

**DRAFT FOR PSC REVIEW****Comparison of IASB Conceptual Framework and the Concepts Underlying the IPSASs**

<b>IASB Conceptual Framework</b>	<b>IPSASs</b>
Preface	None available
Introduction <ul style="list-style-type: none"> <li>Purpose and Status</li> <li>Scope</li> <li>Users and Their Information Needs</li> </ul>	None available except for users and their information needs. IPSAS 1.2 and Preface.8 provide a brief overview of the users of financial statements while the IASB Framework (IASBF) provides details on the groups of users and the reasons for requesting financial information.
Objective of Financial Statements <ul style="list-style-type: none"> <li>- Financial Position, Performance and Changes in Financial Position</li> </ul>	The IASBF provides the objectives of each individual financial statement while in the IPSAS framework (IPSASF) only the objective for a cash flow statement is elaborated in IPSAS 2 <i>Cash Flow Statement</i> . The IPSAS framework only provides a broad overview of the objective of financial statements. See attached for objectives of financial statements.
Underlying Assumptions <ul style="list-style-type: none"> <li>- Accrual Basis</li> <li>- Going Concern</li> </ul>	IPSAS framework encompasses both accrual and cash bases of accounting.
Qualitative Characteristics <ul style="list-style-type: none"> <li>- True and Fair View/ Fair Presentation</li> </ul>	The wording in the IPSASF differs from the IASBF. Most of the guidance in the qualitative characteristics is essentially the same, except for prudence and comparability, where the IASBF provides more guidance compared to the IPSASF. See the attached for more information.

<b>IASB Conceptual Framework</b>	<b>IPSASs</b>
<p>Elements of Financial Statements</p> <ul style="list-style-type: none"> <li>- Financial Position</li> <li>- Assets</li> <li>- Liabilities</li> <li>- Equity</li> <li>- Performance</li> <li>- Income</li> <li>- Expenses</li> </ul>	<p>Elements of financial statements include reference to 'service potential' in addition to 'economic benefits'. IPSASF has not defined equity although it is used to mean net assets. The structure of equity in public sector entities differs from private sector enterprises.</p> <p>Revenue in IPSASs framework is equivalent to 'income' in IASB framework, that is, it includes gains. See also the attached.</p> <p>The criteria for revenue recognition is not based on changes in assets and liabilities and is not consistent with the definitions of assets and liabilities in IASBF (see criteria for sales of goods in IPSAS 9.28). The same is true about the criteria for revenue recognition in IAS 8, <i>Revenue</i>. It is expected that the revenue recognition project currently active at the IASB is expected to remove this conceptual inconsistency between IAS 18 and IASBF.</p>
<p>Recognition of the Elements of Financial Statements</p> <ul style="list-style-type: none"> <li>- The Probability of Future Economic Benefit</li> <li>- Reliability of Measurement</li> <li>- Recognition of Assets</li> <li>- Recognition of Liabilities</li> <li>- Recognition of Income</li> <li>- Recognition of Expenses</li> </ul>	<p>IPSASs contain recognition criteria for certain elements of financial statements. These criteria are consistent with the general criteria for recognition of elements in IASBF.</p>
<p>Measurement of the Elements of Financial Statements</p>	<p>For items acquired at no or nominal cost, the IPSAS framework provides additional guidance.</p>
<p>Concepts of Capital and Capital Maintenance</p> <ul style="list-style-type: none"> <li>- Concepts of Capital</li> <li>- Concepts of Capital Maintenance and Determination of Profit</li> </ul>	<p>None available.</p>

## Attachment to Comparison of IASB Conceptual Framework and Concepts Underlying IPSASs

The Preface to International Public Sector Accounting Standards (IPSAS) notes that most IPSASs are based on International Accounting Standards. Therefore, the IASB's *Framework for the Preparation and Presentation of Financial Statements* (IASBF) is a relevant reference for users of IPSASs. However, in developing IPSASs, some public sector context has been added to the IPSAS framework that differs from the concepts used in IASBF.

### Financial Statements

In certain cases, the IPSASF uses different terminology compared to the IASBF. The table below compares certain equivalent terminologies in the two frameworks.

IPSAS 'Framework'	IASB Conceptual Framework
entity	enterprise
Reporting date	Balance sheet date
Statement of Financial Position	Balance Sheet
Statement of Financial Performance	Income Statement
Statement of Changes in Net Assets/Equity	Statement of Changes in Financial Position

IPSASs apply to all public sector entities except for government business enterprises. Government business enterprises apply IASs.

### Preparation of Financial Statements: the Underlying Assumptions

#### Basis of Accounting

Financial statements prepared under IASBF uses only accrual accounting. However, the IPSAS framework encompasses both the accrual and cash bases of accounting.

#### Going Concern

Financial statements are prepared on the assumption that the entity is a going concern. IPSASF and IASBF contain similar guidance for assessing whether an entity is a going concern or not.

#### Comparability

Comparability includes consistency in application of accounting policies which is now classified under qualitative characteristics of financial statements.

### Qualitative Characteristics

#### *1. Understandability*

IASBF notes that financial information should be 'readily understandable by users' while IPSASF (see IPSAS 1, Appendix 2) stipulates that "information is understandable when users might reasonably be expected to comprehend its meaning". However, the characteristic of understandability is essentially the same in both frameworks.

2. *Relevance*

In IPSASF, 'Timeliness' is regarded as a constraint on relevant and reliable information, but in the IASBF, 'timeliness' is used only as a constraint on relevance. However, both views are substantially the same.

3. *Reliability*

Reliable information meets a five-arm criteria; faithful representation, substance over form, neutrality, prudence and completeness. IPSASF (IPSAS 1, Appendix 2) notes that faithfully represented information should reflect the substance of the transactions rather than just their legal form. 'Substance over form' is a criterion used in both the IASB and IPSAS frameworks.

IASBF also provides more guidance on prudence not found in IPSAS 1, Appendix 2 – IASBF noted that uncertainties surrounding events and circumstances are recognized by disclosure and by exercise of prudence in the preparation of financial statements. IASBF defines prudence and warns against exercising prudence to a degree that affects the reliability of financial information.

4. *Comparability*

IASBF provides more guidance on comparability. The IASBF emphasizes that the measurement and presentation of financial effect of like transactions and other events must be carried out in a consistent way throughout an enterprise and over time for that enterprise and in a consistent way for different enterprises. Furthermore, the need for comparability should not be confused with mere uniformity and should not be allowed to impede the introduction of improved accounting standards or policies when more relevant and reliable alternatives exist.

Fair Presentation

IASBF notes that financial statements are frequently described as showing a 'true and fair view' or 'presenting fairly', while the IPSASF only uses 'fair presentation' terminology. These terminologies are in substance similar.

## **The Elements of Financial Statements**

*Definition of Elements*

In defining the elements of financial statements, the IPSASF also included 'service potential' in addition to economic benefits. For example, assets would be defined as 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.

In the IASBF, 'income' comprises 'revenue' which is limited to ordinary activities and gains. In the IPSASF terminology, 'revenue' is used as being equivalent to 'income' comprising "revenues" and "gains". Similarly, expenses in the IPSASF encompass both expenses from ordinary activities (as defined in the IASBF) and losses. In the IPSASF, the definition of "extraordinary activities" includes an extra criterion requiring the transactions to be 'outside the control or influence of the entity'.

Equity is used in IASBF as the residual interest of the assets after deducting all liabilities while in the IPSASF the terminology used is net assets/equity. Many public sector entities do not have share capital, but are separate reporting entities owned by another

public sector entity. The structure for a public sector entity's net assets/equity may include contribution by owners, aggregate accumulated surpluses or deficits and reserves, compared to capital, retained earnings and reserves.

### **Recognition of Elements of Financial Statements**

Under IASBF, an item that meets the definition of an element should be recognized if:

- it is probable that any future economic benefits associated with the item will flow to or from the enterprise and
- the item has a cost or value that can be, measured reliably .

Unlike IASBF, the IPSASF does not have general recognition criteria, rather, it provides specific recognition criteria for certain elements of financial statements such as exchange revenue, property, plant and equipment and provisions. The criteria used are similar to those provided in their equivalent IASs.

### **Measurement of Elements of Financial Statements**

Both frameworks include the same measurement bases: historical cost, current cost, realizable value, fair value and present value when preparing financial statements. The definitions of measurement bases are also similar in the two frameworks.

In regards to items acquired at no or for nominal costs, the IPSASF provides additional guidance that these items should be measured at fair value as at the date it was acquired.