# DRAFT OMNIBUS ED

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**I NTRODUCTION**

To serve the public interest, IFAC will continue to strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession's expertise is most relevant.

The International Public Sector Accounting Standards Board (IPSASB) is a standing board of IFAC. It develops accounting standards for the public sector.

Copies of this Exposure Draft may be downloaded free of charge from the IFAC website at **http://www.ifac.org**.



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# COMMENTING ON THIS EXPOSURE DRAFT

This Exposure Draft of the International Federation of Accountants (IFAC) was prepared by the International Public Sector Accounting Standards Board (IPSASB). The proposals in this Exposure Draft may be modified in the final Standard in the light of comments received before being issued in the form of an International Public Sector Accounting Standard (IPSAS).

Comments should be submitted in writing so as to be received by [DATE]. E-mail responses are preferred. All comments will be considered a matter of public record. Comments should be addressed to:

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# EXPOSURE DRAFT OF PROPOSED IMPROVEMENTS TO INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

## CONTENTS

# INTRODUCTION TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

The International Federation of Accountants' International Public Sector Accounting Standards Board (IPSASB) develops accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The IPSASB recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs will play a key role in enabling these benefits to be realized. The IPSASB strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in this Exposure Drafts.

The IPSASB issues IPSASs dealing with financial reporting under the accrual basis of accounting and the cash basis of accounting. The accrual basis IPSASs are based on the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) where the requirements of those Standards are applicable to the public sector. They also deal with public sector specific financial reporting issues that are not dealt with in IFRSs.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The IPSASB recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The IPSASB encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS.

## Due Process and Timetable

An important part of the process of developing IPSASs is for the IPSASB to receive comments on the proposals set out in IPSAS Exposure Drafts from governments, public sector entities, auditors, standard-setters and other parties with an interest in public sector financial reporting. Accordingly, each proposed IPSAS is first released as an Exposure Draft, inviting interested parties to provide their comments. Exposure Drafts will usually have a comment period of four months, although longer periods may be used for certain Exposure Drafts. Upon the closure of the comment period, the IPSASB will consider the comments received on the Exposure Draft and may modify the proposed IPSAS in the light of the comments received before proceeding to issue a final Standard.

## Request for Comments

This Exposure Draft proposes improvements to eleven accrual basis International Public Sector Accounting Standards (IPSASs). Comments are invited on the proposals in this Exposure Draft by [DATE]. The IPSASB invites comments on all the changes proposed in the Exposure Draft, and would particularly welcome comments to the questions set out in the ‘Specific Matters for Comment’ section at the front of each Standard. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

Until proposed Standards become effective, the requirements of the current version of the relevant Standard remain in force.

## Background

In late 1997, the IPSASB’s predecessor – the Public Sector Committee (PSC)[1] – commenced a program for the development of IPSASs based on International Accounting Standards (IASs) on issue at August 1997, or their subsequently revised versions, to the extent the requirement of the IASs are relevant for the public sector. The IPSASs maintained the requirements, structure and text of the IASs, unless there was a public sector specific reason for a departure. The first phase of the standards development program was completed in late 2002.

The objective of this project is to update 11 IPSASs to converge with the improved International Accounting Standards (IASs) issued by the IASB in December 2003 in its General Improvements project. Improvements made by the IASB were to reduce or eliminate alternatives, redundancies and conflicts within existing IASs and to make other improvements to them.

The following eleven Standards are subject to revision in the IPSAS Improvements project:

- IPSAS 1, “Presentation of Financial Statements”
- IPSAS 3, “Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies”
- IPSAS 4, “The Effect of Changes in Foreign Exchange Rates”
- IPSAS 6, “Consolidated Financial Statements and Accounting for Controlled Entities”
- IPSAS 7, “Accounting for Investments in Associates”
- IPSAS 8, “Financial Reporting of Interests in Joint Ventures”
- IPSAS 12, “Inventories”

1 The PSC was reconstituted as the IPSASB by the IFAC Board in November 2004.

- IPSAS 13, “Leases”
- IPSAS 14, “Events After the Reporting Date”
- PSAS 16, “Investment Property”
- IPSAS 17, “Property, Plant and Equipment”

An exposure draft amending the “Preface to International Public Sector Accounting Standards” is also published together with this Exposure Draft. That Exposure Draft proposes that all the paragraphs in IPSASs in bold type and plain type have equal authority. This Exposure Draft is consistent with the proposed equal authority approach.

## Presentation of the document

This Exposure Draft includes for each of the eleven Standards revised in the Improvements project the following:

- Specific Matters for Comment – Questions have been limited to major issues. However, the IPSASB would also welcome comments on other changes proposed in the IPSASs. For IPSAS 14, “Events After the Reporting Date”, there is no Specific Matters for Comment in view of the limited revisions proposed.
- A Summary of Main Changes – This section summarizes the main proposals for change to the Standard.
- Revised Text.
- Amendments to Other Pronouncements – Consequential amendments to Standards not addressed in the Improvements project are identified at the end of each proposed IPSAS.

A Basis for Conclusion is included at the end of the Exposure Draft. The Basis for Conclusions presents views considered by the IPSASB on major issues.

### Revised text

The presentation of the revised text varies depending on the extent of the proposed changes. When the changes proposed are pervasive, only a clean copy of the full revised text of the Standard is presented. When the proposed changes would result in the revision of a limited number of paragraphs, only the relevant paragraphs are presented:

(a) Clean copy is presented for:

    i. IPSAS 1, “Presentation of Financial Statements”

ii. IPSAS 3, "Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies"

iii. IPSAS 4, "The Effect of Changes in Foreign Exchange Rates".

A 'Table of Concordance' has been prepared for each of the IPSASs presented in clean copy to identify the corresponding contents of the proposed and current versions of each IPSAS.

(b) A marked-up copy of the full text of the Standard is presented for:

i. IPSAS 6, "Consolidated Financial Statements and Accounting for Controlled Entities"

ii. IPSAS 7, "Accounting for Investments in Associates"

iii. IPSAS 8, "Financial Reporting of Interests in Joint Ventures"

iv. IPSAS 16, "Investment Property"

v. IPSAS 17, "Property, Plant and Equipment".

(c) Proposed IPSASs where relevant paragraphs are presented are:

i. IPSAS 12, "Inventories"

ii. IPSAS 13, "Leases"

iii. IPSAS 14, "Events After the Reporting Date".

## Style

The style in this Exposure Draft reflects the IPSASB's decision to converge with the style of the equivalent IASs and change certain terminology in existing Standards. Accordingly, the word 'shall' is used instead of 'should'. By replacing 'should' with 'shall', the IPSASB does not intend to change the requirements in the Standards, but to clarify them.

A boxed text (rubric) is set out at the front of each Standard. The rubric to a Standard identifies the material that constitutes the Standard, and the IPSASB documents that provide the context in which the IPSAS should be read.

Appendices form part of the improved Standard to which they belong. Appendices to some IPSASs that are not revised by the IPSASB remain for illustrative purposes only. They do not form part of the Standard. The status of each Appendix is indicated at the head of the Appendix.

**I NTRODUCTION**

The Basis for Conclusion issued by the IPSASB does not form part of the Standards. Implementation Guidance and Illustrative Examples accompany the IPSASs and are not part of the Standard.

## Specific Matters for Comment

The IPSASB would particularly value comments on the following questions. It would be helpful to the IPSASB if these comments indicate the specific paragraph number or groups of paragraphs to which they relate, clearly explain the issue and suggest alternative wording, with supporting reasoning, where this is appropriate.

**Question 1**

Do you agree with the proposed approach regarding departure from a requirement of an International Public Sector Accounting Standard to achieve a fair presentation (see paragraphs 28-34)?

**Question 2**

Do you agree that a long-term financial liability due to be settled within twelve months after the reporting date should be classified as a current liability, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorized for issue (see paragraph 80)?

**Question 3**

Do you agree that:

(a) a long-term financial liability that is payable on demand because the entity breached a condition of its loan agreement should be classified as current at the reporting date, even if the lender has agreed after the reporting date, and before the financial statements are authorized for issue, not to demand payment as a consequence of the breach (see paragraph 82)?

(b) a long-term financial liability should be classified as non-current at the report date if a lender was entitled to demand immediate repayment of a long-term loan because the entity breached a condition of its loan agreement, but agreed by the reporting date to provide a period of grace ending at least twelve months after the reporting date, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment (see paragraph 83)?

**Question 4**

Do you agree that an entity should disclose the judgements management has made in the process of applying the accounting policies that have the most significant effect on the amounts recognized in the financial statements (see paragraphs 134-136)?

**Question 5**

Do you agree that an entity should disclose the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year (see paragraphs 137-144)?

**Question 6**

The proposed IPSAS 1 does not include a definition of the term ‘extraordinary items’, and does not require nor prohibit the presentation of items of revenue and expense as ‘extrodinary items’ either on the face of the statement of financial performance or in the notes.

Do you agree that extrordianry items should not be defined and their presentation either on the face of the statement of financial performance or in the notes should not be explicitly required or prohibited?

# SUMMARY OF MAIN CHANGES IPSAS 1
# PRESENTATION OF FINANCIAL STATEMENTS

The main changes proposed are:

## Scope

- to transfer from IPSAS 1 to IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors" requirements relating to the selection and application of accounting policies.
- to transfer to IPSAS 1 the presentation requirements for surplus or deficit for the period previously contained in IPSAS 3.

## Definitions

- in paragraph 7:
    - to define two new terms: "impracticable" and "notes".
    - to change the name of term "materiality" to "material" and amend the definition.
    - to remove the following unnecessary terms: "associates", "borrowing costs", "cash", "cash equivalents", "cash flows", "consolidated financial statements", "control", "controlled entity", "controlling entity", "economic entity", "equity method", "exchange difference", "fair value", "financial assets", "foreign currency", "foreign operation", "minority interest", and "qualifying assets".
    - to remove the following terms, which no longer exist: "extraordinary items", "fundamental errors", "net surplus/deficit", "ordinary activities", "reporting currency" and "surplus/deficit from ordinary activities". These definitions have also been eliminated in relevant IPSASs, eg IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors" or IPSAS 4, "The Effects of Changes in Foreign Exchange Rates".
- to include in paragraph 10 the interpretation of the term "materiality" and the notion of characteristics of users. Previously, IPSAS 1 did not contain this commentary.

## Fair Presentation and Departure from IPSASs

- to clarify in paragraph 24 that fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in IPSASs. Previously, IPSAS 1 did not contain the guidance on the meaning of "fair presentation".
- to require that in the extremely rare circumstances in which management concludes that compliance with a requirement in an IPSAS would be so misleading that it would conflict with the objective of financial statements set

out in IPSAS 1, to depart from the requirement, unless departure is prohibited by the relevant regulatory framework. In either case, the entity is required to make specified disclosures. Previously, IPSAS 1 did not set up the criterion for departure from IPSASs and did not distinguish two circumstances in which the regulatory framework permits or prohibits the departure from IPSASs (see paragraphs 28-34).

- to transfer previous paragraphs 37-42 in IPSAS 1, which relate to the selection and application of accounting policies, to IPSAS 3.

## Classification of Asset and Liabilities

- to require in paragraph 67 that an entity uses the order of liquidity to present assets and liabilities only when a liquidity presentation provides information that is reliable and more relevant than a current/non-current presentation. Previously, IPSAS 1 did not contain such limitation.
- to require in paragraph 77 that a liability held primarily for the purpose of being traded to be classified as current. Previously, IPSAS 1 did not specify this criterion for liabilities classifying as current.
- to require in paragraphs 80 and 81 that a financial liability that is due within twelve months after the reporting date, or for which the entity does not have an unconditional right to defer its settlement for at least twelve months after the reporting date, is classified as a current liability. This classification is required even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorized for issue. Previously, IPSAS 1 required such liabilities to be classified as non-current.
- to clarify in paragraph 81 that a liability is classified as non-current when the entity has, under the terms of an existing loan facility, the discretion to refinance or roll over its obligations for at least twelve months after the reporting date. Previously, IPSAS 1 did not make this clear.
- to require in paragraph 82 that when a long-term financial liability is payable on demand because the entity has breached a condition of its loan agreement on or before the reporting date, the liability is classified as current at the reporting date even if, after the reporting date, and before the financial statements are authorized for issue, the lender has agreed not to demand payment as a consequence of the breach. Previously, IPSAS 1 required such liabilities to be classified as non-current.
- to clarify in paragraph 83 that the liability is classified as non-current if the lender agreed by the reporting date to provide a period of grace ending at least twelve months after the reporting date, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment. Previously, IPSAS 1 did not make this clear.

## Presentation and Disclosure

Statement of Financial Performance

- to transfer from IPSAS 3 the section that sets out the presentation requirements for surplus or deficit for the period (IPSAS 3 previous paragraphs 10-12) to IPSAS 1 (see paragraphs 96-98).
- to remove the presentation of the following line items from the face of the statement of financial performance in paragraph 99 (previous paragraph 101):
  - surplus or deficit from operating activities
  - surplus or deficit from ordinary activities
  - extraordinary items.
- to require in paragraph 100 the separate presentation, on the face of statement of financial performance, of the allocation of the entity's surplus or deficit for the period between "surplus or deficit attributable to owners of the controlling entity" and "surplus or deficit attributable to minority interest". Previously, IPSAS 1 did not contain these presentation requirements.

Statement of Changes in Net Assets/Equity

- to require in paragraph 115 the presentation, on the face of the statement of changes in net assets/equity, of the entity's total amount of revenue and expense for the period (including amounts recognized directly in net assets/equity), showing separately the amounts attributable to minority interest and owners of the controlling entity. Previously, IPSAS 1 did not require presentation of these items.

Notes

- to require in paragraphs 134-136 that an entity shall disclose the judgments, apart from those involving estimations, management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognized in the financial statements (eg management's judgment in determining whether assets are investment properties). Previously, IPSAS 1 did not contain these disclosure requirements.
- to require in paragraphs 137-144 that an entity shall disclose the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Previously, IPSAS 1 did not contain these disclosure requirements.

## Amendments to Other IPSASs

- to include an authoritative appendix of amendments to other IPSASs that are not part of the IPSASs Improvements project but will be impacted as a result of the proposals in this IPSAS.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 1
PRESENTATION OF FINANCIAL STATEMENTS

# INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 1—PRESENTATION OF FINANCIAL STATEMENTS

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INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 1
PRESENTATION OF FINANCIAL STATEMENTS

International Public Sector Accounting Standard 1, "Presentation of Financial Statements" (IPSAS 1) is set out in paragraphs 1-151 and Appendices A-B. All the paragraphs have equal authority. IPSAS 1 should be read in the context of its objective, the Basis for Conclusion, and the "Preface to International Public Sector Accounting Standards". IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors" provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

# INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS 1—PRESENTATION OF FINANCIAL STATEMENTS

## Objective

1. The objective of this Standard is to prescribe the manner in which general purpose financial statements should be presented to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. To achieve this objective, this Standard sets out overall considerations for the presentation of financial statements, guidance for their structure, and minimum requirements for the content of financial statements prepared under the accrual basis of accounting. The recognition, measurement and disclosure of specific transactions and other events are dealt with in other International Public Sector Accounting Standards.

## Scope

2. **This Standard shall be applied to all general purpose financial statements prepared and presented under the accrual basis of accounting in accordance with International Public Sector Accounting Standards.**

3. General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. Users of general purpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees. General purpose financial statements include those that are presented separately or within another public document such as an annual report. This Standard does not apply to condensed interim financial information.

4. This Standard applies equally to all entities and whether or not they need to prepare consolidated financial statements or separate financial statements, as defined in IPSAS 6, "Consolidated and Separate Financial Statements".

5. **This Standard applies to all public sector entities other than Government Business Enterprises.**

6. The "Preface to International Public Sector Accounting Standards" issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). GBEs are defined in paragraph 7 below.

## Definitions

7. **The following terms are used in this Standard with the meanings specified:**

**Accrual basis means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.**

**Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.**

**Contributions from owners means future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which:**

(a) **conveys entitlement both to distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or**

(b) **can be sold, exchanged, transferred or redeemed.**

**Distributions to owners means future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.**

**Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.**

**Government Business Enterprise means an entity that has all the following characteristics:**

(a) **is an entity with the power to contract in its own name;**

(b) **has been assigned the financial and operational authority to carry on a business;**

(c) **sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;**

(d) **is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and**

(e) **is controlled by a public sector entity.**

**Impracticable Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.**

**Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.**

**Material Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature and size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.**

**Net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities.**

**Notes contain information in addition to that presented in the statement of financial position, statement of financial performance, statement of changes in net assets/equity and cash flow statement. Notes provide narrative descriptions or disaggregations of items disclosed in those statements and information about items that do not qualify for recognition in those statements.**

**Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.**

**Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.**

### Future Economic Benefits or Service Potential

8. Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives but which do not directly generate net cash inflows are often described as embodying "service potential". Assets that are used to generate net cash inflows are often described as embodying "future economic benefits". To encompass all the purposes to which assets may be put, this Standard uses the

term “future economic benefits or service potential” to describe the essential characteristic of assets.

**Government Business Enterprises**

9. Government Business Enterprises (GBEs) include both trading enterprises, such as utilities, and financial enterprises, such as financial institutions. GBEs are, in substance, no different from entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in the community with goods and services at either no charge or a significantly reduced charge. International Public Sector Accounting Standard IPSAS 6, “Consolidated and Separate Financial Statements” provides guidance on determining whether control exists for financial reporting purposes, and should be referred to in determining whether a GBE is controlled by another public sector entity.

**Materiality**

10. Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. Users are assumed to have a reasonable knowledge of the public sector and economic activities and accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

**Net Assets/Equity**

11. “Net assets/equity” is the term used in this Standard to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.

## Purpose of Financial Statements

12. Financial statements are a structured representation of the financial position and financial performance of an entity. The objectives of general purpose financial statements are to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically, the objectives of general purpose financial reporting in the public sector should be to provide information useful for decision-

making, and to demonstrate the accountability of the entity for the resources entrusted to it by:

(a) providing information about the sources, allocation and uses of financial resources;

(b) providing information about how the entity financed its activities and met its cash requirements;

(c) providing information that is useful in evaluating the entity's ability to finance its activities and to meet its liabilities and commitments;

(d) providing information about the financial condition of the entity and changes in it; and

(e) providing aggregate information useful in evaluating the entity's performance in terms of service costs, efficiency and accomplishments.

13. General purpose financial statements can also have a predictive or prospective role, providing information useful in predicting the level of resources required for continued operations, the resources that may be generated by continued operations, and the associated risks and uncertainties. Financial reporting may also provide users with information:

(a) indicating whether resources were obtained and used in accordance with the legally adopted budget; and

(b) indicating whether resources were obtained and used in accordance with legal and contractual requirements, including financial limits established by appropriate legislative authorities.

14. To meet these objectives, the financial statements provide information about an entity's:

(a) assets;

(b) liabilities;

(c) net assets/equity;

(d) revenue;

(e) expenses;

(f) other changes in net assets/equity; and

(g) cash flows.

15. Whilst the information contained in financial statements can be relevant for the purpose of meeting the objectives in paragraph 12, it is unlikely to enable all these objectives to be met. This is likely to be particularly so in respect of entities whose primary objective may not be to make a profit, as managers are likely to be accountable for the achievement of service delivery as well as

financial objectives. Supplementary information, including non-financial statements, may be reported alongside the financial statements in order to provide a more comprehensive picture of the entity's activities during the period.

## Responsibility for Financial Statements

16. The responsibility for the preparation and presentation of financial statements varies within and across jurisdictions. In addition, a jurisdiction may draw a distinction between who is responsible for preparing the financial statements and who is responsible for approving or presenting the financial statements. Examples of people or positions who may be responsible for the preparation of the financial statements of individual entities (such as government departments or their equivalent) include the individual who heads the entity (the permanent head or chief executive) and the head of the central finance agency (or the senior finance official, such as the controller or accountant-general). Normally, those responsible for the preparation of the financial statements of the entity are also referred to management of that entity.

17. The responsibility for the preparation of the consolidated financial statements of the government as a whole usually rests jointly with the head of the central finance agency (or the senior finance official, such as the controller or accountant-general) and the finance minister (or equivalent).

## Components of Financial Statements

18. **A complete set of financial statements comprises:**

    (a) **a statement of financial position;**

    (b) **a statement of financial performance;**

    (c) **a statement of changes in net assets/equity;**

    (d) **a cash flow statement; and**

    (e) **notes, comprising a summary of significant accounting policies and other explanatory notes.**

19. The components listed in paragraph18 are referred to by a variety of names both within and across jurisdictions. The statement of financial position may also be referred to as a balance sheet or statement of assets and liabilities. The statement of financial performance may also be referred to as a statement of revenues and expenses, an income statement, an operating statement, or a

profit and loss statement. The notes may include items referred to as "schedules" in some jurisdictions.

20. The financial statements provide users with information about an entity's resources and obligations at the reporting date and the flow of resources between reporting dates. This information is useful for users making assessments of an entity's ability to continue to provide goods and services at a given level, and the level of resources that may need to be provided to the entity in the future so that it can continue to meet its service delivery obligations.

21. Public sector entities are typically subject to budgetary limits in the form of appropriations or budget authorizations (or equivalent), which may be given effect through authorizing legislation. General purpose financial reporting by public sector entities may provide information on whether resources were obtained and used in accordance with the legally adopted budget. Where the financial statements and the budget are on the same basis of accounting, this Standard encourages the inclusion in the financial statements of a comparison with the budgeted amounts for the reporting period. Reporting against budgets may be presented in various different ways, including:

    (a) the use of a columnar format for the financial statements, with separate columns for budgeted amounts and actual amounts. A column showing any variances from the budget or appropriation may also be presented, for completeness; and

    (b) a statement by the individual(s) responsible for the preparation of the financial statements that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or expenses incurred without appropriation or other form of authority, then details may be disclosed by way of footnote to the relevant item in the financial statements.

22. Entities are encouraged to present additional information to assist users in assessing the performance of the entity, and its stewardship of assets, as well as making and evaluating decisions about the allocation of resources. This additional information may include details about the entity's outputs and outcomes in the form of performance indicators, statements of service performance, program reviews and other reports by management about the entity's achievements over the reporting period.

23. Entities are also encouraged to disclose information about compliance with legislative, regulatory or other externally-imposed regulations. When information about compliance is not included in the financial statements, it may be useful for a note to refer to any documents that include that information. Knowledge of non-compliance is likely to be relevant for accountability purposes and may affect a user's assessment of the entity's

performance and direction of future operations. It may also influence decisions about resources to be allocated to the entity in the future.

## Overall Considerations

### Fair Presentation and Compliance with International Public Sector Accounting Standards

24. **Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in IPSASs. The application of International Public Sector Accounting Standards, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.**

25. **An entity whose financial statements comply with International Public Sector Accounting Standards shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with International Public Sector Accounting Standards unless they comply with all the requirements of International Public Sector Accounting Standards.**

26. In virtually all circumstances, a fair presentation is achieved by compliance with applicable International Public Sector Accounting Standards. A fair presentation also requires an entity:

    (a) to select and apply accounting policies in accordance with IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors". IPSAS 3 sets out a hierarchy of authoritative guidance that management considers in the absence of a Standard that specifically applies to an item.

    (b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

    (c) to provide additional disclosures when compliance with the specific requirements in International Public Sector Accounting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

27. **Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material.**

28. **In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this IPSAS, the entity shall depart from that requirement in the manner set out in paragraph 29 if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.**

29. **When an entity departs from a requirement of a Standard in accordance with paragraph 28, it shall disclose:**

    (a) **that management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;**

    (b) **that it has complied with applicable International Public Sector Accounting Standards, except that it has departed from a particular requirement to achieve a fair presentation;**

    (c) **the title of the Standard from which the entity has departed, the nature of the departure, including the treatment that the Standard would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in this IPSAS, and the treatment adopted; and**

    (d) **for each period presented, the financial impact of the departure on each item in the financial statements that would have been reported in complying with the requirement.**

30. **When an entity has departed from a requirement of a Standard in a prior period, and that departure affects the amounts recognized in the financial statements for the current period, it shall make the disclosures set out in paragraph 29(c) and (d).**

31. Paragraph 30 applies, for example, when an entity departed in a prior period from a requirement in a Standard for the measurement of assets or liabilities and that departure affects the measurement of changes in assets and liabilities recognized in the current period's financial statements.

32. **In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this IPSAS, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:**

(a) **the title of the Standard in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in this IPSAS; and**

(b) **for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation.**

33. For the purpose of paragraphs 28-32, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence decisions made by users of financial statements. When assessing whether complying with a specific requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this IPSAS, management considers:

(a) why the objective of financial statements is not achieved in the particular circumstances; and

(b) how the entity's circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of the financial statements set out in this IPSAS.

34. Departures from the requirements of an International Public Sector Accounting Standard in order to comply with statutory/legislative financial reporting requirements in a particular jurisdiction do not constitute departures that conflict with the objective of financial statements set out in this IPSAS as outlined in paragraph 28. If such departures are material an entity cannot claim to be complying with International Public Sector Accounting Standards.

## Going Concern

35. **When preparing financial statements an assessment of an entity's ability to continue as a going concern shall be made. This assessment shall be made by those responsible for the preparation of financial statements. Financial statements shall be prepared on a going concern basis unless there is an intention to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so. When those responsible for the preparation of the financial statements are aware, in making their**

**assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.**

36. Financial statements are normally prepared on the assumption that the entity is a going concern and will continue in operation and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate, those responsible for the preparation of financial statements take into account all available information about the future, which is at least, but is not limited to, twelve months from the approval of the financial statements.

37. The degree of consideration depends on the facts in each case, and assessments of the going concern assumption are not predicated on the solvency test usually applied to business enterprises. There may be circumstances where the usual going concern tests of liquidity and solvency appear unfavorable, but other factors suggest that the entity is nonetheless a going concern. For example:

(a) in assessing whether a government is a going concern, the power to levy rates or taxes may enable some entities to be considered as a going concern even though they may operate for extended periods with negative net assets/equity; and

(b) for an individual entity, an assessment of its statement of financial position at the reporting date may suggest that the going concern assumption is not appropriate. However, there may be multi-year funding agreements, or other arrangements, in place that will ensure the continued operation of the entity.

38. The determination of whether the going concern assumption is appropriate is primarily relevant for individual entities rather than for a government as a whole. For individual entities, in assessing whether the going concern basis is appropriate, those responsible for the preparation of financial statements may need to consider a wide range of factors relating to current and expected performance, potential and announced restructurings of organizational units, estimates of revenue or the likelihood of continued government funding, and potential sources of replacement financing before it is appropriate to conclude that the going concern assumption is appropriate.

## Consistency of Presentation

39. **The presentation and classification of items in the financial statements shall be retained from one period to the next unless:**

(a) **it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in IPSAS 3; or**

(b) **an International Public Sector Accounting Standard requires a change in presentation.**

40. A significant acquisition or disposal, or a review of the presentation of the financial statements, might suggest that the financial statements need to be presented differently. For example, an entity may dispose of a savings bank that represents one of its most significant controlled entities and the remaining economic entity conducts mainly administrative and policy advice services. In this case, the presentation of the financial statements based on the principal activities of the economic entity as a financial institution is unlikely to be relevant for the new economic entity.

41. An entity changes the presentation of its financial statements only if the changed presentation provides information that is reliable and is more relevant to users of the financial statements and the revised structure is likely to continue, so that comparability is not impaired. When making such changes in presentation, an entity reclassifies its comparative information in accordance with paragraph 52 and 53.

**Materiality and Aggregation**

42. **Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately unless they are immaterial.**

43. Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity and cash flow statement, or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of those statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face ofthose statements may nevertheless be sufficiently material for it to be presented separately in the notes.

44. Applying the concept of materiality means that a specific disclosure requirement in an International Public Sector Accounting Standard need not be satisfied if the information is not material.

**Offsetting**

45. **Assets and liabilities, and revenue and expenses, shall not be offset unless required or permitted by an International Public Sector Accounting Standard.**

46. It is important that assets and liabilities, and revenue and expenses, are reported separately. Offsetting in the statement of financial performance or the statement of financial position, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity's future cash flows. Measuring assets net of valuation allowances – for example, obsolescence allowances on inventories and doubtful debts allowances on receivables - is not offsetting.

47. IPSAS 9, "Revenue from Exchange Transactions" defines revenue and requires it to be measured at the fair value of consideration received or receivable, taking into account the amount of any trade discounts and volume rebates allowed by the entity. An entity undertakes, in the course of its ordinary activities, other transactionsthat do not generate revenue but are incidental to the main revenue-generating activities. The results of such transactions are presented, when this presentation reflects the substance of the transaction or other event, by netting any revenue with related expenses arising on the same transaction. For example:

(a) gains and losses on the disposal of non-current assets, including investments and operating assets, are reported by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses; and

(b) expenses related to a provision that is recognized in accordance with IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets" and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) may be netted against the related reimbursement.

48. In addition, gains and losses arising from a group of similar transactions are reported on a net basis, for example, foreign exchange gains and losses and gains and losses arising on financial instruments held for trading. Such gains and losses are, however, reported separately if they are material.

49. The offsetting of cash flows is dealt with in International Public Sector Accounting Standard IPSAS 2, "Cash Flow Statements".

**Comparative Information**

50. **Except when an International Public Sector Accounting Standard permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.**

51. In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, details of a legal dispute, the outcome of which was uncertain at the last reporting date and is yet to be resolved, are disclosed in the current period. Users benefit from information that the uncertainty existed at the last reporting date, and about the steps that have been taken during the period to resolve the uncertainty.

52. **When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified unless the reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose:**

(a) **the nature of the reclassification;**

(b) **the amount of each item or class of items that is reclassified; and**

(c) **the reason for the reclassification.**

53. **When it is impracticable to reclassify comparative amounts, an entity shall disclose:**

(a) **the reason for not reclassifying the amounts; and**

(b) **the nature of the adjustments that would have been made if the amounts had been reclassified.**

54. Enhancing the inter-period comparability of information assists users in making and evaluating decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior period to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows reclassification, and it may not be practicable to recreate the information.

55. IPSAS 3 deals with the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.

# Structure and Content

## Introduction

56. This Standard requires particular disclosures on the face of the statement of financial position, statement of financial performance and statement of changes in net assets/equity and requires disclosure of other line items either on the face of those statements or in the notes. IPSAS 2 sets out requirements for the presentation of a cash flow statement.

57. This Standard sometimes uses the term 'disclosure' in a broad sense, encompassing items presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity and cash flow statement, as well as in the notes. Disclosures are also required by other International Public Sector Accounting Standards. Unless specified to the contrary elsewhere in this Standard, or in another Standard, such disclosures are made either on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity or cash flow statement (whichever is relevant), or in the notes.

## Identification of the Financial Statements

58. **The financial statements shall be identified clearly and distinguished from other information in the same published document.**

59. International Public Sector Accounting Standards apply only to financial statements, and not to other information presented in an annual report or other document. Therefore, it is important that users can distinguish information that is prepared using International Public Sector Accounting Standards from other information that may be useful to users but is not the subject of those requirements.

60. **Each component of the financial statements shall be identified clearly. In addition, the following information shall be displayed prominently, and repeated when it is necessary for a proper understanding of the information presented:**

    (a) **the name of the reporting entity or other means of identification and any change in that information from the preceding reporting date;**

    (b) **whether the financial statements cover the individual entity or the economic entity;**

    (c) **the reporting date or the period covered by the financial statements, whichever is appropriate to that component of the financial statements;**

(d) **the presentation currency, as defined in IPSAS 4, "The Effects of Changes in Foreign Exchange Rates"; and**

(e) **the level of rounding used in presenting amounts in the financial statements.**

61. The requirements in paragraph 60 are normally met by presenting page headings and abbreviated column headings on each page of the financial statements. Judgment is required in determining the best way of presenting such information. For example, when the financial statements are presented electronically, separate pages are not always used; the above items are then presented frequently enough to ensure a proper understanding of the information included in the financial statements.

62. Financial statements are often made more understandable by presenting information in thousands or millions of units of the presentation currency. This is acceptable as long as the level of rounding in presentation is disclosed and material information is not omitted.

### Reporting Period

63. **Financial statements shall be presented at least annually. When an entity's reporting date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:**

(a) **the reason for using a longer or shorter period; and**

(b) **the fact that comparative amounts for certain statements such as the statement of financial performance, statement of changes in net assets/equity, cash flow statement and related notes are not entirely comparable.**

64. In exceptional circumstances an entity may be required to, or decide to, change its reporting date, for example in order to align the reporting cycle more closely with the budgeting cycle. When this is the case, it is important that users are aware that the amounts shown for the current period and comparative amounts are not comparable and that the reason for the change in reporting date is disclosed. A further example is where, in making the transition from cash to accrual accounting, an entity changes the reporting date for entities within the economic entity to enable the preparation of consolidated financial statements.

65. Normally, financial statements are consistently prepared covering a one-year period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This Standard does not preclude this practice,

because the resulting financial statements are unlikely to be materially different from those that would be presented for one year.

### Timeliness

66. The usefulness of financial statements is impaired if they are not made available to users within a reasonable period after the reporting date. An entity should be in a position to issue its financial statements within six months of the reporting date. Ongoing factors such as the complexity of an entity's operations are not sufficient reason for failing to report on a timely basis. More specific deadlines are dealt with by legislation and regulations in many jurisdictions.

### Statement of Financial Position

### Current/Non-current Distinction

67. **An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement of financial position in accordance with paragraphs 73-84 except when a presentation based on liquidity provides information that is reliable and is more relevant. When that exception applies, all assets and liabilities shall be presented broadly in order of liquidity.**

68. **Whichever method of presentation is adopted, for each asset and liability line item that combines amounts expected to be recovered or settled (a) no more than twelve months after the reporting date and (b) more than twelve months after the reporting date, an entity shall disclose the amount expected to be recovered or settled after more than twelve months.**

69. When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realized within the current operating cycle, and liabilities that are due for settlement within the same period.

70. For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is reliable and is more relevant than a current/non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.

71. In applying paragraph 67, an entity is permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that is reliable and is more relevant.

The need for a mixed basis of presentation might arise when an entity has diverse operations.

72. Information about expected dates of realization of assets and liabilities is useful in assessing the liquidity and solvency of an entity. IPSAS 15, "Financial Instruments: Disclosure and Presentation" requires disclosure of the maturity dates of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery and settlement of non-monetary assets and liabilities such as inventories and provisions is also useful, whether or not assets and liabilities are classified as current or non-current.

## Current Assets

73. **An asset shall be classified as current when it satisfies any of the following criteria:**

    (a) **it is expected to be realized in, or is held for sale or consumption in, the entity's normal operating cycle;**

    (b) **it is held primarily for the purpose of being traded;**

    (c) **it is expected to be realized within twelve months after the reporting date; or**

    (d) **it is cash or a cash equivalent (as defined in IPSAS 2, "Cash Flow Statements") unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.**

    **All other assets shall be classified as non-current.**

74. This Standard uses the term "non-current assets" to includetangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.

75. The operating cycle of an entity is the time taken to convert inputs or resources into outputs. For instance, governments transfer resources to public sector entities so that they can convert those resources into goods and services, or outputs, to meet the government's desired social, political and economic outcomes. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

76. Current assets include assets (such as taxes receivable, user charges receivable, fines and regulatory fees receivable, inventories and accrued investment revenue) that are either realized, consumed or sold, as part of the

normal operating cycle even when they are not expected to be realized within twelve months after the reporting date. Current assets also include assets held primarily for the purpose of being traded (guidance on classification of financial assets can be found in the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments) and the current portion of non-current financial assets.

**Current Liabilities**

77. **A liability shall be classified as current when it satisfies any of the following criteria:**

    (a) **it is expected to be settled in the entity's normal operating cycle;**

    (b) **it is held primarily for the purpose of being traded;**

    (c) **it is due to be settled within twelve months after the reporting date; or**

    (d) **the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.**

    **All other liabilities shall be classified as non-current .**

78. Some current liabilities, such as government transfers payable and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. Such operating items are classified as current liabilities even if they are due to be settled more than twelve months after the reporting date. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

79. Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting date or held primarily for the purpose of being traded. Examples are financial liabilities classified held for trading (guidance on classification of financial liabilities can be found in the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments), bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting date are non-current liabilities, subject to paragraphs 82 and 83.

80. An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting date, even if:

    (a) the original term was for a period longer than twelve months; and

(b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorized for issue.

81. If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting date under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no agreement to refinance), the potential to refinance is not considered and the obligation is classified as current.

82. When an entity breaches an undertaking under a long-term loan agreement on or before the reporting date with the effect that the liability becomes payable on demand, the liability is classified as current, even if the lender has agreed, after the reporting date and before the authorization of the financial statements for issue, not to demand payment as a consequence of the breach. The liability is classified as current because, at the reporting date, the entity does not have an unconditional right to defer its settlement for at least twelve months after that date.

83. However, the liability is classified as non-current if the lender agreed by the reporting date to provide a period of grace ending at least twelve months after the reporting date, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

84. In respect of loans classified as current liabilities, if the following events occur between the reporting date and the date the financial statements are authorized for issue, those events qualify for disclosure as non-adjusting events in accordance with IPSAS 14, “Events after the Reporting Date”:

(a) refinancing on a long-term basis;

(b) rectification of a breach of a long-term loan agreement; and

(c) the receipt from the lender of a period of grace to rectify a breach of a long-term loan agreement ending at least twelve months after the reporting date.

**Information to be Presented on the Face of the Statement of Financial Position**

85. **As a minimum, the face of the statement of financial position shall include line items that present the following amounts:**

(a) **property, plant and equipment;**

(b) **investment property;**

(c) **intangible assets;**

(d) **financial assets (excluding amounts shown under (e), (g), (h) and (i));**

(e) **investments accounted for using the equity method;**

(f) **inventories;**

(g) **recoverables from non-exchange transactions, including taxes and transfers;**

(h) **receivables from exchange transactions;**

(i) **cash and cash equivalents;**

(j) **taxes and transfers payable;**

(k) **payables under exchange transactions;**

(l) **provisions;**

(m) **financial liabilities (excluding amounts shown under (j), (k) and (l));**

(n) **minority interest, presented within net assets/equity; and**

(o) **net assets/equity attributable to owners of the controlling entity.**

86. **Additional line items, headings and sub-totals shall be presented on the face of the statement of financial position when such presentation is relevant to an understanding of the entity's financial position.**

87. This Standard does not prescribe the order or format in which items are to be presented. Paragraph 85 simply provides a list of items that are sufficiently different in nature or function to warrant separate presentation on the face of the statement of financial position. Illustrative formats are set out in Implementation Guidance 1 to this Standard. In addition:

(a) line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and

(b) the descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position.

88. The judgment on whether additional items are presented separately is based on an assessment of:

(a) the nature and liquidity of assets;

(b) the function of assets within the entity; and

(c) the amounts, nature and timing of liabilities.

89. The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that they should be presented as separate line items. For example, different classes of property, plant and equipment can be carried at cost or revalued amounts in accordance with IPSAS 17, "Property, Plant and Equipment".

**Information to be Presented either on the Face of the Statement of Financial Position or in the Notes**

90. **An entity shall disclose, either on the face of the statement of financial position or in the notes, further subclassifications of the line items presented, classified in a manner appropriate to the entity's operations.**

91. The detail provided in subclassifications depends on the requirements of International Public Sector Accounting Standards and on the size, nature and function of the amounts involved. The factors set out in paragraph 88 also are used to decide the basis of subclassification. The disclosures vary for each item, for example:

(a) items of property, plant and equipment are disaggregated into classes in accordance with IPSAS 17;

(b) receivables are disaggregated into amounts receivable from user charges, taxes and other non-reciprocal revenues, receivables from related parties, prepayments and other amounts;

(c) inventories are subclassified in accordance with IPSAS 12, "Inventories", into classifications such as merchandise, production supplies, materials, work in progress and finished goods;

(d) taxes and transfers payable are disaggregated into tax refunds payable, transfers payable, and amounts payable to other members of the economic entity;

(e) provisions are disaggregated into provisions for employee benefits and other items; and

(f) components of net assets/equity are disaggregated into contributed capital, accumulated surpluses and deficits and any reserves.

92. **When an entity has no share capital, it shall disclose net assets/equity, either on the face of the statement of financial position or in the notes, showing separately:**

(a) **contributed capital, being the cumulative total at the reporting date of contributions from owners, less distributions to owners;**

(b) **accumulated surpluses or deficits;**

(c) **reserves, including a description of the nature and purpose of each reserve within net assets/equity; and**

(d) **minority interests.**

93. Many public sector entities will not have share capital but the entity will be controlled exclusively by another public sector entity. The nature of the government's interest in the net assets/equity of the entity is likely to be a combination of contributed capital and the aggregate of the entity's accumulated surpluses or deficits and reserves that reflect the net assets/equity attributable to the entity's operations.

94. In some cases, there may be a minority interest in the net assets/equity of the entity. For example, at whole-of-government level, the economic entity may include a Government Business Enterprise that has been partly privatized. Accordingly, there may be private shareholders who have a financial interest in the net assets/equity of the entity.

95. **When an entity has share capital, in addition to the disclosures in paragraph 92, it shall disclose the following, either on the face of the statement of financial position or in the notes:**

(a) **for each class of share capital:**

(i) **the number of shares authorized;**

(ii) **the number of shares issued and fully paid, and issued but not fully paid;**

(iii) **par value per share, or that the shares have no par value;**

(iv) **a reconciliation of the number of shares outstanding at the beginning and at the end of the year;**

(v) **the rights, preferences and restrictions attaching to that class, including restrictions on the distribution of dividends and the repayment of capital;**

(vi) **shares in the entity held by the entity or by its controlled entities or associates; and**

(vii) **shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts; and**

(b) **a description of the nature and purpose of each reserve within net assets/equity.**

### Statement of Financial Performance

### Surplus or Deficit for the Period

96. **All items of revenue and expense recognized in a period shall be included in surplus or deficit unless an International Public Sector Accounting Standard requires otherwise.**

97. Normally, all items of revenue and expense recognized in a period are included in surplus or deficit. This includes the effects of changes in accounting estimates. However, circumstances may exist when particular items may be excluded from surplus or deficit for the current period. IPSAS 3 deals with two such circumstances: the correction of errors and the effect of changes in accounting policies.

98. Other Standards deal with items that may meet definitions of revenue or expense set out in this IPSAS but are usually excluded from surplus or deficit. Examples include revaluation surpluses (see IPSAS 17), particular gains and losses arising on translating the financial statements of a foreign operation (see IPSAS 4) and gains or losses on remeasuring available-for-sale financial assets (guidance on measurement of financial assets can be found in the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments).

### Information to be Presented on the Face of the Statement of Financial Performance

99. **As a minimum, the face of the statement of financial performance shall include line items that present the following amounts for the period:**

    (a) **revenue;**

    (b) **finance costs;**

    (c) **share of the surplus or deficit of associates and joint ventures accounted for using the equity method;**

    (d) **pre-tax gain or loss recognized on the disposal of assets or settlement of liabilities attributable to discontinuing operations; and**

    (e) **surplus or deficit.**

100. **The following items shall be disclosed on the face of the statement of financial performance as allocations of surplus or deficit for the period:**

    (a) **surplus or deficit attributable to minority interest; and**

    (b) **surplus or deficit attributable to owners of the controlling entity.**

101. **Additional line items, headings and subtotals shall be presented on the face of the statement of financial performance when such presentation is relevant to an understanding of the entity's financial performance.**

102. Because the effects of an entity's various activities, transactions and other events differ in terms of their impact on its ability to meet its service delivery obligations, and disclosing the components of financial performance assists in an understanding of the financial performance achieved and in making projections of future results. Additional line items are included on the face of the statement of financial performance, and the descriptions used and the ordering of items are amended when this is necessary to explain the elements of performance. Factors to beconsidered include materiality and the nature and function of the components of revenue and expenses. Revenue and expense items are not offset unless the criteria in paragraph 45 are met.

**Information to be Presented either on the Face of the Statement of Financial Performance or in the Notes**

103. **When items of revenue and expense are material, their nature and amount shall be disclosed separately.**

104. Circumstances that would give rise to the separate disclosure of items of revenue and expense include:

(a) write-downs of inventories to net realizable value or of property, plant and equipment to recoverable amount or recoverable service amount as appropriate, as well as reversals of such write-downs;

(b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

(c) disposals of items of property, plant and equipment;

(d) privatizations or other disposals of investments;

(e) discontinuing operations;

(f) litigation settlements; and

(g) other reversals of provisions.

105. **An entity shall present, either on the face of the statement of financial performance or in the notes, a subclassification of total revenue, classified in a manner appropriate to the entity's operations.**

106. **An entity shall present, either on the face of the statement of financial performance or in the notes, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant.**

107. Entities are encouraged to present the analysis in paragraph 106 on the face of the statement of financial performance.

108. Expense are subclassified to highlight the costs and cost recoveries of particular programs, activities or other relevant segments of the reporting entity. This analysis is provided in one of two ways.

109. The first form of analysis is the nature of expense method. Expenses are aggregated in the statement of financial performance according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and are not reallocated among various functions within the entity. This method may be simple to apply because no allocations of expenses to functional classifications are necessary. An example of a classification using the nature of expense method is as follows:

| | | |
|---|---|---|
| Revenue | | X |
| Employee benefits costs | X | |
| Depreciation and amortization expense | X | |
| Other expenses | X | |
| Total expenses | | (X) |
| Surplus | | X |

110. The second form of analysis is the function of expense method and classifies expenses according to the program or purpose for which they were made. This method can provide more relevant information to users than the classification of expenses by nature, but allocating costs to functions may require arbitrary allocations and involves considerable judgment. An example of a classification using the function of expense method is as follows:

| | |
|---|---|
| Revenue | X |
| Expenses: | |
| Health expenses | (X) |
| Education expenses | (X) |
| Other expenses | (X) |
| Surplus | X |

111. The expenses associated with the main functions undertaken by the entity are shown separately. In this example, the entity has functions relating to the

provision of health and education services. The entity would present expense line items for each of these functions.

112. **Entities classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortization expense and employee benefits expense.**

113. The choice between the function of expense method and the nature of expense method depends on historical and regulatory factors and the nature of the entity. Both methods provide an indication of those costs that might vary, directly or indirectly, with the outputs of the entity. Because each method of presentation has its merits for different types of entities, this Standard requires management to select the most relevant and reliable presentation. Guidance on the meaning of "employee benefits" specified in paragraph 112 can be found in the relevant international or national accounting standard dealing with employee benefits.

114. **When an entity provides a dividend to its owners and has share capital, it shall disclose, either on the face of the statement of financial performance or the statement of changes in net assets/equity, or in the notes, the amount of dividends recognized as distributions to owners during the period, and the related amount per share.**

### Statement of Changes in Net Assets/Equity

115. **An entity shall present a statement of changes in net assets/equity showing on the face of the statement:**

(a) **surplus or deficit for the period;**

(b) **each item of revenue and expense for the period that, as required by other Standards, is recognized directly in net assets/equity, and the total of these items;**

(c) **total revenue and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to owners of the controlling entity and to minority interest; and**

(d) **for each component of net assets/equity separately disclosed, the effects of changes in accounting policies andcorrections of errors recognized in accordance with IPSAS 3.**

116. **An entity shall also present, either on the face of the statement of changes in net assets/equity or in the notes:**

(a) **the amounts of transactions with owners acting in their capacity as owners, showing separately distributions to owners;**

(b) **the balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date, and the changes during the period; and**

(c) **to the extent that components of net assets/equity are separately disclosed, a reconciliation between the carrying amount of each component of net assets/equity at the beginning and the end of the period, separately disclosing each change.**

117. Changes in an entity's net assets/equity between two reporting dates reflect the increase or decrease in its net assets during the period.

118. The overall change in net assets/equity during a period represents the total amount of surplus or deficit for the period, other revenues and expenses recognized directly as changes in net assets/equity, together with any contributions by, and distributions to, owners in their capacity as owners.

119. Contributions by, and distributions to, owners include transfers between two entities within an economic entity (for example, a transfer from a government, acting in its capacity as owner, to a government department). Contributions by owners, in their capacity as owners, to controlled entities are recognized as a direct adjustment to net assets/equity only where they explicitly give rise to residual interests in the entity in the form of rights to net assets/equity.

120. This Standard requires all items of revenue and expense recognized in a period to be included in surplus or deficit unless another International Public Sector Accounting Standard requires otherwise. Other Standards require some items (such as revaluation increases and decreases, particular foreign exchange differences) to be recognized directly as changes in net assets/equity. Because it is important to consider all items of revenue and expense in assessing changes in an entity's financial position between two reporting dates, this Standard requires the presentation of a statement of changes in net assets/equity that highlights an entity's total revenue and expenses, including those that are recognized directly in net assets/equity.

121. IPSAS 3 requires retrospective adjustments to effect changes in accounting policies, to the extent practicable, except when the transitional provisions in another International Public Sector Accounting Standard require otherwise. IPSAS 3 also requires that restatements to correct errors are made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are made to the balance of accumulated surpluses or deficits, except when an International Public Sector Accounting Standard requires retrospective adjustment of another component of net assets/equity. Paragraph 115(d) requires disclosure in the statement of changes in net assets/equity of the total adjustment to each component of net assets/equity separately disclosed resulting, separately, from changes in accounting policies and from corrections of errors. These adjustments are disclosed for each prior period and the beginning of the period.

122. The requirements in paragraphs 115 and 116 may be met by using a columnar format that reconciles the opening and closing balances of each element within net assets/equity. An alternative is to present only the items set out in paragraph 115 in the statement of changes in net assets/equity. Under this approach, the items described in paragraph 116 are shown in the notes.

### Cash Flow Statement

123. Cash flow information provides users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilize those cash flows. IPSAS 2, "Cash Flow Statements" sets out requirements for the presentation of the cash flow statement and related disclosures.

## Notes

### Structure

124. **The notes shall:**

(a) **present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 129-136;**

(b) **disclose the information required by International Public Sector Accounting Standards that is not presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity or cash flow statement; and**

(c) **provide additional information that is not presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity or cash flow statement, but that is relevant to an understanding of any of them.**

125. **Notes shall, as far as practicable, be presented in a systematic manner. Each item on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity and cash flow statement shall be cross-referenced to any related information in the notes.**

126. Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them with financial statements of other entities:

(a) a statement of compliance with International Public Sector Accounting Standards (see paragraph 25);

(b) a summary of significant accounting policies applied (see paragraph 129);

(c) supporting information for items presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity or cash flow statement, in the order in which each statement and each line item is presented; and

(d) other disclosures, including:

(i) contingent liabilities (see IPSAS 19), and unrecognized contractual commitments; and

(ii) non-financial disclosures, eg the entity's financial risk management objectives and policies (see IPSAS 15).

127. In some circumstances, it may be necessary or desirable to vary the ordering of specific items within the notes. For example, information on changes in fair value recognized in surplus or deficit may be combined with information on maturities of financial instruments, although the former disclosures relate to the statement of financial performance and the latter relate to the statement of financial position. Nevertheless, a systematic structure for the notes is retained as far as practicable.

128. Notes providing information about the basis of preparation of the financial statements and specific accounting policies may be presented as a separate component of the financial statements.

**Disclosure of Accounting Policies**

129. **An entity shall disclose in the summary of significant accounting policies:**

(a) **the measurement basis (or bases) used in preparing the financial statements;**

(b) **the extent to which the entity has applied any transitional provisions in any International Public Sector Accounting Standard; and**

(c) **the other accounting policies used that are relevant to an understanding of the financial statements.**

130. It is important for users to be informed of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realizable value, fair value, recoverable amount or recoverable service amount) because the basis on which the financial statements are prepared significantly affects their analysis. When more than one measurement basis is used in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

131. In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IPSASs. An example is disclosure of whether a venturer recognizes its interest in a jointly controlled entity using proportionate consolidation or the equity method (see IPSAS 8, “Interests in Joint Ventures”). Some Standards specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, IPSAS 17 requires disclosure of the measurement bases used for classes of property, plant and equipment. IPSAS 5, “Borrowing Costs” requires disclosure of whether borrowing costs are recognized immediately as an expense or capitalized as part of the cost of qualifying assets.

132. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, public sector entities would be expected to disclose an accounting policy for recognition of taxes, donations and other forms of non-reciprocal revenue. When an entity has significant foreign operations or transactions in foreign currencies, disclosure of accounting policies for the recognition of foreign exchange gains and losses would be expected. When entity combinations have occurred, the policies used for measuring goodwill and minority interest are disclosed.

133. An accounting policy may be significant because of the nature of the entity’s operation even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by International Public Sector Accounting Standards, but is selected and applied in accordance with IPSAS 3.

134. **An entity shall disclose, in the summary of significant accounting policies or other notes, the judgments, apart from those involving estimations (see paragraph 137), management has made in the process of applying the entity’s accounting policies that have the most significant effect on the amounts recognized in the financial statements.**

135. In the process of applying the entity’s accounting policies, management makes various judgments, apart from those involving estimations, that can significantly affect the amounts recognized in the financial statements. For example, management makes judgments in determining:

(a) whether assets are investments properties;

(b) whether agreements for the provision of goods and/or services that involve the use of dedicated assets are leases;

(c) whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue; and

(d) whether the substance of the relationship between the reporting entity and other entities indicates that these other entities are controlled by the reporting entity.

136. Some of the disclosures made in accordance with paragraph 134 are required by other Standards. For example, IPSAS 6 requires an entity to disclose the reasons why the entity's ownership interest does not constitute control, in respect of an investee that is not a controlled entity even though more than half of its voting or potential voting power is owned directly or indirectly through controlled entities. IPSAS 16 requires disclosure of the criteria developed by the entity to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, when classification of the property is difficult.

**Key Sources of Estimation Uncertainty**

137. **An entity shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:**

(a) **their nature; and**

(b) **their carrying amount as at the reporting date.**

138. Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the reporting date. For example, in the absence of recently observed market prices used to measure the following assets and liabilities, future-oriented estimates are necessary to measure the recoverable amount of certain classes of property, plant and equipment, the effect of technological obsolescence on inventories, provisions subject to the future outcome of litigation in progress. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates used and future changes in prices affecting other costs.

139. The key assumptions and other key sources of estimation uncertainty disclosed in accordance with paragraph 137 relate to the estimates that require management's most difficult, subjective or complex judgments. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgments become more subjective and

complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.

140. The disclosures in paragraph 137 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the reporting date, they are measured at fair value based on recently observed market prices (their fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the reporting date).

141. The disclosures in paragraph 137 are presented in a manner that helps users of financial statements to understand the judgments management makes about the future and about other key sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures made are:

(a) the nature of the assumption or other estimation uncertainty;

(b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;

(c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and

(d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

142. When it is impracticable to disclose the extent of the possible effects of a key assumption or another key source of estimation uncertainty at the reporting date, the entity discloses that it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.

143. The disclosures in paragraph 134 of particular judgments management made in the process of applying the entity's accounting policies do not relate to the disclosures of key sources of estimation uncertainty in paragraph 137.

144. The disclosure of some of the key assumptions that would otherwise be required in accordance with paragraph 137 is required by other Standards. For example, IPSAS 19 requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. IPSAS 15 requires disclosure of significant assumptions applied in estimating

fair values of financial assets and financial liabilities that are carried at fair value. IPSAS 17 requires disclosure of significant assumptions applied in estimating fair values of revalued items of property, plant and equipment.

**Other Disclosures**

145. **An entity shall disclose in the notes:**

(a) **the amount of dividends proposed or declared before the financial statements were authorized for issue but not recognized as a distribution to owners during the period, and the related amount per share; and**

(b) **the amount of any cumulative preference dividends not recognized.**

146. **An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements:**

(a) **the domicile and legal form of the entity, and the jurisdiction within which it operates;**

(b) **a description of the nature of the entity's operations and principal activities;**

(c) **a reference to the relevant legislation governing the entity's operations; and**

(d) **the name of the controlling entity and the ultimate controlling entity of the economic entity (where applicable).**

## Transitional Provisions

147. **All provisions of this Standard shall be applied from the date of first adoption of this Standard, except in relation to items that have not been recognized as a result of transitional provisions under another International Public Sector Accounting Standard. The disclosure provisions of this Standard would not be required to apply to such items until the transitional provision in the other International Public Sector Accounting Standard expires. Comparative information is not required in respect of the financial statements to which accrual accounting is first adopted in accordance with International Public Sector Accounting Standards.**

148. Notwithstanding the existence of transitional provisions under another International Public Sector Accounting Standard, entities that are in the process of adopting the accrual basis of accounting for financial reporting

purposes are encouraged to comply in full with the provisions of that other Standard as soon as possible.

## Effective Date

149. **An entity shall apply this International Public Sector Accounting Standard for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies this Standard for a period beginning before MM DD, YYYY, it shall disclose that fact.**

150. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

## Withdrawal of IPSAS 1 (2000)

151. This Standard supersedes IPSAS 1, "Presentation of Financial Statements" issued in 2000.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 1
PRESENTATION OF FINANCIAL STATEMENTS

# Appendix A

## Amendments to Other IPSASs

*The amendments in this appendix shall be applied for annual financial statements covering periods beginning on or after 1 MM DD, YYYY. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.*

A1 In International Public Sector Accounting Standards applicable at MM YYYY:

references to "net surplus or deficit" are amended to "surplus or deficit";
references to "notes to the financial statements" are amended to "notes".

# Appendix B

## Qualitative Characteristics of Financial Reporting

*This appendix is an integral part of the Standard.*

Paragraph 26 of this Standard requires an entity to present information, including accounting policies, in a manner that meets a number of qualitative characteristics. This guidance summarizes the qualitative characteristics of financial reporting.

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

*Understandability*

Information is understandable when users might reasonably be expected to comprehend its meaning. For this purpose, users are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, and to be willing to study the information.

Information about complex matters should not be excluded from the financial statements merely on the grounds that it may be too difficult for certain users to understand.

*Relevance*

Information is relevant to users if it can be used to assist in evaluating past, present or future events or in confirming, or correcting, past evaluations. In order to be relevant, information must also be timely.

*Materiality*

The relevance of information is affected by its nature and materiality.

Information is material if its omission or misstatement could influence the decisions of users or assessments made on the basis of the financial statements. Materiality depends on the nature or size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

*Reliability*

Reliable information is free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent.

*Faithful Representation*

For information to represent faithfully transactions and other events, it should be presented in accordance with the substance of the transactions and other events, and not merely their legal form.

*Substance Over Form*

If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. The substance of transactions or other events is not always consistent with their legal form.

*Neutrality*

Information is neutral if it is free from bias. Financial statements are not neutral if the information they contain has been selected or presented in a manner designed to influence the making of a decision or judgment in order to achieve a predetermined result or outcome.

*Prudence*

Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated.

However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or revenue, or the deliberate overstatement of liabilities or expenses, because the financial statements would not be neutral and, therefore, not have the quality of reliability.

*Completeness*

The information in financial statements should be complete within the bounds of materiality and cost.

*Comparability*

Information in financial statements is comparable when users are able to identify similarities and differences between that information and information in other reports.

Comparability applies to the:

- comparison of financial statements of different entities; and
- comparison of the financial statements of the same entity over periods of time.

An important implication of the characteristic of comparability is that users need to be informed of the policies employed in the preparation of financial statements, changes to those policies and the effects of those changes.

Because users wish to compare the performance of an entity over time, it is important that financial statements show corresponding information for preceding periods.

**Constraints on Relevant and Reliable Information**

*Timeliness*

If there is an undue delay in the reporting of information it may lose its relevance. To provide information on a timely basis it may often be necessary to report before all aspects of a transaction are known, thus impairing reliability. Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the decision-making needs of users.

*Balance between Benefit and Cost*

The balance between benefit and cost is a pervasive constraint. The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is, however, substantially a matter of judgment. Furthermore, the costs do not always fall on those users who enjoy the benefits. Benefits may also be enjoyed by users other than those for whom the information was prepared. For these reasons, it is difficult to apply a benefit-cost test in any particular case. Nevertheless, standard-setters, as well as those responsible for the preparation of financial statements and users of financial statements, should be aware of this constraint.

*Balance between Qualitative Characteristics*

In practice a balancing, or trade-off, between qualitative characteristics is often necessary. Generally the aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgment.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 1
PRESENTATION OF FINANCIAL STATEMENTS

# Implementing Guidance – Illustrative Financial Statement Structure

*This guidance accompanies, but is not part of, IPSAS 1.*

IG1. The Standard sets out the components of financial statements and minimum requirements for disclosure on the face of the statement of financial position and the statement of financial performance as well as for the presentation of changes in net assets/equity. It also describes further items that may be presented either on the face of the relevant financial statement or in the notes. This guidance provides simple examples of the ways in which the requirements of the Standard for the presentation of the statement of financial position, statement of financial performance and changes in net assets/equity might be met. The order of presentation and the descriptions used for line items should be changed when necessary in order to achieve a fair presentation in each entity's particular circumstances. For example, line items of a public sector entity such as a defense department are likely to be significantly different from those for a central bank.

IG2. The illustrative statement of financial position shows one way in which a statement of financial position distinguishing between current and non-current items may be presented. Other formats may be equally appropriate, provided the distinction is clear.

IG3. The financial statements have been prepared for a national government and the statement of financial performance (by function) illustrates the functions of government classifications used in the Government Finance Statistics. These functional classifications are unlikely to apply to all public sector entities. Refer to this Standard for an example of more generic functional classifications for other public sector entities.

IG4. The examples are not intended to illustrate all aspects of IPSASs. Nor do they comprise a complete set of financial statements, which would also include a cash flow statement, a summary of significant accounting policies and other explanatory notes.

# PUBLIC SECTOR ENTITY – STATEMENT OF ACCOUNTING POLICIES (EXTRACT)

### Reporting entity

These financial statements are for a public sector entity (national government of Country A). The financial statements encompass the reporting entity as specified in the relevant legislation (Public Finance Act 20XX). This comprises:

- central government ministries; and
- Government Business Enterprises.

**Basis of preparation**

The financial statements comply with International Public Sector Accounting Standards for the accrual basis of accounting. The measurement base applied is historical cost adjusted for revaluations of assets.

The financial statements have been prepared on a going concern basis and the accounting policies have been applied consistently throughout the period.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 1
PRESENTATION OF FINANCIAL STATEMENTS

# PUBLIC SECTOR ENTITY – STATEMENT OF FINANCIAL POSITION

**AS AT 31 DECEMBER 20X2**

(in thousands of currency units)

| | 20X2 | 20X1 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | X | X |
| Receivables | X | X |
| Inventories | X | X |
| Prepayments | X | X |
| Other current assets | X | X |
| | X | X |
| **Non-current assets** | | |
| Receivables | X | X |
| Investments in associates | X | X |
| Other financial assets | X | X |
| Infrastructure, plant and equipment | X | X |
| Land and buildings | X | X |
| Intangible assets | X | X |
| Other non-financial assets | X | X |
| | X | X |
| **Total assets** | X | X |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Payables | X | X |
| Short-term borrowings | X | X |
| Current portion of long-term borrowings | X | X |
| Short-term provisions | X | X |
| Employee benefits | X | X |
| Superannuation | X | X |
| | X | X |
| **Non-current liabilities** | | |
| Payables | X | X |
| Long-term Borrowings | X | X |
| Long-term provisions | X | X |
| Employee benefits | X | X |
| Superannuation | X | X |
| | X | X |
| **Total liabilities** | X | X |
| **Net assets** | X | X |
| **NET ASSETS/EQUITY** | | |
| Capital contributed by other government entities | X | X |
| Reserves | X | X |
| Accumulated surpluses/(deficits) | X | X |

| | 20X2 | 20X1 |
|---|---|---|
| Minority interest | X | X |
| **Total net assets/equity** | X | X |

## PUBLIC SECTOR ENTITY – STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 20X2

***(ILLUSTRATING THE CLASSIFICATION OF EXPENSES BY FUNCTION)***

(in thousands of currency units)

| | 20X2 | 20X1 |
|---|---|---|
| **Revenue** | | |
| Taxes | X | X |
| Fees, fines, penalties and licenses | X | X |
| Revenue from exchange transactions | X | X |
| Transfers from other government entities | X | X |
| Other revenue | X | X |
| **Total revenue** | X | X |
| | | |
| **Other Income** | | |
| Gains on sale of property, plant and equipment | X | X |
| | | |
| **Expenses** | | |
| General public services | (X) | (X) |
| Defense | (X) | (X) |
| Public order and safety | (X) | (X) |
| Education | (X) | (X) |
| Health | (X) | (X) |
| Social protection | (X) | (X) |
| Housing and community amenities | (X) | (X) |
| Recreational, cultural and religion | (X) | (X) |
| Economic Affairs | (X) | (X) |
| Environmental protection | (X) | (X) |
| Other expenses | (X) | (X) |
| Finance costs | (X) | (X) |
| **Total expenses** | (X) | (X) |
| | | |
| Share of surplus of associates* | X | X |
| | | |
| **Surplus/(deficit) for the period** | X | X |
| | | |
| Attributable to: | | |
| Owners of the controlling entity | X | X |

* This means the share of associates' surplus attributable to owners of the associates, ie it is after tax and minority interests in the associates.

| | **20X2** | **20X1** |
|---|---|---|
| Minority interests | X | X |
| | X | X |

# PUBLIC SECTOR ENTITY – STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 20X2

***(ILLUSTRATING THE CLASSIFICATION OF EXPENSES BY NATURE)***

(in thousands of currency units)

| | **20X2** | **20X1** |
|---|---|---|
| **Revenue** | | |
| Taxes | X | X |
| Fees, fines, penalties and licenses | X | X |
| Revenue from exchange transactions | X | X |
| Transfers from other government entities | X | X |
| Other revenue | X | X |
| **Total Revenue** | X | X |
| | | |
| **Other Income** | | |
| Gains on sale of property, plant and equipment | X | X |
| | | |
| **Expenses** | | |
| Wages, salaries and employee benefits | (X) | (X) |
| Grants and other transfer payments | (X) | (X) |
| Supplies and consumables used | (X) | (X) |
| Depreciation and amortization expense | (X) | (X) |
| Impairment of property, plant and equipment* | (X) | (X) |
| Other expenses | (X) | (X) |
| Finance costs | (X) | (X) |
| **Total Expenses** | (X) | (X) |
| | | |
| Share of surplus of associates | X | X |
| | | |
| **Surplus/(deficit) for the period** | X | X |
| | | |
| Attributable to: | | |
| Owners of the controlling entity | X | X |
| Minority interest | X | X |
| | X | X |

* In a statement of financial performance in which expenses are classified by nature, an impairment of property, plant and equipment is shown as a separate line item. By contrast, if expenses are classified by function, the impairment is included in the function(s) to which it relates.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 1
PRESENTATION OF FINANCIAL STATEMENTS

# PUBLIC SECTOR ENTITY – STATEMENT OF CHANGES IN NET ASSETS/EQUITY FOR THE YEAR ENDED 31 DECEMBER 20X2

| (in thousands of currency units) | Attributable to owners of the controlling entity | | | | | Minority interest | Total net assets/equity |
|---|---|---|---|---|---|---|---|
| | Contributed Capital | Other Reserves[1] | Translation Reserve | Accumulated Surpluses/ (Deficits) | Total | | |
| Balance at 31 December 20X0 | X | X | (X) | X | X | X | X |
| Changes in accounting policy | | | | (X) | (X) | (X) | (X) |
| Restated balance | X | X | (X) | X | X | X | X |
| **Changes in net assets/equity for 20X1** | | | | | | | |
| Gain on property revaluation | | X | | | X | X | X |
| Loss on revaluation of investments | | (X) | | | (X) | | (X) |
| Exchange differences on translating foreign operations | | | (X) | | (X) | (X) | (X) |
| Net revenue recognized directly in net assets/equity | | X | (X) | | X | X | X |
| Surplus for the period | | | | X | X | X | X |
| **Total recognized revenue and expense for the period** | | X | (X) | X | X | X | X |
| **Balance at 31 December 20X1 carried forward** | X | X | (X) | X | X | X | X |

[1] *Other reserves are analyzed into their components, if material.

## PUBLIC SECTOR ENTITY – STATEMENT OF CHANGES IN NET ASSETS/EQUITY FOR THE YEAR ENDED 31 DECEMBER 20X2

*continued*

| (in thousands of currency units) | Attributable to owners of the controlling entity | | | | | Minority interest | Total net assets/equity |
|---|---|---|---|---|---|---|---|
| | Contributed Capital | Other Reserves[1] | Translation Reserve | Accumulated Surpluses/ (Deficits) | Total | | |
| **Balance at 31 December 20X1 brought forward** | X | X | X) | X | X | X | X |
| **Changes in net assets/equity for 20X2** | | | | | | | |
| Loss on property revaluation | | (X) | | | (X) | (X) | (X) |
| Gain on revaluation of investments | | X | | | X | | X |
| Exchange differences on translating foreign operations | | | (X) | | (X) | (X) | (X) |
| Net revenue recognized directly in net assets/equity | | (X) | (X) | | (X) | (X) | (X) |
| Deficit for the period | | | | (X) | (X) | (X) | (X) |
| **Total recognized revenue and expense for the period** | | (X) | (X) | (X) | (X) | (X) | (X) |
| **Balance at 31 December 20X2** | X | X | (X) | X | X | X | X |

## Table of Concordance

This table shows how the contents of the superseded version of IPSAS 1 and the current version of IPSAS 1 correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

| Superseded IPSAS 1 paragraphs | Current IPSAS 1 paragraph | Superseded IPSAS 1 paragraphs | Current IPSAS 1 paragraph | Superseded IPSAS 1 paragraphs | Current IPSAS 1 paragraph |
|---|---|---|---|---|---|
| Objective | 1 | 26 | 25 | 49 | 41 |
| 1 | 2 | 27 | 27 | 50 | 42 |
| 2 | 3 | 28 | 28 | 51 | 43 |
| 3 | 4 | 29 | None | 52 | None |
| 4 | 5 | 30 | None | 53 | 44 |
| 5 | 6 | 31 | 34 | 54 | 45 |
| 6 | 7 | 32 | 26 | 55 | 45 |
| 7 | None | 33 | None | 56 | 46 |
| 8 | None | 34 | 33 | 57 | 47 |
| 9 | None | 35 | None | 58 | 48 |
| 10 | 8 | 36 | None | 59 | 49 |
| 11 | 9 | 37 | IPSAS 3.12 | 60 | 50 |
| 12 | 11 | 38 | IPSAS 3.13 | 61 | 51 |
| 13 | 12 | 39 | IPSAS 3.14 | 62 | 52 |
| 14 | 13 | 40 | IPSAS 3.7 | 63 | 54,55 |
| 15 | 14 | 41 | IPSAS 3.15 | 64 | 56 |
| 16 | 15 | 42 | IPSAS 3.16 | 65 | 57 |
| 17 | 16 | 43 | 35 | 66 | 58 |
| 18 | 17 | 44 | 36 | 67 | 59 |
| 19 | 18 | 45 | 37 | 68 | 60 |
| 20 | 19 | 46 | 38 | 69 | 61 |
| 21 | 20 | 47 | 39 | 70 | 62 |
| 22 | 21 | 48 | 40 | 71 | 63 |
| 23 | 22 | | | 72 | 64 |
| 24 | 23 | | | 73 | 65 |
| 25 | 24 | | | 74 | 66 |

**DRAFT IPSAS 1**

| Superseded IPSAS 1 paragraphs | Current IPSAS 1 paragraph |
|---|---|
| 75 | 67 |
| 76 | 68 |
| 77 | 69 |
| 78 | 72 |
| 79 | 73 |
| 80 | 74 |
| 81 | 75 |
| 82 | 76 |
| 83 | 77 |
| 84 | 78 |
| 85 | 79 |
| 86 | 80 |
| 87 | 81 |
| 88 | 82,83 |
| 89 | 85 |
| 90 | 86 |
| 91 | 87 |
| 92 | None |
| 93 | 88 |
| 94 | 89 |
| 95 | 90 |
| 96 | 91 |
| 97 | 92 |
| 98 | 93 |
| 99 | 94 |
| 100 | 95 |
| 101 | 99,101 |
| 102 | None |
| 103 | 102 |
| 104 | 105 |
| 105 | 106 |
| 106 | 107 |

| Superseded IPSAS 1 paragraphs | Current IPSAS 1 paragraph |
|---|---|
| 107 | 108 |
| 108 | 109 |
| 109 | 110 |
| 110 | 111 |
| 111 | 112 |
| 112 | 113 |
| 113 | 114 |
| 114 | 115 |
| 115 | 116 |
| 116 | 117 |
| 117 | 118 |
| 118 | 119 |
| 119 | 120 |
| 120 | 122 |
| 121 | 123 |
| 122 | 124 |
| 123 | 125 |
| 124 | None |
| 125 | 126 |
| 126 | 127 |
| 127 | 128 |
| 128 | 129 |
| 129 | 130 |
| 130 | 131 |
| 131 | 132 |
| 132 | 133 |
| 133 | 146 |
| 134 | 147 |
| 135 | 148 |
| 136 | 149 |
| 137 | 150 |
| Appendix | IG 1 |

| Superseded IPSAS 1 paragraphs | Current IPSAS 1 paragraph |
|---|---|
| 1 | |
| Appendix 2 | IG 2 |
| None | 30-32 |
| None | 53 |
| None | 70, 71 |
| None | 84 |
| IPSAS 3.10-12 | 96-98 |
| None | 100 |
| IPSAS 3.26,28 | 103, 104 |
| None | 121 |
| None | 134-136 |
| None | 137-144 |
| None | 145 |
| None | 151 |
| None | Appendix |

# Comparison with IAS 1

International Public Sector Accounting Standard IPSAS 1, "Presentation of Financial Statements" is drawn primarily from International Accounting Standard IAS 1, "Presentation of Financial Statements" (2003). At the time of issuing this Standard, the IPSASB has not considered the applicability of IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations", to public sector entities, therefore IPSAS 1 does not reflect amendments made to IAS 1 consequent upon the issuing of International Financial Reporting Standard IFRS 5. The main differences between IPSAS 1 and IAS 1 are as follows:

- Commentary additional to that in IAS 1 has been included in IPSAS 1 to clarify the applicability of the standards to accounting by public sector entities e.g., discussion on the application of the going concern concept has been expanded.
- IAS 1 allows the presentation of either a statement showing all changes in net assets/equity, or a statement showing changes in net assets/equity other than those arising from capital transactions with owners and distributions to owners in their capacity as owners. IPSAS 1 requires the presentation of a statement showing all changes in net assets/equity.
- IPSAS 1 uses different terminology, in certain instances, from IAS 1. The most significant examples are the use of the terms "revenue", "statement of financial performance", "statement of financial position" and "net assets/equity" in IPSAS 1. The equivalent terms in IAS 1 are "income", "income statement", "balance sheet" and "equity".
- IAS 1 defines "International Financial Reporting Standards (IFRSs)" to include IFRSs, IASs and SIC/IFRIC Interpretations. IPSAS 1 does not define "International Public Sector Accounting Standards".
- IPSAS 1 contains a different set of definitions of technical terms from IAS 1 (paragraph 7).
- IPSAS 1 contains commentary on the responsibility for the preparation of financial statements. IAS 1 does not include the same commentary (paragraphs 16-17).
- IPSAS 1 uses the phrase "the objective of financial statements set out in this IPSAS" to replace the equivalent phrase "the objective of financial statement set out in the Framework" in IAS 1. This is because an equivalent Framework in IPSASs does not exist.
- IPSAS 1 contains commentary on timeliness of financial statements because of the lack of an equivalent Framework in IPSASs (paragraph 66).

- IPSAS 1 does not explicity preclude the presentation of items of revenue and expense as extraordinary items either on the face of the statement of financial performance or in the notes. IAS 1 phohits any items of income and expense to be presented as extraordinary items either on the face of the income statement or in the notes.
- IPSAS 1 contains a transitional provision allowing the non-disclosure of items which have been excluded from the financial statements due to the application of a transitional provision in another IPSAS (paragraph 147).
- IPSAS 1 contains an authoritative summary of qualitative characteristics (based on the IASB framework) in Appendix B.

## Specific Matters for Comment

The IPSASB would particularly value comments on the following questions. It would be helpful to the IPSASB if these comments indicate the specific paragraph number or groups of paragraphs to which they relate, clearly explain the issue and suggest alternative wording, with supporting reasoning, where this is appropriate.

**Question 1**

IPSAS 3 currently allows alternative treatments in accounting for voluntary changes in accounting policies (paragraphs 65-68) and corrections of fundamental errors (paragraphs 45-47). Under these allowed alternatives:

- the adjustment resulting from retrospective application of a change in an accounting policy is included in surplus or deficit for the current period; and
- the amount of the correction of a fundamental error is included in surplus or deficit for the current period.

Do you agree that in proposed IPSAS 3 the allowed alternative treatments should be eliminated for voluntary changes in accounting policies and corrections of errors,? This means that those changes and corrections should be accounted for retrospectively as if the new accounting policy had always been in use or the error had never occurred (see paragraphs 29-32, 49-52)?

**Question 2**

IPSAS 3 currently defines ‘fundamental errors’ as “errors discovered in the current period that are of such significance that the financial statements of one or more prior periods can no longer be considered to have been reliable at the date of their issue”.

Do you agree with eliminating the distinction between fundamental errors and other material errors? (see paragraphs 49 and 50).

# SUMMARY OF MAIN CHANGES IPSAS 3
# ACCOUNTING POLICIES, CHANGES IN ESTIMATES AND ERRORS

**The main changes proposed are:**

## Name of Standard

- to change to "Accounting Policies, Changes in Accounting Estimates and Errors".

## Scope

- to transfer into this Standard the criteria for the selection of accounting policies from the old IPSAS 1, "Presentation of Financial Statements"; and
- to transfer from this Standard to IPSAS 1 the requirements on the presentation of items in the statement of financial performance.

## Definitions

- to define in paragraph 7 new terms: "change in accounting estimate", "prior period errors", "prospective application", "retrospective application" and "retrospective restatement", "impracticable", "material" and "notes".
- to delete in paragraph 7 the terms: "extraordinary items", "ordinary activities", "net surplus/deficit", and "surplus/deficit from ordinary activities".

## Materiality

- to stipulate in paragraph 10 that:
  - the accounting policies in IPSASs need not be applied when the effect of applying them is immaterial; and
  - financial statements do not comply with IPSASs if they contain material errors.

## Net Surplus or Deficit for the Period

- to transfer this section (paragraphs 10 – 28 of the old IPSAS 3) to IPSAS 1.

## Accounting Policies

- to specify the hierarchy of PSC's pronouncements, and authoritative and non-mandatory guidance, to be considered when selecting accounting policies to apply in the preparation of financial statements. The new hierarchy is now in bold italic type (paragraphs 15-16).
- to remove allowed alternative treatments for changes in accounting policies (including voluntary changes). An entity is now required (where practicable) to

account for changes in accounting policies retrospectively (paragraph 25).

## Errors

- to remove the distinction between fundamental errors and other material errors.
- to remove allowed alternative treatments for the correction of errors. An entity is now required to correct (where practicable) material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery (paragraph 48).

## Criteria for exemptions from requirements (Impracticability)

- to require that when it is impracticable to determine the cumulative effect, at the beginning of the current period, of:
  - applying a new accounting policy to all prior periods, or
  - an error on all prior periods,

  the entity changes the comparative information as if the new accounting policy had always been applied (paragraphs 29-33); or the error had been corrected (paragraphs 49-53), prospectively from the earliest date practicable.
- to include guidance on the interpretation of “impracticable” in paragraphs 56-59.

## Disclosures

- to require more detailed and additional disclosure of the amounts of adjustments as a consequence of changing accounting policies or correcting prior period errors (paragraphs 34 and 35).
- to require, rather than encourage the disclosure of:
  - an impending change in accounting policy when an entity has yet to adopt a new IPSAS which has been published but not yet come into effect; and
  - known or reasonably estimable information relevant to assessing the possible impact that application of the new IPSAS will have on the entity’s financial statements in the period of initial application.

## Amendments to Other Pronouncements

- to include an authoritative appendix of amendments to other IPSASs that are not part of the IPSASs Improvements project and will be impacted as a result of the proposals in this IPSAS.

# INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 3—ACCOUNTING POLICIES, CHANGES IN ACCOUNTNG ESTIMATES AND ERRORS

## CONTENTS

International Public Sector Accounting Standard (IPSAS) 3, “Accounting Policies, Changes in Accounting Estimates and Errors” (IPSAS 3) is set out in paragraphs 1-61 and the Appendix. All the paragraphs have equal authority. IPSAS 3 should be read in the context of its objective and the Basis for Conclusion, and the “Preface to the International Public Sector Accounting Standards”.

# INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 3—ACCOUNTING POLICIES, CHANGES IN ACCOUNTNG ESTIMATES AND ERRORS

## Objective

1. The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and the corrections of errors. This Standard is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

2. Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in International Public Sector Accounting Standards IPSAS 1, "Presentation of Financial Statements".

## Scope

3. **This Standard shall be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.**

4. The tax effects of corrections of prior period errors and of retrospective adjustments made to apply changes in accounting policies are not considered in this Standard as they are not relevant for many public sector entities. International or national accounting standards dealing with income taxes contain guidance on the treatment of tax effects.

5. **This Standard applies to all public sector entities other than Government Business Enterprises.**

6. The "Preface to International Public Sector Accounting Standards" issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board (IASB).

## Definitions

7. **The following terms are used in this Standard with the meanings specified:**

   **<u>Accounting policies</u> are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.**

**<u>Accrual basis</u> means a basis of accounting under which transactions, other events and conditions are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions, other events and conditions are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.**

**A <u>change in accounting estimate</u> is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not correction of errors.**

**<u>Impracticable</u> Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:**

(a) **the effects of the retrospective application or retrospective restatement are not determinable;**

(b) **the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or**

(c) **the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:**

  (i) **provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognized, measured or disclosed; and**

  (ii) **would have been available when the financial statements for that prior period were authorized for issue**

**from other information.**

**<u>Material</u> Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.**

**<u>Prior period errors</u> are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:**

(a) **was available when financial statements for those periods were authorized for issue; and**

(b) **could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.**

**Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.**

**<u>Prospective application</u> of a change in accounting policy and of recognizing the effect of a change in an accounting estimate, respectively, are:**

(a) **applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and**

(b) **recognizing the effect of the change in the accounting estimate in the current and future periods affected by the change.**

**<u>Retrospective application</u> is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.**

**<u>Retrospective restatement</u> is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.**

**Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.**

### Materiality

8. Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. Users are assumed to have a reasonable knowledge of the public sector and economic activities and accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

## Accounting Policies

### Selection and Application of Accounting Policies

9. **When an International Public Sector Accounting Standard specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Standard and considering any relevant Implementation Guidance issued by the IPSASB for the Standard.**

10. International Public Sector Accounting Standards (IPSASs) set out accounting policies that the IPSASB has concluded result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from IPSASs to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

11. Implementation Guidance for Standards issued by the IPSASB does not form part of those Standards, and therefore does not contain requirements for financial statements.

12. **In the absence of an International Public Sector Accounting Standard that specifically applies to a transaction, other event or condition, management shall use its judgment in developing and applying an accounting policy that results in information that is:**

    (a) **relevant to the decision-making needs of users; and**

    (b) **reliable, in that the financial statements:**

        (i) **represent faithfully the financial position, financial performance and cash flows of the entity;**

        (ii) **reflect the economic substance of transactions, other events and conditions and not merely the legal form;**

        (iii) **are neutral, ie, free from bias;**

        (iv) **are prudent; and**

        (v) **are complete in all material respects.**

13. Paragraph 12 requires the development of accounting policies to ensure that the financial statements provide information that meets a number of qualitative characteristics. Appendix B in IPSAS 1 summarizes the qualitative characteristics of financial reporting.

14. **In making the judgment, described in paragraph 12, management shall refer to, and consider the applicability of, the following sources in descending order:**

    (a) **the requirements and guidance in International Public Sector Accounting Standards dealing with similar and related issues; and**

    (b) **the definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described in other International Public Sector Accounting Standards.**

15. **In making the judgment described in paragraph 12, management may also consider the most recent pronouncements of other standard-setting bodies and accepted public or private sector practices to the extent, but only to the extent, that these do not conflict with the sources in paragraph 14. For example, pronouncements of the International Accounting Standards Board (IASB), including the Framework for the Preparation and Presentation of Financial Statements, International Financial Reporting Standards and Interpretations issued by the IASB's International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).**

### Consistency of Accounting Policies

16. **An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an International Public Sector Accounting Standard specifically requires or permits categorization of items for which different policies may be appropriate. If a Standard requires or permits such categorization, an appropriate accounting policy shall be selected and applied consistently to each category.**

### Changes in Accounting Policies

17. **An entity shall change an accounting policy only if the change:**

    (a) **is required by an International Public Sector Accounting Standard; or**

    (b) **results in the financial statements providing reliable and more relevant information about the effects of transactions, other events and conditions on the entity's financial position, financial performance or cash flows.**

18. Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, performance and cash flows. Therefore, the same accounting policies are

applied within each period and from one period to the next unless a change in accounting policy meets one of the criteria in paragraph 17.

19. **A change from one basis of accounting to another basis of accounting is a change in accounting policy.**

20. **A change in the accounting treatment, recognition or measurement of a transaction, event or condition within a basis of accounting is regarded as a change in accounting policy.**

21. **The following are not changes in accounting policies:**

    (a) **the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and**

    (b) **the application of a new accounting policy for transactions, other events or conditions that did not occur previously or that were immaterial.**

22. **The initial application of a policy to revalue assets in accordance with IPSAS 17, "Property, Plant and Equipment" or the relevant international or national accounting standard dealing with intangible assets is a change in accounting policy to be dealt with as a revaluation in accordance with IPSAS 17 or that relevant Standard, rather than in accordance with this Standard.**

23. Paragraphs 24-36 do not apply to the change in accounting policy described in paragraph 22.

**Applying Changes in Accounting Policies**

24. **Subject to paragraph 28:**

    (a) **an entity shall account for a change in accounting policy resulting from the initial application of an International Public Sector Accounting Standard in accordance with the specific transitional provisions, if any, in that Standard; and**

    (b) **when an entity changes an accounting policy upon initial application of an International Public Sector Accounting Standard that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively.**

25. For the purpose of this International Public Sector Accounting Standard, early application of a Standard is not a voluntary change in accounting policy.

26. In the absence of an International Public Sector Accounting Standard that specifically applies to a transaction, other event or condition, management may, in accordance with paragraph 15, apply an accounting policy from the

most recent pronouncements of other standard setting bodies and accepted public or private sector practices to the extent, but only to the extent, that these are consistent with paragraph 14(a). For example, pronouncements of the International Accounting Standards Board (IASB), including the "Framework for the Preparation and Presentation of Financial Statements", International Financial Reporting Standards and Interpretations issued by the IASB's International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC). If, following an amendment of such a pronouncement, the entity chooses to change an accounting policy, that change is accounted for and disclosed as a voluntary change in accounting policy.

*Retrospective application*

27. **Subject to paragraph 28, when a change in accounting policy is applied retrospectively in accordance with paragraph 24(a) or (b), the entity shall adjust the opening balance of each affected component of net assets/equity for the earliest period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.**

*Limitations on retrospective application*

28. **When retrospective application is required by paragraph 24(a) or (b), a change in accounting policy shall be applied retrospectively except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.**

29. **When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of net assets/equity for that period.**

30. **When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.**

31. When an entity applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information for prior periods as far back as is practicable. Retrospective application to a prior period is not practicable unless it is practicable to determine the cumulative effect on the

amounts in both the opening and closing statement of financial positions for that period. The amount of the resulting adjustment relating to periods before those presented in the financial statements is made to the opening balance of each affected component of net assets/equity of the earliest prior period presented. Usually the adjustment is made to accumulated surpluses or deficits. However, the adjustment may be made to another component of net assets/equity (for example, to comply with an International Public Sector Accounting Standard). Any other information about prior periods, such as historical summaries of financial data, is also adjusted as far back as is practicable.

32. When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the entity, in accordance with paragraph 30, applies the new policy prospectively from the start of the earliest period practicable. It therefore disregards the portion of the cumulative adjustment to assets, liabilities and net assets/equity arising before that date. Changing an accounting policy is permitted even if it is impracticable to apply the policy prospectively for any prior period. Paragraphs 55 - 58 provide guidance when it is impracticable to apply a new accounting policy to one or more prior periods.

**Disclosure**

33. **When initial application of an International Public Sector Accounting Standard has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:**

(a) **the title of the Standard;**

(b) **when applicable, that the change in accounting policy is made in accordance with its transitional provisions;**

(c) **the nature of the change in accounting policy;**

(d) **when applicable, a description of the transitional provisions;**

(e) **when applicable, the transitional provisions that might have an effect on future periods;**

(f) **for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;**

(g) **the amount of the adjustment relating to periods before those presented, to the extent practicable; and**

(h) **if retrospective application required by paragraph 24(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.**

**Financial statements of subsequent periods need not repeat these disclosures.**

34. **When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:**

(a) **the nature of the change in accounting policy;**

(b) **the reasons why applying the new accounting policy provides reliable and more relevant information;**

(c) **for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;**

(d) **the amount of the adjustment relating to periods before those presented, to the extent practicable; and**

(e) **if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.**

**Financial statements of subsequent periods need not repeat these disclosures.**

35. **When an entity has not applied a new International Public Sector Accounting Standard that has been issued but is not yet effective, the entity shall disclose:**

(a) **this fact; and**

(b) **known or reasonably estimable information relevant to assessing the possible impact that application of the new Standard will have on the entity's financial statements in the period of initial application.**

36. In complying with paragraph 35, an entity considers disclosing:

(a) the title of the new International Public Sector Accounting Standard;

(b) the nature of the impending change or changes in accounting policy;

(c) the date by which application of the Standard is required;

(d) the date as at which it plans to apply the Standard initially; and

(e) either:

(i) a discussion of the impact that initial application of the Standard is expected to have on the entity's financial statements; or

(ii) if that impact is not known or reasonably estimable, a statement to that effect.

## Changes in Accounting Estimates

37. As a result of the uncertainties inherent in delivering services, conducting trading or other activities, many items in financial statement cannot be measured with precision but can only be estimated. Estimation involves judgments based on the latest available, reliable information. For example, estimates may be required, of:

(a) tax revenue due to government, bad debts arising from uncollected taxes;

(b) inventory obsolescence;

(c) the fair value of financial assets or financial liabilities;

(d) the useful lives of, or expected pattern of consumption of future economic benefits or service potential embodied in depreciable assets, or the percentage completion of road construction; and

(e) warranty obligations.

38. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

39. An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.

40. A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

41. **The effect of a change in an accounting estimate, other than a change to which paragraph 42 applies, shall be recognized prospectively by including it in surplus or deficit in:**

(a) **the period of the change, if the change affects the period only; or**

(b) **the period of the change and future periods, if the change affects both.**

42. **To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets/equity, it shall be recognized by adjusting the carrying amount of the related asset, liability or net assets/equity item in the period of change.**

43. Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events and conditions from the date of the change in estimate. A change in an accounting estimate may affect only the current period's surplus or deficit, or the surplus of deficit of both the current period and future periods. For example, a change in the estimate of the amount of bad debts affects only the current period's surplus or deficit and therefore is recognized in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of economic benefits or service potential embodied in, a depreciable asset affects the depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognized as revenue or expense in the current period. The effect, if any, on future periods is recognized in future periods.

### Disclosure

44. **An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect on future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.**

45. **If the amount of the effect in future periods is not disclosed because estimating it is impracticable, the entity shall disclose that fact.**

## Errors

46. Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with IPSASs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorized for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs 46-51).

47. **Subject to paragraph 48, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:**

    (a) **restating the comparative amounts for prior period(s) presented in which the error occurred; or**

    (b) **if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.**

**Limitations of Retrospective Restatement**

48. **A prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.**

49. **When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and net assets/equity for the earliest period for which retrospective restatement is practicable (which may be the current period).**

50. **When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.**

51. The correction of a prior period is excluded from surplus or deficit for the period in which the error is discovered. Any information presented about prior periods, including historical summaries of financial data, is also restated as far back as is practicable.

52. When it is impracticable to determine the amount of an error (eg a mistake in applying an accounting policy) for all prior periods, the entity, in accordance with paragraph 50, restates the comparative information prospectively from the earliest date practicable. It therefore disregards the portion of the cumulative restatement of assets, liabilities and net assets/equity arising before that date. Paragraphs 55-58 provide guidance on when it is impracticable to correct an error for one or more prior periods.

53. Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, the gain or loss recognized on the outcome of a contingency is not cthe correction of an error.

**Disclosure of Prior Period Errors**

54. **In applying paragraph 47, an entity shall disclose the following:**

(a) **the nature of the prior period error;**

(b) **for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;**

(c) **the amount of the correction at the beginning of the earliest prior period presented; and**

(d) **if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.**

**Financial statements of subsequent periods need not repeat these disclosures.**

## Impracticability in Respect of Retrospective Application and Retrospective Restatement

55. In some circumstances, it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows either retrospective application of a new accounting policy (including, for the purpose of paragraphs 55-58, its prospective application to prior periods) or retrospective restatement to correct a prior period error, and it may be impracticable to recreate the information.

56. It is frequently necessary to make estimates in applying an accounting policy to elements of financial statements recognized or disclosed in respect of transactions, other events or conditions. Estimation is inherently subjective, and estimates may be developed after the reporting date. Developing estimates is potentially more difficult when retrospectively applying an accounting policy or making a retrospective restatement to correct a prior period error, because of the longer period of time that might have passed since the affected transaction, other event or condition occurred. However, the objective of estimates related to prior periods remains the same as for estimates made in the current period, namely, for the estimate to reflect the circumstances that existed when the transaction, other event or condition occurred.

57. Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that

(a) provides evidence of circumstances that existed on the date(s) as at which the transaction, other event or condition occurred, and

(b) would have been available when the financial statements for that prior period were authorized for issue

from other information. For some types of estimates (eg an estimate of fair value not based on an observable price or observable inputs), it is impracticable to distinguish these types of information. When retrospective application or retrospective restatement would require making a significant estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy or correct the prior period error retrospectively.

58. Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognized, measured or disclosed in a prior period. For example, when an entity corrects a prior period error in classifying a government building as an investment property (the building was previously classified as property, plant and equipment), it does not change the basis of classification for that period, if management decided later to use that building as an owner-occupied office building. In addition, when an entity corrects a prior period error in calculating its liability for provision of cleaning-costs of pollution resulting from government operations in accordance with IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets", it disregards information about an unusually large oil leak from a naval supply ship during the next period that became available after the financial statements for the prior period were authorized for issue. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.

## Effective Date

59. **An entity shall apply this International Public Sector Accounting Standard for annual periods beginning on or after DD MM YYYY. Earlier application is encouraged. If an entity applies this Standard for a period beginning before DD MM YYYY, it shall disclose that fact.**

60. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

## Withdrawal of IPSAS 3 (issued 2000)

61. This Standard supersedes IPSAS 3, "Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies" issued in 2000.

# Appendix

## Amendments to Other Pronouncements

*The amendments in this appendix shall be applied for annual periods beginning on or after DD MM YYYY. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.*

A1. IPSAS 2, "Cash Flow Statements" is amended as follows:

Paragraphs 40 and 41 on extraordinary items are deleted.

The Appendix in IPSAS 2 which illustrates a cash flow statement for an entity, is amended to remove an extraordinary item. The revised Appendix is set out below.

## Direct Method Cash Flow Statement (paragraph 27(a))

### Notes to the Cash Flow Statement

(c) *Reconciliation of Net Cash Flows from Operating Activities to Surplus/(Deficit)*

(in thousands of currency units)

| | 20X2 | 20X1 |
|---|---|---|
| **Surplus/(deficit) from ordinary activities** | X | X |
| **Non-cash movements** | | |
| Depreciation | X | X |
| Amortization | X | X |
| Increase in provision for doubtful debts | X | X |
| Increase in payables | X | X |
| Increase in borrowings | X | X |
| Increase in provisions relating to employee costs | X | X |
| (Gains)/losses on sale of property, plant and equipment | (X) | (X) |
| (Gains)/losses on sale of investments | (X) | (X) |
| Increase in other current assets | (X) | (X) |
| Increase in investments due to revaluation | (X) | (X) |
| Increase in receivables | (X) | (X) |
| ~~Extraordinary item~~[1] | ~~(X)~~ | ~~–~~ |
| **Net cash flows from operating activities** | **X** | **X** |

[1] ~~This extraordinary item falls within the definition of operating activities.~~

## Indirect Method Cash Flow Statement (paragraph 27(b))

**PUBLIC SECTOR ENTITY – CONSOLIDATED CASH FLOW STATEMENT**

**FOR YEAR ENDED 31 DECEMBER 20X2**

| (in thousands of currency units) | **20X2** | **20X1** |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Surplus/(deficit) | X | X |
| **Non-cash movements** | | |
| Depreciation | X | X |
| Amortization | X | X |
| Increase in provision for doubtful debts | X | X |
| Increase in payables | X | X |
| Increase in borrowings | X | X |
| Increase in provisions relating to employee costs | X | X |
| (Gains)/losses on sale of property, plant and equipment | (X) | (X) |
| (Gains)/losses on sale of investments | (X) | (X) |
| Increase in other current assets | (X) | (X) |
| Increase in investments due to revaluation | (X) | (X) |
| Increase in receivables | (X) | (X) |
| ~~Extraordinary item[1]~~ | ~~(X)~~ | ~~–~~ |
| **Net cash flows from operating activities** | **X** | **X** |

A2. IPSAS 18, "Segment Reporting" is amended as described below.

The definition of accounting policies in paragraph 8 is amended to read as follows:

**Accounting Policies are the specific principles, bases, conventions, rules and practices applied~~adopted~~ by an entity in preparing and presenting financial statements.**

Paragraph 57 is amended to read as follows:

57. IPSAS ~~3~~1 requires that when items of revenue or expense are material~~within net surplus (deficit) from ordinary activities are of such size, nature, or incidence that their disclosure is relevant to explain the performance of the entity for the period~~, their nature and amount of such items ~~should~~shall be disclosed separately. IPSAS 1~~3~~ identifies a number of examples of such items, including write-downs of inventories and property, plant, and equipment; provisions for restructurings; disposals of property, plant, and equipment;

~~[1] This extraordinary item falls within the definition of operating activities.~~

privatizations and other disposals of long-term investments; discontinuing~~ed~~ operations; litigation settlements; and reversals of provisions. The encouragement in paragraph 56 is not intended to change the classification of any such items ~~of revenue or expense from ordinary to extraordinary (as defined in IPSAS 3)~~ or to change the measurement of such items. The disclosure encouraged by that paragraph, however, does change the level at which the significance of such items is evaluated for disclosure purposes from the entity level to the segment level.

Paragraphs 69 and 70 are amended to read as follows:

69. Changes in accounting policies adopted by the entity are dealt with in IPSAS 3. IPSAS 3 requires that changes in accounting policy ~~should~~ shall be made ~~only if required by statute, or~~ by an International Public Sector Accounting Standard~~accounting standard-setting body~~, or if the change will result in reliable and ~~a~~ more ~~appropriate presentation~~relevant information about ~~of events or~~ transactions, other events or conditions in the financial statements of the entity.

70. Changes in accounting policies ~~adopted~~ applied at the entity level that affect segment information are dealt with in accordance with IPSAS 3. Unless a new International Public Sector Accounting Standard specifies otherwise, IPSAS 3 requires that:

(a) a change in accounting policy ~~should~~shall be applied retrospectively and that prior period information ~~be~~ restated unless it is impracticable to determine either ~~do so (benchmark treatment) or that~~ the cumulative effect or the ~~adjustment resulting from the change be included in determining the entity's net surplus (deficit) for the current~~ period-specific effects of the change ~~(allowed alternative treatment)~~.

(b) ~~I~~if retrospective application is not practicable for all ~~the benchmark treatment is followed, prior~~ periods presented, the new accounting policy shall be applied retrospectively from the earliest practicable date ~~segment information will be restated.~~; and

(c) ~~I~~if it is impracticable to determine~~the allowed alternative is followed,~~ the cumulative effect of applying the new accounting policy at the start of the current period, the policy shall be applied prospectively from the earliest date practicable. ~~adjustment that is included in determining the entity's net surplus (deficit) is included as an item of segment revenue or expense if it is an operating item that can be attributed or~~

~~reasonably allocated to segments. In the latter case, IPSAS 3 may require separate disclosure if its size, nature, or incidence is such that the disclosure is relevant to explain the performance of the entity for the period.~~

The following changes are made to remove references to extraordinary items:

(a) in paragraph 27, in the definition of segment revenue, subparagraph (a) is deleted;

(b) in paragraph 27, in the definition of segment expense, subparagraph (a) is deleted; and

(c) in Appendix 1, the second last paragraph is deleted.

A3. In IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets", paragraph 111 is deleted.

A4 The rubrics of all other International Public Sector Accounting Standards that are not within this Exposure Draft will have the following form:

International Public Sector Accounting Standards X, "Title in Words" (IPSAS X) is set out in paragraphs 1-000 [and Appendices A-C]*. All the paragraphs have equal authority but retain the former PSC format of the Standard when it was adopted by the IASB. IAS X should be read in the context of [of its objective and the Basis for Conclusions,]# the *Preface to International Public Sector Accounting Standards*. IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors" provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

* used only for those appendices that are part of the Standard.

# used only where the Standard contains an objective or is accompanied by a Basis for Conclusions.

A6. In International Public Sector Accounting Standards, applicable at DD MM YYYY, references to the current version of IPSAS 3, "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies" are amended to IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors".

# Guidance on Implementing IPSAS 3

*This guidance accompanies, but is not part of, IPSAS 3.*

## Example 1 – Retrospective Restatement of Errors

1.1. During 20X2, the entity discovered that revenue from income taxes was incorrect. Income taxes of CU[1]6,500 that should have been recognized in 20X1 were incorrectly omitted from 20X1 and recognized as revenue in 20X2.

1.2. The entity's accounting records for 20X2 show revenue from taxation of CU60,000 (including the CU6,500 taxation which should have been recognized in opening balances), and expenses of CU86,500.

1.3. In 20X1, the entity reported:

| | CU |
|---|---|
| Revenue from taxation | 34,000 |
| User charges | 3,000 |
| Other operating revenue | 30,000 |
| Total revenue | 67,000 |
| Expenses | (60,000) |
| Net surplus | 7,000 |

1.4. 20X1 opening accumulated surplus was CU20,000 and closing accumulated surplus was CU27,000.

1.5. The entity had no other revenue or expenses.

1.6. The entity had CU5,000 of contributed capital throughout, and no other components of net assets/equity except for accumulated surplus.

### Public Sector Entity – Statement of Financial Performance

| | | (restated) |
|---|---|---|
| | 20X2 | 20X1 |
| | CU | CU |
| Revenue from taxation | 53,500 | 40,500 |
| User charges | 4,000 | 3,000 |
| Other operating revenue | 40,000 | 30,000 |
| Total revenue | 97,500 | 73,500 |
| Expenses | (86,500) | (60,000) |

[1] In these examples, monetary amounts are denominated in 'currency units' (CU).

| | | |
|---|---|---|
| Net surplus | 11,000 | 13,500 |

**Public Sector Entity X Statement of Changes in Equity**

| | Contributed capital | Accumulated Surpluses | Total |
|---|---|---|---|
| | CU | CU | CU |
| Balance at 31 December 20X0 | 5,000 | 20,000 | 15,000 |
| Surplus for the year ended December 31, 20X1 as restated | - | 13,500 | 13,500 |
| Balance at 31 December 20X1 | 5,000 | 33,500 | 38,500 |
| Surplus for the year ended 31 December 20X2 | - | 11,000 | 11,000 |
| Balance at 31 December 20X2 | 5,000 | 44,500 | 49,500 |

*Extracts from Notes to the Financial Statements*

1. Revenue from taxation of CU6,500 was incorrectly omitted from the financial statements of 20X1. The financial statements of 20X1 have been restated to correct this error. The effect of the restatement on those financial statements is summarized below. There is no effect in 20X2.

| | Effect on 20X1 |
|---|---|
| | CU |
| Increase revenue | 6,500 |
| Increase in surplus | 6,500 |
| | |
| Increase in debtors | 6,500 |
| Increase in net assets/equity | 6,500 |

## Example 2 - Change in Accounting Policy with Retrospective Application

2.1. During 20X2, the entity changed its accounting policy for the treatment of borrowing costs that are directly attributable to the acquisition of a hydro-electric power station which is under construction. In previous periods, the entity had capitalized such costs. The entity has now decided to expense, rather than capitalize them. Management judges that the new policy is preferable because it results in a more transparent treatment of finance costs and is consistent with local industry practice, making the entity's financial statements more comparable.

2.2. The entity capitalized borrowing costs incurred of CU2,600 during 20X1 and CU5,200 in periods prior to 20X1. All borrowing costs incurred in previous years with respect to the acquisition of the power station were capitalized.

2.3. The accounting records for 20X2 show surplus before interest of CU30,000; and interest expense of CU3,000 (which relates only to 20X2).

2.4. The entity has not recognized any depreciation on the power station because it is not yet in use.

2.5. In 20X1, the entity reported:

| | CU |
|---|---|
| Surplus before interest | 18,000 |
| Interest expense | – |
| Surplus from ordinary activities | 18,000 |

2.6. 20X1 opening accumulated surpluses was CU20,000 and closing accumulated surpluses was CU38,000.

2.7. The entity had CU10,000 of contributed capital throughout, and no other components of net assets/equity except for accumulated surplus.

**Public Sector Entity – Statement of Financial Performance**

| | 20X2<br>CU | (restated)<br>20X1<br>CU |
|---|---|---|
| Surplus before interest | 30,000 | 18,000 |
| Interest expense | (3,000) | (2,600) |
| Surplus from ordinary activities | 27,000 | 15,400 |

**Public Sector Entity – Statement of Changes in Net Assets/Equity**

| | Contributed capital<br>CU | (restated)<br>Accumulated Surplus<br>CU | Total<br>CU |
|---|---|---|---|
| Balance at 31 December 20X0 as previously reported | 10,000 | 20,000 | 30,000 |
| Change in accounting policy with respect to the capitalization of interest (Note 1) | - | (5,200) | (5,200) |
| Balance at 31 December 20X0 as restated | 10,000 | 14,800 | 24,800 |
| Surplus for the year ended 31 December 20X1 (restated) | - | 15,400 | 15,400 |
| Balance at 31 December 20X1 | 10,000 | 30,200 | 30,200 |
| Surplus for the year ended 31 December 20X2 | - | 27,000 | 27,000 |

| | Contributed capital | (restated) Accumulated Surplus | Total |
|---|---|---|---|
| Closing at 31 December 20X2 | 10,000 | 30,200 | 57,200 |

**Extracts from the Notes**

1. During 20X2, the entity changed its accounting policy for the treatment of borrowing costs related to a hydro-electric power station. Previously, the entity capitalized such costs. They are now written off as expenses as incurred. Management judges that this policy provides reliable and more relevant information because it results in a more transparent treatment of finance costs and is consistent with local industry practice, making the entity's financial statements more comparable. This change in accounting policy has been accounted for retrospectively and the comparative statements for 20X1 have been restated. The effect of the change on 20X1 is tabulated below. Opening accumulated surpluses for 20X1 have been reduced by CU5,200 which is the amount of the adjustment relating to periods prior to 20X1.

## Example 3 – Prospective Application of a Change in Accounting Policy When Retrospective Application is not Practicable

3.1. During 20X2, the entity changed its accounting policy for depreciating property, plant and equipment, so as to apply much more fully a components approach, whilst at the same time adopting the revaluation model.

3.2. In years before 20X2, the entity's asset records were not sufficiently detailed to apply a components approach fully. At the end of year 20X1, management commissioned an engineering survey, which provided information on the components held and their fair values, useful lives, estimated residual values and depreciable amounts at the beginning of 20X2. However, the survey did not provide a sufficient basis for reliably estimating the cost of those components that had not previously been accounted for separately, and the existing records before the survey did not permit this information to be reconstructed.

3.3. Management considered how to account for each of the two aspects of the accounting change. They determined that it was not practicable to account for the change to a fuller components approach retrospectively, or to account for that change prospectively from any earlier date than the start of 20X2. Also, the change from a cost model to a revaluation model is required to be accounted for prospectively. Therefore, management concluded that it should apply the entity's new policy prospectively from the start of 20X2.

3.4. Additional information:

| | CU |
|---|---|
| Property, plant and equipment | |
| Cost | 25,000 |
| Depreciation | (14,000) |
| Net book value | 11,000 |
| | |
| Prospective depreciation expense for 20X2 (old basis) | 1,500 |
| | |
| Some results of the engineering survey | |
| Valuation | 17,000 |
| Estimated residual value | 3,000 |
| Average remaining assets life (years) | 7 |
| | |
| Depreciation expense on existing property, plant and equipment for 20X2 (new basis) | 2,000 |

***Extract from the Notes***

1. From the start of 20X2, the entity changed its accounting policy for depreciating property, plant and equipment, so as to apply much more fully a components approach, whilst at the same time adopting the revaluation model. Management takes the view that this policy provides reliable and more relevant information because it deals more accurately with the components of property, plant and equipment and is based on up-to-date values. The policy has been applied prospectively from the start of 20X2 because it was not practicable to estimate the effects of applying the policy either retrospectively or prospectively from any earlier date. Accordingly the adopting of the new policy has no effect on prior periods. The effect on the current year is to increase the carrying amount of property, plant and equipment at the start of the year by CU6,000; create a revaluation reserve at the start of the year of CU6,000; and increase depreciation expense by CU500.

## Table of Concordance

This table shows how the contents of the current version of IPSAS 3 and the proposed version of IPSAS 3 correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

| Current IPSAS 3 paragraphs | Proposed IPSAS 3 paragraph |
|---|---|
| Objective | 1 |
| 1 | 3 |
| 2 | 2 |
| 3 | 4 |
| 4 | 5 |
| 5 | 6 |
| 6 | 7 |
| 7 | None |
| 8 | None |
| 9 | None |
| 10 | IPSAS 1.96 |
| 11 | IPSAS 1.97 |
| 12 | IPSAS 1.98 |
| 13 | None |
| 14 | None |
| 15 | None |
| 16 | None |
| 17 | None |
| 18 | None |
| 19 | None |
| 20 | None |
| 21 | None |
| 22 | None |
| 23 | None |
| 24 | None |
| 25 | None |
| 26 | IPSAS 1.103 |
| 27 | None |
| 28 | IPSAS 1.104 |
| 29 | None |
| 30 | 37, 38 |
| 31 | 39 |
| 32 | 40 |
| 33 | 41 |
| 34 | 43 |
| 35 | None |
| 36 | None |
| 37 | 44, 45 |
| 38 | 46 |
| 39 | 46 |
| 40 | 53 |
| 41 | 47 |
| 42 | 51 |
| 43 | None |
| 44 | 54 |
| 45 | None |
| 46 | None |
| 47 | None |
| 48 | 18 |
| 49 | 19 |
| 50 | 20 |
| 51 | 17 |
| 52, 53 | 21-23 |
| 54 | None |
| 55 | 24 |
| 56 | None |
| 57 | None |
| 58 | 36, 36 |
| 59 | 27 |
| 60 | 28 |
| 61 | 31 |
| 62 | None |
| 63 | 29, 30 |
| 64 | 33, 34 |
| 65 | None |
| 66 | None |
| 67 | None |
| 68 | None |
| 69 | 58 |
| Appendix A | Guidance on Implementing IPSAS 3 |
| None | 61 |
| None | 42 |

## Comparison with IAS 8

International Public Sector Accounting Standard IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” is drawn primarily from International Accounting Standard IAS 8 (2003), “Accounting Policies, Changes in Accounting Estimates and Errors”. The main differences between IPSAS 3 and IAS 8 are as follows:

- Commentary additional to that in IAS 8 has been included in IPSAS 3 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 3 uses different terminology, in certain instances, from IAS 8. The most significant examples are the use of the terms “revenue”, “statement of financial performance”, “statement of financial position”, “accumulated surplus or deficit” and “net assets/equity” in IPSAS 3. The equivalent terms in IAS 8 are “income”, “income statement”, “balance sheet”, “retained earning” and “equity”.
- IPSAS 3 contains a different set of definitions of technical terms from IAS 8 (paragraph 7).
- IPSAS 3 has a similar hierarchy to IAS 8, except that the IPSASB does not have a conceptual framework.
- IPSAS 3 does not require disclosures about adjustments to basic or diluted earnings per share. IAS 8 requires disclosure of amount of adjustment or correction for basic or diluted earnings per share.