash from/(used by) financing activities</b>	-	-	-	-
<b>Net increase or (decrease) in cash held</b>	-	-	-	-
Cash at the beginning of the reporting period	50,270	50,270	50,270	50,270
<b>Cash at the end of the reporting period</b>	<b>50,270</b>	<b>50,270</b>	<b>50,270</b>	<b>50,270</b>

**Table 6.4: Departmental Capital Budget Statement**

	Budget Estimate 2005-06	Forward Estimate 2006-07	Forward Estimate 2007-08	Forward Estimate 2008-09
	\$'000	\$'000	\$'000	\$'000
<b>CAPITAL APPROPRIATIONS</b>				
Total equity injections	-	-	-	-
Total loans	-	-	-	-
<b><i>Total capital appropriations</i></b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Represented by:</b>				
Purchase of non-financial assets	-	-	-	-
Other	-	-	-	-
<b><i>Total represented by:</i></b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>PURCHASE OF NON-FINANCIAL ASSETS</b>				
Funded by capital appropriation	-	-	-	-
Funded internally by departmental resources	121,917	99,782	92,972	86,384
<b>Total</b>	<b>121,917</b>	<b>99,782</b>	<b>92,972</b>	<b>86,384</b>

**Table 6.5: Departmental property, plant, equipment and intangibles – Summary of Movement (budget year 2005-06)**

	Land	Investment	Buildings	Specialist	Other	Heritage	Computer	Other	Total
	property	property		military	infrastructure	and	software	intangibles	
				equipment	plant and	cultural			
					equipment	assets			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>As at 1 July 2005</b>									
Gross book value	-	-	-	-	292,089	-	55,789	121,759	469,637
Accumulated depreciation	-	-	-	-	88,087	-	24,874	48,129	161,090
<b>Opening net book value</b>	-	-	-	-	204,002	-	30,915	73,630	308,547
Additions:									
by purchase	-	-	-	-	121,917	-	-	-	121,917
Depreciation/amortisation expense	-	-	-	-	49,655	-	11,158	12,176	72,989
Disposals:									
Other disposals	-	-	-	-	33,537	-	-	-	33,537
<b>As at 30 June 2006</b>									
Gross book value	-	-	-	-	<b>292,089</b>	-	<b>55,789</b>	<b>121,759</b>	<b>469,637</b>
Accumulates depreciation	-	-	-	-	49,362	-	36,032	60,305	145,699
<b>Closing net book value</b>	-	-	-	-	<b>242,727</b>	-	<b>19,757</b>	<b>61,454</b>	<b>323,938</b>

## NOTES TO THE FINANCIAL STATEMENTS

### Budgeted Financial Statements

The budgeted financial statements of financial performance, financial position, cash flows and a budgeted capital statement show the revenues, expenses, assets and liabilities of the DMO. These budgeted statements contain estimates prepared in accordance with the requirements of the Government's financial budgeting and reporting framework and reflect the planned financial performance of the DMO in delivering its outputs to Defence.

Comparative figures for 2004-05 have not been provided, as the DMO will become a prescribed agency from 1 July 2005.

Unless otherwise stated, the convention used in these budgeted financial statement is to round amounts to the nearest \$'000.

### Departmental Revenue

Appropriation Revenue from the Government for Output 1.3 is recognised to the extent that it will be received into the Agency's bank account.

Revenue is recognised for the delivery of Outputs 1.1 and 1.2 on the basis of the delivery of goods and services to Defence in the budget year. The DMO will record a liability to the extent that Defence has provided funds and the DMO has not delivered goods and services, for example, inventory purchased but not issued.

Revenue from other sources represents sales to non-Defence organisations for goods and services and is recognised at the time that it is imposed on customers.

### Departmental Expenses

#### Employees

Employees include payments and net increases in entitlements to civilian employees for services rendered in the financial year. The DMO pays a fee for service to Defence for the use of military personnel. This fee is reported as part of supplier expenses.

#### Suppliers

This includes payments to suppliers for goods and services used in providing Agency outputs and cost of sales expenses associated with the delivery of goods and services to Defence. The 2005-06 suppliers expense estimate includes an amount of \$153.6m to cover the fee for service for the provision to the DMO of military personnel.



## **Depreciation and Amortisation**

Items of property, plant and equipment and intangible assets are depreciated to their estimated residual values over their estimated useful lives. In all cases, the 'straight-line' method of depreciation is used.

## **Departmental Assets – Financial Assets**

The primary financial assets are cash and receivables.

## **Departmental Non–Financial Assets**

This includes:

- *Infrastructure, plant and equipment and intangibles*, which are used in the production of outputs. This includes the Defence commercial vehicle fleet. The reported value represents the purchase price paid less depreciation incurred to date in using the asset.
- *Inventories* includes the cost of bringing each item of inventory to its present location and condition reduced by a provision for obsolescence. Inventory includes the categories of explosive ordnance, fuel, and general stores.
- *Other financial assets* include prepayments.

## **Departmental Liabilities – Provisions**

Provision has been made for the Agency's liability for employee entitlements, arising from services rendered by employees. This liability includes unpaid annual leave and long service leave.

## **Departmental Liabilities – Payables**

Payables include unpaid suppliers and an unearned revenue liability associated with goods and services awaiting delivery to Defence.