



INTERNATIONAL FEDERATION  
OF ACCOUNTANTS

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DATE: 10 JUNE 2003  
MEMO TO: MEMBERS OF THE IFAC PUBLIC SECTOR COMMITTEE  
FROM: LI LI LIAN  
SUBJECT: REVIEW OF STUDY 11

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### ACTION REQUIRED

The Committee is asked to:

- **consider** the issues on whether Study 11 should be withdrawn.

### AGENDA MATERIAL:

	Pages
◦ Attachment 1: List of PSC Studies and Occasional Papers	13.4
◦ Attachment 2: 'Health Warning' on the Status of Study 11	13.5

### BACKGROUND

At the last meeting in Melbourne, PSC members noted that, given the issuance of the Cash Basis IPSAS and 20 accrual based IPSASs, Study 11 was now out of date. Members considered whether it should be removed from the publication list and agreed that at the next meeting, staff should present a paper outlining the extent to which Study 11 was out of date and issues to be considered whether it should be "decommissioned".

### **Purpose of Study 11 *Governmental Financial Reporting: Accounting Issues and Perspectives***

The objective of the Study is to provide information that will be a useful reference source for governments which wish to change their basis of accounting or review their accounting practices in relation to those of other governments.

Study 11 provides an overview of issues covered and discussed in previous studies and extends the discussion of those issues. The previous Studies were descriptive in nature, covering topics such as the definition and recognition of assets, liabilities and expenses. The Studies were intended to provide international comparisons of current practices and highlight conceptual issues underlying these topics.

Study 11 also aims to assist governments at all levels in the identification of issues associated with financial reporting. Although some parts of the Study may relate to national governments only, other parts are applicable to all levels of government. The Study contains detailed description of both accrual and cash bases of accounting and provides examples of actual financial statements prepared under each basis. It explains common practice within each basis of accounting and provides examples of the variations within those bases.

## History of Study 11

Study 11 was published in May 2000. It was initially published as a Study Exposure Draft in March 1998, entitled *Guideline for Governmental Financial Reporting* and identified issues associated with four bases of accounting (cash, modified cash, modified accrual and accrual). Following the consideration of comments received on the Study ED and the *ITC: Which Bases of Accounting*, PSC decided that the study should focus on cash and accrual accounting bases only and the title of the Study was changed to reflect this decision.

Since Study 11 was issued, PSC has issued a further 14 accrual IPSASs and 1 comprehensive Cash Basis IPSAS. (IPSASs 1 – 6 were also issued in May 2000).

## Role of Studies

1) IPSAS 1, paragraph 42, notes that:

*“In the absence of a specific International Public Sector Accounting Standard, management uses its judgment in developing an accounting policy that provides the most useful information to users of the entity’s financial statements. In making this judgment, management considers:*

- (a) the requirements and guidance in International Public Sector Accounting Standards dealing with similar and related issues;*
- (b) the definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described in other publications of the International Federation of Accountants Public Sector Committee; and*
- (c) pronouncements of other standard setting bodies and accepted public or private sector practices to the extent, but only to the extent, that those are consistent with (a) of this paragraph. For example, pronouncements of the International Accounting Standards Committee (IASC), including the Framework for the Preparation and Presentation of Financial Statements, International Accounting Standards and interpretations issued by the IASC’s Standing Interpretations Committee.”*

2) Based on the PSC terms of reference (para 6):

*“International Public Sector Studies are intended to provide advice on financial reporting, accounting and auditing issues in the public sector. They are based on study of the best practices and most effective methods or dealing with the issues being addressed.”*

PSC Studies are part of the publications issued by the PSC described in IPSAS 1 para 42(b). Currently, there are some practices described in Study 11 that are no longer endorsed by the PSC. These include the examples of financial statements prepared on a cash basis, included as attachments in the Study. These financial statements do not comply with the requirements of the newly issued Cash Basis IPSAS. Consequently, while Study 11 is still ‘on issue’, this may imply that the PSC endorses the practices described in the Study.

## WITHDRAWAL OF STUDY 11 – ISSUES

### (i) Deleting Study 11: Setting a Precedent

Study 11, is one of a number of studies issued by PSC from 1989 to 2000 in regards to issues on the definition and recognition of assets, liabilities, revenues and expenses. By removing Study 11 because it is out of date, PSC will set a precedent of removing other Studies

(Study 1 – 10 and possibly Study 12 and 13), and other occasional papers and guidance previously issued. (Please refer to the Attachment 1 for the list of the current PSC Studies and Occasional Papers.) There are resource implications to this – PSC would have to allocate staff to review each of the Studies and Occasional Papers to determine whether they are out-of-date.

**(ii) Deleting Study 11: Losing History of Work Performed**

By removing Study 11, and possibly other Studies that are previously issued, valuable information discussed in PSC Studies could be lost. For example, Study 11 discusses the benefits of accrual accounting compared to cash-based accounting. If PSC withdraws Study 11, and other Studies, there is no documentation issued by the PSC on why PSC chose to embark on accrual accounting. Furthermore, by removing Studies issued, we would be removing a history of PSC's work.

**(iii) Guidance provided by Studies**

Although most of Study 11 is out of date, there are some sections which could be useful to public sector entities. Study 11 notes how certain jurisdictions have addressed issues such as intangible assets, administered assets, heritage assets and natural resources. Currently, there are no IPSASs on these issues. As such, Study 11 provides and reviews the best practice on these issues as guidance.

**(iv) Role of Studies in Identifying Concepts**

PSC does not have an explicit conceptual framework. Although IPSASs contain guidance of a conceptual nature, IPSASs do not explicitly discuss the topics that are found in a conceptual framework. Study 11 also discusses the elements of accrual based financial statements and the measurement bases that can be used to record transactions. This is based on the work previously undertaken in Studies. It therefore provides some preliminary consideration of concepts that underpin the PSC's later work, and remains useful in that context. It also serves to demonstrate that the PSC has considered these matters in establishing its work program.

**STAFF RECOMMENDATION**

It is recommended that Study 11 not be withdrawn. Instead, a 'health warning' should be posted on the web to advise readers interested in downloading, or purchasing the hard copy of, Study 11 on the status of the Study. This 'health warning' automatically appears whenever a person clicks Study 11 in the IFAC bookstore. It would warn the reader that the standards, guidance and practices discussed in Study 11 may have changed since it was published. A draft 'health warning' is attached in Attachment 2 for the review of PSC.

This 'health warning' can also be 'issued' for other PSC Studies and Occasional Papers that will not updated.

**Li Li Lian**

**Assistant Project Manager**

## **ATTACHMENT 1 to Memo on Review of Study 11**

### **List of PSC Studies and Occasional Papers and their Month of Publication**

#### **PSC Studies**

1. Financial Reporting by National Governments – March 1991
2. Elements of the Financial Statements of National Governments – July 1993
3. Auditing for Compliance with Authorities – A Public Sector Perspective – October 1994
4. Using the Work of Other Auditors – A Public Sector Perspective: October 1994
5. Definition and Recognition of Assets – August 1995
6. Accounting for and Reporting Liabilities – August 1995
7. Performance Reporting by Government Business Enterprises – January 1996
8. The Government Financial Reporting Entity – July 1996
9. Definition and Recognition of Revenues – December 1996
10. Definition and Recognition of Expenses/Expenditures – December 1996
11. Governmental Financial Reporting: Accounting Issues and Perspectives – May 2000
12. Perspectives on Cost Accounting for Governments – September 2000
13. Governance in the Public Sector: A Governing Body Perspective – July 2001
14. Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities – April 2002

#### **PSC Occasional Papers**

1. Implementation of Accrual Accounting in Government: The New Zealand Experience – October 1994
2. Auditing Whole of Government Financial Statements: The New Zealand Experience – October 1994
3. Perspectives on Accrual Accounting – 1996
4. The Delegation of Public Services in France: An Original Method of Public Administration: Delegated Public Service – September 2001
5. Resource Accounting: Framework of Accounting Standard Setting in the UK Central Government Sector – June 2002
6. The Modernization of Government Accounting in France: The Current Situation, The Issues, The Outlook – January 2003

#### **PSC Guidance**

1. Financial Reporting by Government Business Enterprises – July 1989 (*Withdrawn November 2002*)
2. Applicability of International Standards on Auditing to Audits of Financial Statements of Government Business Enterprises – July 1990

Item 13.1 *Review of Study 11*

PSC Vancouver July 2003

## **ATTACHMENT 2 to Memo on Review of Study 11**

### **‘Health Warning’ on the Status of Study 11**

(As noted in the memorandum, this ‘health warning’ will appear once a reader clicks to download Study 11.)

#### ***Study 11 Governmental Financial Reporting: Accounting Issues and Practices***

This Study was issued in May 2000.

The standards, guidance and practices discussed in the Study were current when the Study was published. However, readers should be aware that the practice may have changed and new standards and guidance has been issued. For example, PSC has issued 20 accrual IPSASs and a comprehensive Cash Basis IPSAS.



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DATE: 10 JUNE 2003  
MEMO TO: MEMBERS OF THE IFAC PUBLIC SECTOR COMMITTEE  
FROM: LI LI LIAN  
SUBJECT: **REVIEW AND UPDATE OF STUDY 14**

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**ACTION REQUIRED**

The Committee is asked to:

- **agree** the process for update; and
- **review** the major changes to Study 14.

Members are welcomed to bring their own copy of Study 14. However, we will have a number of copies available for members to share in Vancouver.

**AGENDA MATERIAL:**

	<b>Pages</b>
13.3 Paper Highlighting the Main Changes to Study 14 (2 <sup>nd</sup> edition)	13.11-13.32
13.4 Proposed Public Notice <i>Summary of Main Changes to Study 14</i>	13.33
13.5 Illustration of Cover of current hard copy edition	13.34
13.6 Illustration of Cover for Study 14 (2 <sup>nd</sup> edition)	13.35
13.7 Updated Foreword to Study 14	13.36

**BACKGROUND**

Study 14 was actioned in late 2000 to support public sector entities intending to migrate to the accrual basis of accounting. This project was “fast tracked” to respond to the needs identified by constituents. Consequently, unlike other Studies published by the PSC, Study 14 was not subject to the exposure draft process. It was also agreed that the Study would be a ‘living document’. The Foreword explained that Study 14 will be updated periodically to reflect new IPSASs issued, and additional implementation issues and experiences identified. The PSC also invited the public to provide input on the Study. Study 14 was issued in April 2002.

At the last meeting in Melbourne, members agreed that Study 14 should be updated on an ongoing or continuous basis to reflect major changes, as opposed to a periodic update every 2 years or so. Staff were directed to identify the changes to Study 14 to bring it up-to-date. Members also agreed that they would consider the process for approving changes to Study 14.

## **Main Changes to Study 14**

Study 14 has been updated to reflect the following:

- (a) Publications issued by the PSC subsequent to the publication of Study 14 (April 2002):
  - International Public Sector Accounting Standard IPSAS 18 *Segment Reporting*;
  - International Public Sector Accounting Standard IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*;
  - International Public Sector Accounting Standard IPSAS 20 *Related Party Disclosures*;
  - Cash Basis IPSAS *Financial Reporting Under The Cash Basis of Accounting*;
  - *Glossary of Defined Terms IPSAS 1 to IPSAS 18*;
  - UK and French Occasional Papers
- (b) References to IASs/IFRSs and their relevant EDs – Where the PSC has not considered certain issues, such as the measurement of financial instruments, intangible assets or employee benefits, the Study refers to the relevant IASs/IFRSs. (This is in line with the hierarchy of pronouncements set out in IPSAS 1 paragraph 42 which explains that where the PSC has not issued guidance on particular issues, an entity should consider other sources such as IASB pronouncements.) The Study also outlines the major requirements in these IASs at that time. Where relevant, Staff have updated the Study to provide information on IASB's latest Exposure Drafts or key decisions made by the IASB.

A table setting out the major changes to Study 14, on a chapter by chapter basis, is attached to the memorandum in agenda item 13.3. A clean and marked-up copy of the updated Study is available upon request – they run to over 280 pages each, so have not been included as an agenda item. It is proposed that the updated draft of Study 14 be reviewed by a drafting sub-committee (please refer to issues (iii)).

## **ISSUES – Form, Frequency and Process of Update**

### **(i) Study 14: Web only or both Hard Copy and Web Document?**

Currently, Study 14 is available in both hard copy and as a web document. The web product has been updated with 'live' web links.

#### *Staff recommendation*

As a general rule, the updated Study should be made available only in the form of a web-based product. This does not preclude republishing the updated Study 14 in hard copy form periodically (perhaps every 2 or 3 years as considered appropriate by the PSC). However, it is easier and faster to publish the updates of Study 14 online or electronically. This memo deals with issues based on the premise that Study 14 will be updated as a web-based project.

### **(ii) Advising Readers on the Updated Study 14 and to Highlight the Main Changes Made**

Advising readers of updates to the electronic version will be easy and efficient. A note (and 'health warning') will be posted on the web (at the bookstore page and other relevant sections of the web) to advise readers on the status of the hard copy and note the availability of an updated version. This 'health warning' will automatically appear whenever a person

wishes to obtain a hard copy of Study 14 in the IFAC bookstore. A draft 'health warning' is noted below:

A later version of this Document is available. That later Document has been updated to reflect new IPSASs issued and certain other key developments since April 2002. This Document has not been updated.

Please refer to [www.ifac.org/publicsector](http://www.ifac.org/publicsector) for the latest updated version.

There may also be a case for having a label on the remaining hard copies informing the reader that the Study has been updated and that they should refer to the PSC web site for an updated version. A copy of the illustrated cover is attached at Agenda Item 13.5. (Note: this label has the same words as the 'health warning' noted above.)

In addition, Staff have prepared a paper to advise readers of the major changes to Study 14. This is included in Agenda Item 13.4. A similar paper will be attached to each updated edition of Study 14. It is prepared to provide a summary of the main changes to the updated Study 14 and will be linked to Study 14 on the web. This paper will also be useful to readers who are currently using the hard copy of Study 14 to track the changes made.

*Staff recommendation*

The updated Study 14 be identified as Study 14 2<sup>nd</sup> edition (MM YYYY). This will enable readers to identify which edition is available and when it was last updated immediately. Please refer to agenda item 13.6 for a copy of the illustration of the new cover.

**(iii) Process for the Update of Study 14**

The PSC's terms of reference require it to formally agree on the publication of each Study. The PSC agreed on a continuous update. Review, update and approval will consume considerable amount of members' and staff time. While the PSC has agreed that Study 14 should be updated on a continuous basis, Staff propose that the update be managed through a sub-committee process and that the Study be updated once per year.

*Staff recommendation*

Staff should review the need to update each quarter and advise the PSC at each meeting of the changes that affect Study 14. A sub-committee should be established to review the marked-up document and make recommendations to the PSC. The sub-committee is not anticipated to be a standing committee; rather it will be actioned when the review of the Study is to be updated. The sub-committee will communicate electronically, unless otherwise required. The composition of the sub-committee will be determined so to "spread the load" – some PSC members are already involved in projects such as, the social policy obligations, non-exchange revenue, budget reporting, and PSPs for ISAs. Please refer to the Attachment to this memo for the proposed steps taken to update Study 14.

It is also proposed that Study 14 be updated at least once per year and more frequently, if needed, for big ticket issues and if time allows.



PSC administrative staff will maintain the web product and ensure that web links are 'alive' (i.e. no dead links). This can be done about once every quarter.

**(iv) Foreword**

Currently, the Foreword to Study 14 makes references to the PSC's standards work program and the number of IPSASs published by the end of 2002. Going forward, we have two choices for updating the Foreword. We can:

- Either constantly update the Foreword to reflect the PSC's current work program; or
- Redraft the Foreword in such a way that it remains unchanged for at least the next few editions, and changed only when required. Therefore, the revised Foreword would be adaptable for most of the newer editions of the Study.

*Staff recommendation*

The latter option should be adopted. Staff have prepared a draft example of the Foreword. Please refer to the suggested attachment and the changes are reflected in agenda item 13.7.

**(v) To reflect the work of other Steering Committees**

Currently, the PSC has working groups or steering committees that are not mentioned in the current edition of the Study, such as the projects on budget reporting, GFS/ESA 95/IPSAS harmonization, and development assistance. Much of the work is anticipated to be a useful addition to the Study.

*Staff recommendation*

After PSC issues an ITC, a Study, an ED or an IPSAS on a particular topic, Staff will prepare the relevant chapter or sections in the Study and will update them as necessary.

**(vi) Obtaining feedback from readers**

As mentioned previously, the PSC has invited interested parties "*to provide suggestions for specific topics, along with examples of implementation strategies or issues that have arisen in their jurisdictions*". However, there is no mention in the Study of how readers should provide this input to the PSC.

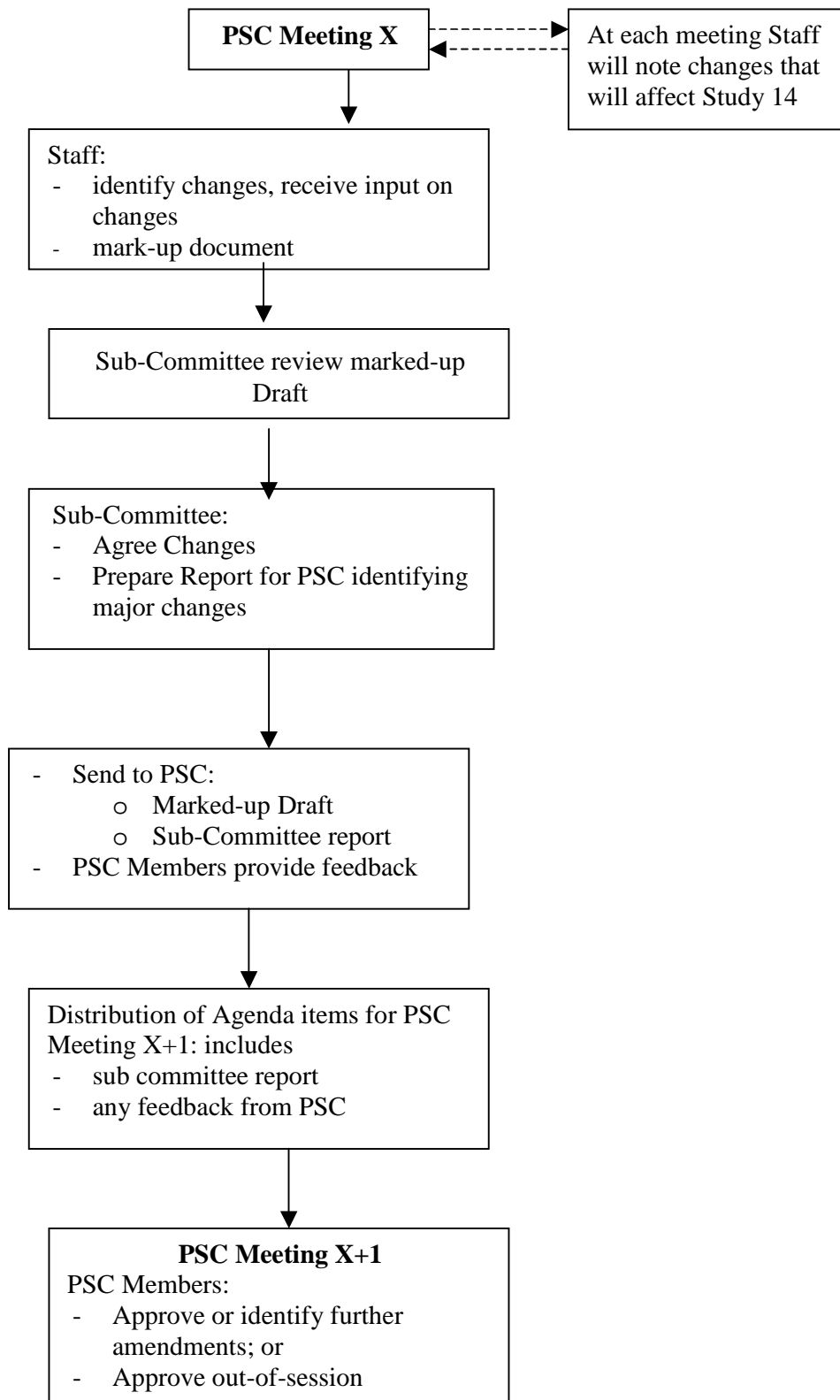
*Staff recommendation*

Staff recommend that an email address be established for Study 14 so that the readers are able to provide feedback to the PSC.

**Li Li Lian**

**ASSISTANT PROJECT MANAGER**

Attachment to Memo on Review of Study 14

**PROCESS TO UPDATE STUDY 14**

**Paper Highlighting the Main Changes to Study 14 *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities* (2<sup>nd</sup> edition)**

The table below outlines the reasons for the changes to Study 14 on a chapter by chapter basis. It is anticipated that a drafting sub-committee will review the whole document and make any recommendations to the PSC for approval. Attachment 1 provides some examples of the major changes made to Study 14. These examples are provided to demonstrate the level of review required to update Study 14.

The main changes identified in this document are segregated into categories of:

- 1) Consequential amendments necessary due to issuance of the Cash Basis IPSAS:
  - a. Study 14 refers to ED 9;
  - b. The Cash Basis IPSAS has been issued; and
  - c. The layout and requirements of the Standard is different from its ED.
- 2) Consequential amendments necessary due to issuance of the following additional accrual based IPSASs:
  - a. ED 21 has been replaced with IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*;
  - b. ED 17 and ED 22 have been replaced with IPSAS 18 *Segment Reporting*; and
  - c. ED 20 has been replaced with IPSAS 20 *Related Party Disclosures*.
- 3) Other developments that affect the PSC:
  - a. Changing role of INTOSAI in respect of Public Sector Perspectives (PSPs) in International Standards on Auditing (ISAs);
  - b. PSC has established steering committees on non-exchange revenue and social policy obligations to assist in providing guidance on these issues; and
  - c. PSC had considered employee benefits, but the project was deferred pending the revision of IAS 19 by the IASB.
- 4) Updates to IASs/IFRSs  
Where the PSC has not considered particular issues, the IASs' requirements were outlined in the Study. Some of those IASs have been amended. The Study has been updated to include the changes made by the IASB to existing IASs and any relevant exposure drafts as a result of their current work program.

**Table Outlining Major Changes:**

Chapter/Section of Study 14	Proposed Changes
Cover	<ul style="list-style-type: none"> <li>Note a change in edition and publication date. (<i>Illustrated in Agenda Item 13.6</i>)</li> </ul>
Acknowledgement	<ul style="list-style-type: none"> <li>Change edition and to show that the 1st edition of Study 14 was prepared by PSPNZ on behalf of PSC. (<i>Illustrated in Attachment 1</i>)</li> </ul>

Chapter/Section of Study 14	Proposed Changes
Foreword	<ul style="list-style-type: none"> <li>Update to reflect that PSC has issued 20 accrual IPSASs and one comprehensive Cash Basis IPSAS (<i>The Foreword is illustrated in Agenda Item 13.7</i>)</li> </ul>
Part I Introduction	<ul style="list-style-type: none"> <li>Reflect that PSC has issued 21 IPSASs</li> <li>Invite readers to provide input to the Study (instead of in Part IV of the document) (<i>Part I is illustrated in Attachment 1</i>)</li> </ul>
Chapter 1 Introduction	<ul style="list-style-type: none"> <li>INTOSAI will assume the role of providing public sector guidance on ISAs where appropriate. (<i>Relevant para illustrated in Attachment 1</i>)</li> <li>ED 9 has been issued as the Cash Basis IPSAS. (<i>Relevant section illustrated in Attachment 1</i>)</li> <li>New Occasional Papers issued. (<i>Relevant section illustrated in Attachment 1</i>)</li> <li>References and web sites updated</li> </ul>
Ch 2 Managing the Process	<ul style="list-style-type: none"> <li>References and web sites updated</li> </ul>
Ch 3 Skills assessment and training	<ul style="list-style-type: none"> <li>The discussion paper on outlining ‘competence’ has now been published as an International Education Paper. (<i>Relevant section illustrated in Attachment 1</i>)</li> <li>References and web sites updated</li> </ul>
Ch 4 Accounting Policy Issues	<ul style="list-style-type: none"> <li>Note that entity’s are required to comply with IPSASs when they are in force rather than when they are issued. (<i>Relevant section illustrated in Attachment 1</i>)</li> <li>HM Treasury’s Resource Accounting Manual is updated annually</li> <li>IASB has issued a new Standard on first-time application of IFRSs to replace SIC 8. (<i>Relevant section illustrated in Attachment 1</i>)</li> <li>Cash Basis IPSAS has been issued. (<i>Relevant section illustrated in Attachment 1</i>) <ul style="list-style-type: none"> <li>standard wording paragraph affected: Each chapter in the Study, except for Chapters 1-3, includes a paragraph for the section under the heading “Relevance to the Cash Basis of Accounting”. For Chapters 6-15, there is a standard wording that notes that the issues discussed in each Chapter will assist those intending to prepare financial statements on the cash basis of accounting and also disclose in the notes some accrual accounting information. For Chapters 4 &amp; 5, the wording in the “Relevance to the Cash Basis of Accounting” has a slight variation to the standard wording paragraph</li> <li>reflect that ED 9 is now a Standard and has new requirements and an encouragements section</li> </ul> </li> <li>References and web sites updated</li> </ul>

Chapter/Section of Study 14	Proposed Changes
Ch 5 Reporting Entity Issues	<ul style="list-style-type: none"> <li>• Cash Basis IPSAS issued – standard wording paragraph affected. (There is a slight variation to this standard wording paragraph.) (<i>Relevant section illustrated in Attachment 1</i>)</li> <li>• References and web sites updated</li> </ul>
Ch 6: Assets	<ul style="list-style-type: none"> <li>• ED 21 has been replaced by IPSAS 19</li> <li>• Cash Basis IPSAS issued – standard wording paragraph affected (<i>Relevant section illustrated in Attachment 1</i>)</li> <li>• References and web sites updated</li> </ul>
Ch 7: Liabilities	<ul style="list-style-type: none"> <li>• ED 21 has been replaced by IPSAS 19. (<i>Relevant section illustrated in Attachment 1</i>)</li> <li>• Ch 7 discusses the liability aspects of financial instruments. It also discusses the Draft Standard prepared by the Joint Working Group on Financial Instruments. The IASB has recently announced that they will consider the results of the Draft Standard as part of a long-term project. In the mean time, they have issued a new ED to address internal inconsistencies between their disclosure standard (IAS 32) on financial instruments and the recognition and measurement standard (IAS 39) and to incorporate guidance from current SICs. Study 14 now discusses the main changes proposed to IAS 39, <i>Financial Instruments: Recognition and Measurement</i> rather than focus on the Draft Standard. Staff will monitor IAS 39 and update Study 14 where appropriate</li> <li>• Cash basis IPSAS has been issued – standard wording paragraph affected</li> <li>• References and web sites updated</li> </ul>
Ch 8 Revenues and Expenses	<ul style="list-style-type: none"> <li>• Reflect that the PSC has established two steering committees to assist in developing guidance on non-exchange revenue and social policy obligations</li> <li>• Updated GFS Manual was issued in Dec 2001</li> <li>• Cash Basis IPSAS issued <ul style="list-style-type: none"> <li>○ Standard wording paragraph affected</li> <li>○ To update the requirements from the Cash Basis IPSAS</li> </ul> </li> <li>• References and web sites updated</li> <li>• PSC is now considering an ED on impairment of assets</li> </ul>
Part IV – Specific Topics	<ul style="list-style-type: none"> <li>• Update to include new Chapters 16 &amp; 17 dealing with segments and related parties</li> <li>• Delete invitation to provide input (this was moved to Part I Introduction) (<i>Part IV is illustrated in Attachment 1</i>)</li> </ul>

Chapter/Section of Study 14	Proposed Changes
Ch 9 Cash	<ul style="list-style-type: none"> <li>• Updated Glossary issued since Study 14 was published</li> <li>• Cash Basis IPSAS was issued: <ul style="list-style-type: none"> <li>○ Standard wording paragraph affected</li> <li>○ Note that the definition of cash is different for the cash basis and the accrual basis</li> <li>○ Cash Basis IPSAS has provided guidance on control of cash. To change the examples used in Ch 9 (paras 9.15 – 9.16) to conform with the Cash Basis IPSAS</li> <li>○ reflect that ED 9 is now a Standard and has new requirements and an encouragements section</li> </ul> </li> <li>• References and web sites updated</li> </ul>
Ch 10 Intangible Assets	<ul style="list-style-type: none"> <li>• To note that IASB is currently deliberating on business combinations projects which is expected to impact the accounting for intangible assets</li> <li>• To note IASB recently issued an ED on proposed amendments to IAS 38, <i>Intangible Assets</i>. The Study summarizes the proposed main changes to IAS 38</li> <li>• Update GFSM 2001 published in December 2001</li> <li>• SIC 32 on Web site costs has been issued and provides further guidance on internally generated assets</li> <li>• To note that IASB is currently considering a project on extractive industries</li> <li>• Cash Basis IPSAS was issued – standard wording paragraph affected</li> <li>• References and web sites updated</li> </ul>
Ch 11 Financial Instruments	<ul style="list-style-type: none"> <li>• To provide a short summary of the ED on financial instruments</li> <li>• Cash Basis IPSAS was issued – standard wording paragraph affected</li> <li>• References and web sites updated</li> </ul>
Ch 12 Employee-Related Liabilities	<ul style="list-style-type: none"> <li>• To reflect that the PSC deferred the project on employee benefits. (<i>Relevant section illustrated in Attachment 1</i>)</li> <li>• Cash Basis IPSAS was issued –standard wording paragraph affected</li> <li>• References and web sites updated</li> </ul>
Ch 13 Liabilities arising from SPO	<ul style="list-style-type: none"> <li>• To note that the PSC has established a steering committee to assist in developing guidance on SPO. (<i>Relevant section illustrated in Attachment 1</i>)</li> <li>• For IPSAS 19, to reflect that the wording for the exclusion scope for social policy obligations has changed from the ED. (<i>Relevant section illustrated in Attachment 1</i>)</li> <li>• ED 21 has been replaced by IPSAS 19</li> <li>• Cash Basis IPSAS was issued – standard wording paragraph affected</li> <li>• References and web sites updated</li> </ul>

Chapter/Section of Study 14	Proposed Changes
Ch 14 Non-Exchange Revenue (NXR)	<ul style="list-style-type: none"> <li>• To note that the PSC has established a steering committee to assist in developing guidance on NXR. <i>(Relevant section illustrated in Attachment 1)</i></li> <li>• Cash Basis IPSAS was issued – standard wording paragraph affected</li> <li>• References and web sites updated</li> </ul>
Chapter 15 Foreign Currency	<ul style="list-style-type: none"> <li>• Cash Basis IPSAS was issued – standard wording paragraph affected</li> </ul>
Chapter 16 Segment Reporting	<ul style="list-style-type: none"> <li>• In light of the issuance of IPSAS 18, to include an additional chapter (Ch 16) outlining the major requirements on the disclosure of segment reporting <i>(Ch 16 is illustrated in Attachment 1)</i></li> </ul>
Chapter 17 Related Party Disclosures	<ul style="list-style-type: none"> <li>• In light of the issuance of IPSAS 20, to include an additional chapter (Ch 17) outlining the major requirements on related party disclosures <i>(Ch 17 is illustrated in Attachment 1)</i></li> </ul>

## ***Attachment 1 to Agenda Item 13.3 – Proposed Marked-Up Changes***

### **PART I – INTRODUCTION**

This Study is intended to assist governments and government entities wishing to migrate to the accrual basis of accounting in accordance with International Public Sector Accounting Standards (IPSASs). It may also assist governments and government entities complying with the financial wishing to reporting requirements of the on a comprehensive cash basis of accounting, including the adoption of the major principles in any future IPSAS which is developed from Exposure Draft International Public Sector Accounting Standard Cash Basis IPSAS ED-9 Financial Reporting Under #The Cash Basis of Accounting in making the additional encouraged disclosures.

~~Part I of this Study addresses general issues associated with the transition to accrual accounting, including factors influencing the nature and speed of the transition, options in respect of the transition paths, and the management of the transition process. It also considers issues associated with the identification, design and delivery of training.~~

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to 3<sup>rd</sup>  
para

~~The main purpose of this Study is to help entities intending to move to the accrual basis of accounting and comply with the accrual based IPSASs. The Study 14 also includes a discussion of all IPSASs issued and certain topics not addressed by current IPSASs or Exposure Drafts. Where the Study discusses topics not addressed by current IPSASs or Exposure Drafts, the requirements of other authoritative accounting pronouncements such as International Accounting Standards (IASs) are used to illustrate the practical implementation issues associated with that topic. The IASs were prepared and published by the International Accounting Standards Committee (IASC). In 2001 the International Accounting Standards Board (IASB) was established to replace the IASC. The Standards that the IASB has stated that the standards it will issue will be referred to as International Financial Reporting Standards (IFRSs). The first seventeen twenty accrual based IPSASs are based on IASs to the extent appropriate for the public sector. The use of IFRSs, IASs or other standards to illustrate such topics does not necessarily reflect the views of the PSC on any issue. The Study is not an accounting manual, nor does it attempt to establish authoritative accounting practices or standards.~~

Part I of this Study addresses general issues associated with the transition to accrual accounting, including factors influencing the nature and speed of the transition, options in respect of the transition paths, and the management of the transition process. It also considers issues associated with the identification, design and delivery of training.

This Study should be considered a work in progress. The first edition of the Study was published in April 2002. It will be revised periodically to reflect developments in IPSASs and input received by the PSC on the experiences of readers in migrating to reporting on an accrual basis. A brief summary of major changes will be prepared to accompany each revision.

Readers are invited to propose suggestions and materials for inclusion in future editions to the Technical Manager at PSCStudy14@ifac.org.



## PART IV – SPECIFIC TOPICS

Part IV of this Study discusses implementation issues arising from the recognition of certain assets, liabilities, revenues and expenses that are not covered in Part III. These topics have been dealt with separately in order to allow the reader to focus on the issues associated with ~~these~~ them~~topics~~ in more depth than would have occurred in Part III.

Part IV also discusses the implementation issues for disclosures of segment reporting (in Chapter 16) and related parties (in Chapter 17).

The Chapters focusing on specific asset topics are:

- Chapter 9 *Cash*; and
- Chapter 10 *Intangible Assets*.

Chapter 11 *Financial Instruments* deals with issues in financial reporting of financial assets and liabilities.

The Chapters focusing on specific liability topics are:

- Chapter 12 *Employee-Related Liabilities*; and
- Chapter 13 *Liabilities Arising From Social Policy Obligations*.

The issues discussed in these two Chapters also relate to the recognition of the associated expenses.

Chapter 14 *Non-Exchange Revenue* focuses on the major source of revenue for many public sector entities.

Chapter 15 *Foreign Currency* explains the implications of adopting International Public Sector Accounting Standard IPSAS 4 *The Effects of Changes in Foreign Exchange Rates* to account for foreign currency gains and losses.

~~The Public Sector Committee (PSC) intends to revise this Study periodically to include explanations of the requirements of recently issued International Public Sector Accounting Standards. This revision process will not be continuous and at any point in time IPSASs additional to those included herein may be on issue. Consequently, readers will need to monitor IPSASs as they are issued on the IFAC website ([www.ifac.org](http://www.ifac.org)). As part of the revision process the PSC may develop further Chapters for inclusion in this Part or amend these Chapters. Readers are invited to provide suggestions for specific topics, along with examples of implementation strategies or issues that have arisen in their jurisdictions.~~

## Chapter 16: Segment Reporting

**CHAPTER 16: SEGMENT REPORTING****Key Points**

- International Public Sector Accounting Standard IPSAS 18 *Segment Reporting* [live link] contains guidance on the disclosure of information by segments in the notes to the financial statements.
- In order to apply IPSAS 18, entities will need to ensure they have systems for identifying the different activities that will be grouped as separate segments. Reporting these segments will provide information for accountability and decision-making purposes.

**Introduction**

- 16.1 This Chapter outlines the requirements in IPSAS 18 and explains the steps that an entity would need to work through if it is to comply with IPSAS 18.
- 16.2 Segment reporting provides information to assist users of the financial statements to better understand the entity's past performance and to identify the resources allocated to support the major activities of the entity. The disclosure of information by segments also enhances transparency of financial reporting and enables the entity to better discharge its accountability obligations.

**Definitions**

- 16.3 IPSAS 18, paragraph 9, defines segments as “a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources”<sup>1</sup>.

**Reporting Structures**

- 16.4 Identifying distinguishable activities or group of activities that should be disclosed as separate segments involves judgment.
- 16.5 In most cases, the major classifications of activities identified in budget documentation will reflect the segments for which information is reported to the senior management of the entity. These are a useful starting point in determining segments. This is because the senior management will require information about segments to enable them to evaluate the performance of the entity and for decision making in the future. However, management often require more detailed information, so an aggregate of these information may be appropriate.

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<sup>1</sup> It should be noted that definition of segments in IPSAS 18 differs from IAS 14, *Segment Reporting* (revised 1997).

16.6 Other examples where financial information is often aggregated and reported include:

- major economic classifications of activities undertaken by the general government (these may reflect the Government Finance Statistics (GFSM 2001) functional classifications by government) and major trading activities undertaken by GBEs;
- portfolio responsibilities of individual ministers or members of the executive government;
- “service segments” – a distinguishable component of an entity that is engaged in providing related outputs or achieving particular operating objectives consistent with the overall mission of each entity; and
- “geographical segments” – a distinguishable component of an entity that is engaged in providing outputs or achieving particular operating objectives within a particular geographical area.

### **Information Requirements**

16.7 Entities intending to comply with IPSAS 18 will need to:

- identify the nature, component and relevant activities of each segment reported;
- develop segment accounting policies that conform to the accounting policies adopted for preparing and presenting financial statements;
- identify each individual segment revenue, segment expense, total carrying amount of segment assets and segment liabilities and provide a reconciliation between the segmental information and the aggregate information in the financial statements;
- be able to generate the total cost incurred to acquire segment assets;
- be able to generate the aggregate of the entity’s share of net surplus (deficit) of associates, joint ventures, or other investments accounted for under the equity method if substantially all of those associates’ operations are within that single segment;
- develop policies on the basis of pricing inter-segment transfers; and
- be able to identify the prior period segment data, when there is a change in segment accounting policies or a creation of a newly identified segment. This is because an entity will need to disclose the restated comparative information.

### **Relevance to Cash Basis of Accounting**

- 16.8 An entity preparing its financial statements under the cash basis of accounting may provide a statement of segmental information on the cash basis in its general purpose financial statements. Other information which the entity may disclose in that statement include the types of goods and services included in each reported service segment, the composition of each reported geographical segment and if neither service nor geographical basis of segmentation is adopted, the nature of the segment and activities encompassed by it.

- 16.9 Many of the other issues identified in this Chapter are relevant to entities intending to provide additional information encouraged in Part 2 of the Cash Basis IPSAS *Financial Reporting Under The Cash Basis of Accounting*.

## **References**

International Federation of Accountants (IFAC), IPSAS 18 *Segment Reporting*,

<http://www.ifac.org/Store/Category.tmpl?Category=Public%20Sector%20Accounting&Cart=10509963461194892>, June 2002.

International Federation of Accountants (IFAC), IPSAS *Financial Reporting Under The Cash Basis of Accounting*,

<http://www.ifac.org/Store/Category.tmpl?Category=Public%20Sector%20Accounting&Cart=10509963461194892>, January 2003.

## **CHAPTER 17: RELATED PARTY DISCLOSURES**

### **Key Points**

- International Public Sector Accounting Standard IPSAS 20 *Related Party Disclosures* [web link] contains requirements on the disclosure of related party relationships and certain transactions with related parties.
- Applying IPSAS 20 involves identifying which parties control or significantly influence the reporting entity and making the required disclosures about them.
- To comply with the Standard, a reporting entity will need to have in place:
  - mechanisms to identify related party transactions that are not conducted within the parameters of the normal operating procedures/mandate of the reporting entity; and
  - records of the remuneration and benefits received by the key management personnel and their close family members, from the reporting entity.

### **Introduction**

- 17.1 Related party relationships exist throughout the public sector – Ministers and other elected/appointed members of the government and senior management can exert significant influence on the operations of government departments and other entities. Government departments and entities frequently conduct activities necessary for the discharge of their responsibilities and achievement of their objectives through separate controlled entities, and through entities over which they have significant influence. This Chapter outlines the requirements in IPSAS 20 and outlines the processes and policies that an entity will need put in place if it is to comply with the Standard.
- 17.2 IPSAS 20 requires the disclosure of the existence of related party relationships where control exists, and the disclosure of information about transactions between the entity and its related parties in certain circumstances. The information is required for accountability purposes and to facilitate a better understanding of the financial position and performance of the reporting entity.

### **Definitions**

- 17.3 IPSAS 20 contains definitions of key management personnel, remuneration, close members of the family of an individual and significant influence on the reporting entity.
- 17.4 Parties are defined as related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control. Related parties include:
- (a) entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the reporting entity;
  - (b) associates;

- (c) individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual;
- (d) key management personnel, and close members of the family of key management personnel; and
- (e) entities in which a substantial ownership interest is held, directly or indirectly, by any person described in (c) or (d), or over which such a person is able to exercise significant influence.

### **Related Parties**

17.5 It will be necessary for the reporting entity to create a process to identify and review its related parties. The process will include:

- identifying the reporting entity's controlled and controlling entities. International Public Sector Accounting Standard IPSAS 6 *Consolidated Financial Statements and Accounting for Controlled Entities* provides guidance on the concept of 'control' of another entity for financial reporting purposes;
- identifying the reporting entity's associates. International Public Sector Accounting Standards IPSAS 7 *Accounting for Investments in Associates* provides guidance on what is an associate; and
- maintaining a record of the reporting entity's key management personnel and their close family members. This record will include information on:
  - the amount of remuneration and benefits received from the reporting entity; and
  - entities in which a substantial ownership interest is held (directly or indirectly) by the key management personnel and their family.

### **Related Party Transactions**

17.6 Related party transactions are transfers of resources or obligations between related parties, regardless of whether a price is charged. However, they exclude transactions with any other entity that is a related party:

- solely because of its economic dependence on the reporting entity or the government of which it forms part; and
- that are within the normal operating procedures of the reporting entity.

17.7 To identify these types of transactions, the reporting entity will need to:

- review its relationship with its related parties; and
- identify on what constitute the normal operating procedures/mandate with its related parties and develop new policies for any uncertainties.

### **Related Party Disclosures**

17.717.8 To comply with the disclosure requirements of IPSASs, an entity will have to:

- identify all of its related parties;
- identify and maintain records of the relevant related party transactions. These records should outline:
  - the nature of the related party relationships;
  - types of transaction that have occurred; and
  - other elements of the transactions necessary to clarify the significance of the transactions to its operations such as the terms and conditions of these transactions;
- identify and disclose all the remuneration and benefits (both direct and indirect) of key management personnel and their close members of the family, by the reporting entity. Currently, there is no International Public Sector Accounting Standard on the measurement of employee benefits. International Accounting Standard IAS 19, *Employee Benefits* provides guidance on measurement of certain employee benefits; and
- identify loans provided to key management personnel and their close family members whose availability is not widely available to persons who are outside the key management group or are not widely known by the public. Management should establish policies and criteria on when and how such loans can be approved. An entity providing these types of loans should have systems that are able to generate:
  - the amount advanced and the terms and conditions thereof;
  - the amount repaid during the period and the closing balance of all loans and receivables; and
  - where the recipient is not a member of the governing body nor part of the senior management, the relationship of the individual as such.

### **Relevance to the Cash Basis of Accounting**

17.817.9 The issues identified in this Chapter are relevant for entities intending to provide additional disclosure on related party disclosures as encouraged in Part 2 of the Cash Basis IPSAS *Financial Reporting Under The Cash Basis of Accounting*.



## References

International Federation of Accountants (IFAC), *IPSAS 20 Related Party Disclosures*,  
<http://www.ifac.org/Store/Category.tmpl?Category=Public%20Sector%20Accounting&Cart=10509963461194892>, October 2002.

International Federation of Accountants (IFAC), *Cash Basis IPSAS Financial Reporting Under The Cash Basis of Accounting*,  
<http://www.ifac.org/Store/Category.tmpl?Category=Public%20Sector%20Accounting&Cart=10509963461194892>, January 2003.

## Continuation of Attachment 1 to Agenda Item 13.3 – Proposed Marked-Up Changes

This section contains examples of proposed changes referred to in the table in Agenda Item 13.3:

### 1. Acknowledgement

The ~~first edition of this~~ Study was prepared by Public Sector Performance (NZ) Ltd (~~<http://www.pspnz.co.nz>~~) on behalf of the Public Sector Committee of the International Federation of Accountants.

### 2. Chapter 1, paragraph 1.1

This Study was issued by the Public Sector Committee (PSC) of the International Federation of Accountants (IFAC). IFAC is an organization of national professional accountancy organizations that represent accountants employed in public practice, business and industry, the public sector and education. The PSC's mandate encompasses ~~focuses~~ on the accounting, auditing and financial reporting needs of national, regional and local governments, related governmental entities, and the constituencies they serve. It addresses these needs by issuing and promoting benchmark guidance, conducting educational and research programs, and facilitating the exchange of information among accountants and those who work in the public sector. The International Organization of Supreme Audit Institutions (INTOSAI) and the International Auditing and Assurance Standards Board (IAASB) have formed a joint working group to replace the current involvement of the PSC in preparing public sector guidance on International Standards on Auditing (ISAs). It is anticipated that by the end of 2003, INTOSAI will assume the role of providing public sector guidance on ISAs, where appropriate.

### 3. Chapter 1, paragraph 1.7

#### Cash-Based Standard

- 1.7 The PSC has also issued ~~Exposure Draft~~the Cash Basis IPSAS-~~ED-9~~ *Financial Reporting Under* ~~the Cash Basis of Accounting~~. Although the focus of this Study is on the transition to the accrual basis, some parts of the Study may also assist readers who are seeking information ~~which may be useful for~~in complying with ~~any IPSAS on the cash basis that is developed based on Exposure Draft~~the Cash Basis IPSAS-~~ED-9~~. Appendix 2 of this Chapter explains the relevance of specific Chapters of this Study for entities intending to comply with ~~Exposure Draft IPSAS-ED-9~~the Standard. In addition, Appendix 2 of Chapter 4 illustrates the accounting policies that may be required in order for an entity to comply with ~~Exposure Draft IPSAS-ED-9~~the Standard.

### 4. Chapter 1, paragraph 1.14

- 1.14 The PSC is considering supporting this Study with a series of Occasional Papers documenting case studies from specific jurisdictions on their transition to the accrual basis of accounting. Occasional Papers published to date are:

<sup>+</sup> ~~As more IPSASs are released, the implications of certain accounting issues for the cash basis of accounting will be considered and this may eventually lead to a revision of the IPSAS based on Exposure Draft IPSAS-ED-9 (or the subsequent IPSAS) and the disclosures required under the cash basis of accounting.~~

- Occasional Paper 1 *Implementing Accrual Accounting in Government: The New Zealand Experience*;
- Occasional Paper 2 *Auditing Whole of Government Financial Statements: The New Zealand Experience*;
- Occasional Paper 3 *Perspectives on Accrual Accounting*; ~~and~~
- Occasional Paper 4 *The Delegation of Public Services in France, An Original Method of Public Administration: Delegated Public Service*;
- Occasional Paper 5 *Resource Accounting: Framework of Accounting Standard Setting in the UK Central Government Sector*; and
- Occasional Paper 6 *The Modernization of Government Accounting in France: The Current Situation, The Issues, The Outlook*
- ~~An Occasional papers on the Modernization of Government Accounting in France and Resource Accounting and Budgeting in the United Kingdom~~Governmental Accounting System in Argentina is currently being finalized for publication.

#### 5. Chapter 1, Appendix 2:

Appendix 2 summarizes the relevance of the discussion in the Study to entities wanting to prepare their financial statements under the cash basis of accounting on a chapter by chapter basis.

PART III – FINANCIAL ELEMENTS		
Chapter 6	Assets	Not required for cash basis reporting. Relevant to the extent that an entity maintains records of certain assets <u>and discloses them as encouraged in the Cash Basis IPSAS</u> , and wishes to begin planning for the introduction of accrual accounting.
Chapter 7	Liabilities	Not required for cash basis reporting. Relevant to the extent that most entities operating under the cash basis of accounting maintain comprehensive records of debt and borrowings <u>and disclose them as encouraged in the Cash Basis IPSAS</u> .
Chapter 8	Revenues and Expenses	Not required for cash basis reporting. <u>Relevant to the extent that entities intend to prepare additional disclosure on revenue and expenses incurred during the period.</u> <del>Relevant to the extent that some entities recognize certain receivables and payables. The discussion on classification and disclosure of components of revenue is relevant.</del>

## PART IV – SPECIFIC TOPICS

Chapter 9	Cash	General relevance.
Chapter 10	Intangible Assets	Not required for cash basis reporting. <u>Relevant to the extent that entities intend to prepare additional disclosure on intangible assets.</u>
(Note: The narrative for Chapter 10 is the same for Chapters 11-14 (financial Instruments, employee-related liabilities, liabilities arising from social policy obligations and non-exchange revenue). Therefore, they have not been reproduced in this attachment.		
Chapter 15	Foreign Currency	<del>Not required for cash basis reporting. Exposure Draft IPSAS ED 9 contains proposals for the translation of cash flows and cash balances.</del> <u>Relevant for entities that need to translate foreign exchange cash flows and balances.</u>
<u>Chapter 16</u>	<u>Segment Reporting</u>	<u>Not required for cash basis reporting. Relevant for entities intending to prepare a statement of segments under the cash basis of accounting.</u>
<u>Chapter 17</u>	<u>Related Party Disclosures</u>	<u>Relevant for entities intending to provide related party disclosures as encouraged in Part 2 of the Standard.</u>

### 6. Chapter 3, paragraph 3.11. 3<sup>rd</sup> dot point

- ~~Competence Based Approaches to the Preparation and Work of the Professional Accountant~~ Towards Competent Professional Accountants (IFAC, 2003<sup>4</sup>). This paper explores the topic of accountant competency, providing an analysis of approaches used by various accountancy institutes around the world. The ~~discussion Paper seeks to define~~ the term “competence” and “capabilities”, provides guidance to accountancy membership bodies ~~on their role in developing competencies and capabilities~~ adapting their own qualifications to a competence-based approach, and assesses various ~~methods~~ issues surrounding the competence-based approaches and how they can be dealt with. The framework within the paper draws together ~~antwo~~ two different approaches to develop competent professional accountants: the functional analysis which focuses on performance outcomes approach (accountants performing roles and tasks in the workplace to a defined standard) and ~~ant~~ the second approach which focuses on capabilities such as inputs approach (knowledge, skills and abilities).

**7. Chapter 4, paragraph 4.14**

- 4.14 Entities may choose to adopt IPSASs at a time suitable for them. This will vary between jurisdictions depending upon the approach taken to adoption of accrual accounting and the time frame adopted. An entity can claim full compliance with accrual-based IPSASs only when it has complied with the requirements of all IPSASs on issue in force.

**8. Chapter 4, paragraphs 4.16 – 4.17 (new)**

- 4.16 There may be other issues which arise on first-time application-adoption of IPSASs which are not dealt with by IPSASs currently on issue. For example, how should an entity deal with any changes in reported figures, such as accumulated balances and comparative amounts, caused by arising from the first-time application-adoption of IPSASs? Entities will need to develop their own policies in relation to such issues. Other authoritative pronouncements may be helpful in identifying and dealing with such issues. For example, the International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board (IASB) Interpretation SIC 8 First Time Application of IASs as the Primary Basis of Accounting (IASB, August 1998). The International Accounting Standards Board has recently published International Financial Reporting Standard IFRS 1, First-time Adoption of International Financial Reporting Standards that replaced the International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board (IASB) Interpretation SIC 8 First Time Application of IASs as the Primary Basis of Accounting. IFRS 1 provides guidance on the treatment of adjustments to accumulated surpluses/deficits arising from the first-time application of International Accounting Financial Reporting Standards<sup>1</sup>. IFRS 1 differs from SIC 8 by clarifying that an entity applies the latest version of IFRSs, and requires disclosures on how the transition to IFRSs affected an entity's reported financial position, financial performance and cash flows.

This will be updated once we obtain the full text of IFRS 1. Currently, the discussion is based on its ED. IFRS 1 was issued on 19 June 03.

Footnote 1: At the time of writing, the International Accounting Standards Board (IASB) was considering the development of a standard on first time adoption which would replace SIC 8. Details of the proposals under consideration are available on the IASB web site.

**9. Chapter 6, paragraph 6.134**

**Relevance to the Cash Basis of Accounting**

- 6.134 The issues identified in this Chapter are relevant for entities intending to provide additional note disclosure on the nature and amount of various categories of assets comply with any future IPSAS based on encouraged by the Cash Basis IPSAS ED-9 Financial Reporting Under The Cash Basis of Accounting if they wish to provide additional note disclosure on the nature and amount of various categories of assets. Although an entity may provide additional disclosures within the financial statements or as supplementary information, such amounts cannot be included in the amounts shown on the face of the primary financial statements of cash receipts and payments.

Cash Basis Standard wording paragraph

**10. Chapter 4, current paragraphs 4.17 and 4.18**  
**Relevance to the Cash Basis of Accounting**

- ~~4.17~~4.18 An entity ~~wanting to~~ reporting on ~~a comprehensive~~the cash basis of accounting, ~~including the adoption of the major principles in any future IPSAS based on~~ in accordance with the Exposure Draft ED-9 Cash Basis IPSAS Financial Reporting Under The Cash Basis of Accounting, ~~would~~will disclose the accounting policies used in the preparation of its financial statement(s) as required by the Standard.
- 4.19 Accounting policies are defined in the Cash Basis IPSAS. The Standard also provides guidance on the selection of accounting policies and requires the disclosure of significant accounting policies in the notes to the financial statements.

Slight variation on the standard cash basis para

**11. Chapter 5, Paragraph 5.18**  
**Relevance to the Cash Basis of Accounting**

- 5.18 For those preparing consolidated cash basis reports, the ~~determination of the reporting entity and the preparation~~preparation of a consolidated ~~primary financial~~statement of cash receipts and payments involves substantially the same process as for the accrual basis. The consolidation requirements for the cash basis of accounting ~~will be~~are addressed in the ~~future IPSAS based on Exposure Draft International Public Sector Accounting Standard~~Cash Basis IPSAS ED-9 Financial Reporting Under The Cash Basis of Accounting.

Slight variation on the standard cash basis para

**12. Chapter 7, paragraph 7.25**

Note that ED 19 has been replaced by IPSAS 19.

- 7.25 Items not meeting these criteria may meet the definition of a contingent liability. Contingent liabilities are defined in ~~Exposure Draft IPSAS ED-219~~. Contingent liabilities are not recognized. Details of contingent liabilities are disclosed in the notes to the financial statements. In accordance with ~~Exposure Draft IPSAS ED-219~~, paragraph 38, "If it becomes probable that an outflow of future economic benefits or service potential will be required for an item previously dealt with as a contingent liability, a provision is recognized in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made)."

**13. Chapter 12, paragraph 12.9**

Reflect that the PSC deferred the project on employee benefits.

- 12.9 At the time of ~~writing~~issue of this Study (2<sup>nd</sup> Edition), there is no IPSAS dealing with the recognition of liabilities arising from employee-related expenses. ~~Exposure Draft International Public Sector Accounting Standard IPSAS ED-219 Provisions, Contingent Liabilities and Contingent Assets~~ excludes provisions arising from employee benefits. International Accounting Standard IAS 19, *Employee Benefits* is one source of guidance on the recognition of employee-related expenses, including pension costs. The IASB is currently performing a limited convergence project on post employment benefits. The Public Sector Committee (PSC) has ~~not yet~~deferred consideration of the application of this standard to public sector entities until the

~~IASB has completed its review of IAS 19, but has indicated its intention to develop an IPSAS on employee benefits.~~ Examples of other authoritative pronouncements are included in the References to this Chapter. Despite the fact that ~~Exposure Draft IPSAS ED-219~~ does not apply to employee ~~entitlements~~benefits, the guidance in ~~Exposure Draft IPSAS ED-219~~ may be useful where the accounting standard being applied by an entity does not contain guidance on a specific employee ~~entitlement~~benefit, or where the entity is uncertain whether an obligation meets the definition of an employee ~~entitlement~~benefit.

#### 14. Chapter 13, paragraph 13.1

To note the change of wordings in the exclusion scope from ED 21 to IPSAS 19 and that PSC has set up a steering committee on social policy obligations.

- 13.1 This Chapter addresses issues associated with the identification and recognition of liabilities arising from the social ~~policy obligations~~benefits of governments for which the government ~~does not~~ receives ~~no or nominal~~ consideration ~~that is approximately equal to the value of goods and services provided~~, directly in return from the recipients of those benefits. Social ~~benefits~~policy obligations arising from exchange transactions will be dealt with by the IPSAS based on ~~Exposure Draft~~ International Public Sector Accounting Standard IPSAS ~~ED-219~~ Provisions, Contingent Liabilities and Contingent Assets (refer Chapter 7). In addition, this Chapter does not address issues associated with employee-related liabilities (refer Chapter 12).
- 13.5 At the time of ~~writing issue of this Study (2<sup>nd</sup> Edition)~~, there is no IPSAS dealing specifically with the accounting treatment of liabilities arising from social policy obligations. ~~In addition, Exposure Draft IPSAS ED-21 excludes from the scope of the Standard provisions and contingent liabilities that arise from social benefits which the entity provides to the community and for which no or nominal consideration is expected directly in return from the recipients of those benefits.~~The PSC has established a Steering Committee to assist in the development of guidance on this issue. The Steering Committee is now preparing an Invitation to Comment which is the first step in the process of developing an IPSAS and is intended to provide the basis to initiate a full public discussion of the issues.

#### 15. Chapter 14, paragraphs 14.2 – 14.3

To note that the PSC has set up a steering committee on non-exchange revenue

- 14.2 14.2—There is currently no IPSAS dealing with the definition and recognition of non-exchange revenue. The PSC has established a Steering Committee to assist in the development of guidance on this issue. The Steering Committee is now preparing an Invitation to Comment which is the first step in the process of developing an IPSAS and is intended to provide the basis to initiate a full public discussion of the issues.
- 14.3 Other sources of guidance include a G4+1<sup>1</sup> Special Report, Accounting by Recipients for Non-Reciprocal Transfers, Excluding Contributions by Owners: Their Definition,

<sup>1</sup> The G4+1 ~~is was~~ an international group of standard setters. The standard-setting bodies associated with this Special Report were: Australian Accounting Standards Board, Canadian Accounting Standards Board, International Accounting Standards Board, New Zealand Financial Reporting Standards Board, United Kingdom Item 13.3 *Summary of Changes to Study 14 (2<sup>nd</sup> edition)*  
PSC Vancouver July 2003



Recognition and Measurement (Westwood and Mackenzie, 1999) which considered the appropriate treatments for non-reciprocal transfers, and Governmental Accounting Standards Board (GASB) Statements 33 and 36 dealing with the recognition of non-exchange transactions on a modified accrual basis (GASB 1998 and 2000). International Accounting Standard IAS 20 Accounting for Government Grants and Disclosure of Government Assistance deals with the recognition of government grants and assistance by enterprises. International Accounting Standard IAS 41, Agriculture also provides guidance in relation to government grants. However, these Standards does not focus on taxation and other the types of non-exchange revenues that may be received by the government itself.



## **Proposed Public Notice *Summary of Main Changes to Study 14***

NOTE: This Paper is to be included in the web site together with the updated Study and it will be updated when we finalize Study 14 (2<sup>nd</sup> Edition).

### **Study 14 *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities* (2<sup>nd</sup> Edition, DD/MM/YYYY) – Summary of Main Changes to Study 14 (April 2002)**

The Summary of Main Changes to Study 14 is provided for the information and convenience of readers.

#### **IPSASs Published**

- Subsequent to the publication of the first edition of Study 14 (issued in April 2002), 3 accrual-based IPSASs and the Cash Basis IPSAS have been issued. Study 14 (2<sup>nd</sup> edition) has been updated to reflect:
  - International Public Sector Accounting Standard IPSAS 18 *Segment Reporting*;
  - International Public Sector Accounting Standard IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*;
  - International Public Sector Accounting Standard IPSAS 20 *Related Party Disclosures*; and
  - Cash Basis IPSAS *Financial Reporting Under The Cash Basis of Accounting*.

#### **References and Web Sites Updated**

- References and web sites were updated to link with the electronic address of the references used.

#### **Others**

- The Study has also been updated to reflect other developments including that:
  - INTOSAI will assume the role of providing public sector guidance on International Standards of Auditing (ISAs) where appropriate from end of 2003;
  - Steering committees on non-exchange revenue and social policy obligations have been established;
  - PSC has issued an exposure draft on impairment of assets; and
  - the project on accounting for employee benefits has been deferred;
- Where the PSC has not addressed or developed guidance on particular issues, the Study has used examples from IASs. The Study has been updated to reflect the latest proposals of Exposure Drafts and requirements of Standards published by the IASB.

We anticipate that Study 14 will be published after the ED on Impairment of Assets is issued, but before the 2 ITCs are issued

**Agenda Item 13.5**

**This is an illustration of the Label warning on the remaining Hard Copies left of Study 14 (1st edition).**

**April 2002**

**Study 14**

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**Transition to the  
Accrual Basis of Accounting:  
Guidance for Governments  
and Government Entities**

A Later Version of This Document is available electronically. That later Document has been updated to reflect new IPSASs issued and certain other key developments since April 2002. This Document has not been updated.

Please refer to [www.ifac.org/publicsector](http://www.ifac.org/publicsector) for the latest updated version.

Agenda Item 13.6

This is an illustration of the Cover for Study 14  
(2<sup>nd</sup> Edition).

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Study 14

2<sup>nd</sup> Edition

Transition to the  
Accrual Basis of Accounting:  
Guidance for Governments  
and Government Entities



## FOREWORD

Many of the International Federation of Accountants Public Sector Committee's (PSC's) constituents, including some currently reporting on a cash basis, have expressed support for the application of the accrual basis of accounting to governmental financial reporting. This support is based on the view that accrual information includes, supplements and enhances the cash information currently provided and benefits both internal and external users. Many of these constituents also sought guidance from the PSC on the process of transition from the cash to the accrual basis. This Study has been prepared in response to that request. It identifies key issues to be addressed in the migration from the cash to the accrual basis of accounting. It also identifies alternate approaches that can be adopted in implementing the accrual basis of accounting in an efficient and effective manner in the public sector. This Study is updated periodically to reflect newly issued IPSASs and any other additional implementation issues and experiences are identified. Readers are encouraged to confirm with IFAC PSC on the status of the latest version available.

The PSC has ~~made significant progress in developing~~ a core set of accrual based International Public Sector Accounting Standards (IPSASs) ~~to be applied when either the accrual or the cash basis of accounting is adopted. By the end of 2002, I anticipate that the PSC will have issued twenty IPSASs on the accrual basis of Accounting,~~ and a comprehensive IPSAS on the cash basis of accounting. These IPSASs establish an authoritative set of independent international financial reporting standards for governments and others in the public sector organizations. Application of the IPSASs will support developments in public sector financial reporting directed at improving decision-making, financial management, and accountability. The PSC considers the IPSASs to be an integral element of reforms directed at promoting social and economic development.

The PSC believes governments and government entities will find the Study useful as they deal with the many and complex technical, systems and cultural issues necessary to implement an accrual system. The Study identifies key requirements of IPSASs. It also identifies other sources of useful guidance on issues not dealt with by IPSASs. However, readers should note this Study does not establish new or additional authoritative requirements and should not be considered a substitute for the IPSASs themselves. It is intended that this be a "living document" and be updated periodically as further IPSASs are issued, and additional implementation issues and experiences are identified.

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