

## 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 from IPSAS 3 the section that sets out the presentation requirements for surplus or deficit for the period.

#### Definitions

- in paragraph 8:
  - to define two new terms: “impracticable” and “notes”, and to amend the definition of “materiality” based on improved IAS 1.
  - to update several terms previously contained in IPSAS 1 but not included in previous IAS 1: “associates”, “financial assets”, “foreign currency”, “foreign operation”.
  - to replace the term “reporting currency” by “functional currency” and “presentation currency” due to changes in IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*. The “reporting currency” has also been replaced by “functional currency” and “presentation currency” in IPSAS 4.
  - to define the term “separate financial statements” to reflect changes in IPSAS 6 *Consolidated and Separate Financial Statements*.
  - to remove the following terms: “extraordinary items”, “fundamental errors”, “ordinary activities”, “net surplus/deficit”, and “surplus/deficit from ordinary activities”. These definitions have been also eliminated in IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- to include in paragraph 14 the interpretation of term “materiality” and to introduce the notion of characteristics of users. Previously, IPSAS 1 did not contain this commentary.

#### Fair Presentation and Departure from IPSASs

- to clarify in paragraph 28 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, revenues and expenses set out in IPSASs. Previously, IPSAS 1 did not contain the guidance on the meaning of “present fairly”.
- 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 objectives 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 might permit or prohibit the departure from IPSASs. (see paragraphs 32-37).
- to transfer previous paragraphs 37-42 in IPSAS 1, which relate to the selection and application of accounting policies, to IPSAS 3 *Accounting Policies, Changes in*

### *Accounting Estimates and Errors.*

#### **Classification of Asset and Liabilities**

- to require in paragraph 71 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 81 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 paragraph 84 that a financial liability that is due within twelve months after the balance sheet 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 85 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 86 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 87 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 to IPSAS 1 from IPSAS 3 the section that sets out the presentation requirements for surplus or deficit for the period (IPSAS 3 previous paragraphs 10-12, proposed IPSAS 1 paras 100-102).
- to remove the presentation of the following line items from the face of the statement of financial performance in paragraph 103:
  - surplus or deficit from operating activities
  - surplus or deficit from ordinary activities
  - extraordinary items.

Paragraph 106 states that the entity shall not present any items of revenue and expense as “extraordinary items” either on the face of financial statements or in the notes.

- to require in paragraph 103 the separate presentation, on the face of statement of financial

Item 12.6 *Marked-up IPSASs re: “General Improvements Project”*

PSC Buenos Aires March 2004

performance, of the entity's surplus or deficit for the period and the allocation of that amount between "surplus or deficit attributable to minority interest" and "surplus or deficit attributable to net assets/equity holders of the controlling entity". Previously, IPSAS 1 did not contain these presentation requirements.

#### Statement of Changes in Net Assets/Equity

- to require in paragraph 119 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, showing separately the amounts attributable to minority interest and net assets/equity holders of the controlling entity. Previously, IPSAS 1 did not require presentation of these items.

#### Notes

- to require in paragraphs 138-140 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 141-148 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.

IFAC  
Public  
Sector  
Committee

Issued ~~MayX 2000~~200X

IPSAS 1

# Presentation of Financial Statements

**International Public Sector**

**Accounting Standard**

Issued by  
the International  
Federation of  
Accountants



**This Standard was approved by the Public Sector Committee of the International Federation of Accountants.**

### ***Acknowledgment***

This International Public Sector Accounting Standard is drawn primarily from International Accounting Standard IAS 1, *Presentation of Financial Statements* (revised 2003) published by the International Accounting Standards Committee Board (IASB). Extracts from IAS 1 are reproduced in this publication of the Public Sector Committee of the International Federation of Accountants with the permission of IASB.

The approved text of the International Accounting Standards (IASs) is that published by IASB in the English language, and copies may be obtained directly from IASB Publications Department, 166 Fleet Street, London EC4A 3DF, United Kingdom.

**E-mail: [publications@iasb.org.uk](mailto:publications@iasb.org.uk)**

**Internet: <http://www.iasb.org.uk>**

IASs, Exposure Drafts and other publications of the IASB are copyright of the IASB.

“IAS”, “IASB”, “IASB”, “IASB” and “International Accounting Standards” are Trade Marks of the IASB and should not be used without the approval of the IASB.

~~“IAS”, “IASB” and “International Accounting Standards” are registered Trade Marks of the IASB and should not be used without the approval of the IASB.~~

Information about the International Federation of Accountants and copies of this Standard can be found at its internet website, <http://www.ifac.org>.

The approved text of this Standard is that published in the English language.

Copyright © 2000/200X by the International Federation of Accountants. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the International Federation of Accountants.

ISBN: 1-887464-46-8

International Federation of Accountants  
535 Fifth Avenue, 26th Floor  
New York, New York 10017  
United States of America  
Website: <http://www.ifac.org>

# INTRODUCTION

## Accounting Standards for the Public Sector

The International Federation of Accountants — Public Sector Committee (the Committee) is developing ~~a set of~~ recommended accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The Committee 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 revision to the Introduction was consistent with the latest version in ED 23.

The IPSASs are based on the International Financial Reporting Standards, formerly known as International Accounting Standards (IASs), issued by the International Accounting Standards Board (IASB), where the requirements of those Standards are applicable to the public sector. The Committee is also developing IPSASs that deal with accounting issues in the public sector that are not addressed in the IFRSs or IASs.

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 Committee strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in these Exposure Drafts. The Committee recognizes the right of governments and national standard-setters to establish accounting standards and guidelines and accounting standards for financial reporting by the public sector in their jurisdictions. The Committee 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~~International Public Sector Accounting Standard~~.

~~The objective of the current phase of the Committee's workplan is to develop IPSASs based on the International Accounting Standards (IASs) issued by the International Accounting Standards Committee and extant at 31 August 1997, or their subsequently revised versions. Some accounting issues in the public sector are not fully addressed in the IASs. Similarly, accounting for a number of complex issues will be addressed in IASs currently under development. Although these issues are not included in the brief of the current phase of the Committee's workplan, it is cognizant of the importance of these issues and expects to address them once it has issued its initial set of Standards.~~

# Contents

## International Public Sector Accounting Standard IPSAS 1

### Presentation of Financial Statements

<b>OBJECTIVE</b>	<u>Paragraphs</u>	<u>1</u>
<b>SCOPE</b>	<u>Paragraphs</u>	<u>12 – 57</u>
<b>DEFINITIONS</b>		<u>68 – 1215</u>
Economic Entity		<u>79 – 911</u>
Future Economic Benefits or Service Potential		<u>1012</u>
Government Business Enterprises		<u>1113</u>
<u>Materiality</u>		<u>14</u>
Net Assets/Equity		<u>1215</u>
<b>PURPOSE OF FINANCIAL STATEMENTS</b>		<u>1316 – 1619</u>
<b>RESPONSIBILITY FOR FINANCIAL STATEMENTS</b>		<u>1720 – 1821</u>
<b>COMPONENTS OF FINANCIAL STATEMENTS</b>		<u>1922 – 2427</u>
<b>OVERALL CONSIDERATIONS</b>		<u>2528 – 6359</u>
<b>Fair Presentation and Compliance with International Public Sector Accounting Standards</b>		<u>2528 – 3638</u>
<b><del>Accounting Policies</del></b>		<u>37 – 42</u>
<b>Going Concern</b>		<u>4339 – 4642</u>
<b>Consistency of Presentation</b>		<u>4743 – 4945</u>
<b>Materiality and Aggregation</b>		<u>5046 – 5348</u>
<b>Offsetting</b>		<u>5449 – 5953</u>

<b>Comparative Information</b>	<del>60</del> <u>54</u> – <del>63</del> <u>59</u>
<b>STRUCTURE AND CONTENT</b>	<b><del>64</del><u>60</u> – <del>133</del><u>150</u></b>
<b>Introduction</b>	<del>64</del> <u>60</u> – <del>74</del> <u>70</u>
Identification of Financial Statements	<del>66</del> <u>62</u> – <del>70</del> <u>66</u>
Reporting Period	<del>71</del> <u>67</u> – <del>73</del> <u>69</u>
Timeliness	<del>74</del> <u>70</u>
<b>Statement of Financial Position</b>	<del>75</del> <u>71</u> – <del>100</del> <u>99</u>
The Current/Non-current Distinction	<del>75</del> <u>71</u> – <del>78</del> <u>76</u>
Current Assets	<del>79</del> <u>77</u> – <del>82</del> <u>80</u>
Current Liabilities	<del>83</del> <u>81</u> – 88
Information to be Presented on the Face of the Statement of Financial Position	89 – <del>94</del> <u>93</u>
Information to be Presented either on the Face of the Statement of Financial Position or in the Notes	<del>95</del> <u>94</u> – <del>100</del> <u>99</u>
<b>Statement of Financial Performance</b>	<del>101</del> <u>100</u> – <del>113</del> <u>118</u>
<u>Surplus or Deficit for the Period</u>	<u>100-102</u>
Information to be Presented on the Face of the Statement of Financial Performance	<del>101</del> <u>103</u> – <del>103</del> <u>106</u>
Information to be Presented either on the Face of the Statement of Financial Performance or in the Notes	<del>104</del> <u>107</u> – <del>113</del> <u>118</u>
<b>Changes in Net Assets/Equity</b>	<del>114</del> <u>119</u> – <del>120</del> <u>126</u>



	page 12.119
<b>Cash Flow Statement</b>	<del>121</del> <u>127</u>
<b>Notes to the Financial Statements</b>	<del>122</del> <u>128</u> –
	<del>133</del> <u>150</u>
Structure	<del>122</del> <u>128</u> –
	<del>127</del> <u>132</u>
Presentation <u>Disclosure of Accounting Policies</u>	<del>128</del> <u>133</u> –
	<del>132</del> <u>140</u>
<u>Key Sources of Estimation Uncertainty</u>	<u>141-148</u>
Other Disclosures	<del>133</del> <u>149-</u>
	<u>150</u>
<b>TRANSITIONAL PROVISIONS</b>	<del>134</del> <u>151</u> –
	<del>135</del> <u>152</u>
<b>EFFECTIVE DATE</b>	<del>136</del> <u>153</u> –
	<del>137</del> <u>154</u>
<b>APPENDIX 1 – ILLUSTRATIVE FINANCIAL STATEMENT STRUCTURE</b>	
<b>APPENDIX 2 – QUALITATIVE CHARACTERISTICS OF FINANCIAL REPORTING</b>	
<b>COMPARISON WITH IAS 1</b>	

# INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS 1

As part of  
PSC's due  
process,  
Staff did  
not change  
this para  
per IASB's  
changes.  
Pls refer to  
the  
covering  
memo.

## Presentation of Financial Statements

*The standards, which have been set in bold italic type, should be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the "Preface to International Public Sector Accounting Standards". International Public Sector Accounting Standards are not intended to apply to immaterial items.*

## Objective

1. The objective of this Standard is to prescribe the manner in which general purpose financial statements should be presented ~~in order~~ to ensure comparability both with the entity's ~~own~~ 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

- ~~12.~~ ***This Standard ~~should~~ shall be applied ~~in the presentation of~~ to all general purpose financial statements prepared and presented under the accrual basis of accounting in accordance with International Public Sector Accounting Standards.***
- ~~23.~~ 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 ~~specific~~ 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.

Please note that the name of IPSAS 6 was changed.

34. This Standard applies equally to ~~the financial statements of an individual~~ all entities and ~~to whether or not they need to prepare consolidated financial statements or separate financial statements, as defined in IPSAS 6 Consolidated and Separate Financial Statements~~ for an economic entity, such as whole-of-government financial statements.

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

56. The Preface to International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) explains that International Financial Reporting Standards (IFRSs) are designed to apply to the general purpose financial statements of all profit-oriented entities. Government Business Enterprises (GBEs) are defined in paragraph 8 below. They are profit-oriented entities. Accordingly, they are required to comply with IFRSs and International Accounting Standards (IASs) issued by the International Accounting Standards Committee. The Public Sector Committee's Guideline No. 1 Financial Reporting by Government Business Enterprises notes that IASs are relevant to all business enterprises, regardless of whether they are in the private or public sector. Accordingly, Guideline No. 1 recommends that GBEs should present financial statements that conform, in all material respects, to IASs.

The revision to para 6 and addition of para 7 were to keep consistent with the latest version in ED 23.

7. The International Accounting Standards Board (IASB) was established in 2001 to replace the International Accounting Standards Committee (IASC). The IASs issued by the IASC remain in force until they are amended or withdrawn by the IASB.

## Definitions

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

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

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.*

*Associate is an entity, including an unincorporated entity such as a partnership, ~~in~~over which the investor has significant influence and ~~which that~~ is neither a controlled entity nor a joint venture of the investor.*

*Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.*

*Cash comprises cash on hand and demand deposits.*

*Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.*

*Cash flows are inflows and outflows of cash and cash equivalents.*

*Consolidated financial statements are the financial statements of an economic entity presented as those of a single 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.*

*Control is the power to govern the financial and operating policies of another entity so as to benefit from its activities.*

Staff were not convinced of whether this change is necessary for public sector, because most public sector entities would be unincorporated.

Staff were not convinced of whether this change is necessary for public sector, because most public sector

**Controlled entity** is an entity, including an unincorporated entity such as a partnership, that is under the control of another entity (known as the controlling entity).

**Controlling entity** is an entity that has one or more controlled entities.

**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.

**Economic entity** means a group of entities comprising a controlling entity and one or more controlled entities.

**Equity method** is a method of accounting whereby the investment is initially ~~recorded~~ recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets/equity of the investee. ~~The statement of financial performancee surplus or deficit of the investor reflects includes the investor's share of the results of operations surplus or deficit of the investee.~~

**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.

**Exchange difference** is the difference resulting from ~~reporting translating the same a given~~ number of units of ~~a foreign one~~ currency ~~into the reporting another~~ currency at different exchange rates.

~~**Extraordinary items** are revenue or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the entity, are not expected to recur frequently or regularly and are outside the control or influence of the entity.~~

**Fair value** is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

A **financial asset** is any asset that is:

(a) cash;

Extraordinary items are not allowed to present on the face of financial statements any more. The same change was also made in IPSAS 3.

Financial asset definition was revised per the change in improved IAS 32. Pls note revising IAS 32 is not part of IASB general improvement project.

- (b) an equity instrument of another entity;
- (c) a contractual right:
- (i) to receive cash or another financial asset from another entity; or
- (e) ~~a contractual right~~ (ii) to exchange financial instruments assets or financial liabilities with another entity under conditions that are potentially favorable to the entity; or
- (d) ~~an equity instrument of another entity~~ a contract that will or may be settled in the entity's own equity instruments and is:
- (i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
- (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Foreign currency is a currency other than the ~~reporting~~ functional currency of ~~an~~ the entity.

Foreign operation is an entity that is a controlled entity, associate, joint venture or branch of the a reporting entity, the activities of which are based or conducted in a country or currency other than the country those of the reporting entity.

Functional currency is the currency of the primary economic environment in which the entity operates.

~~Fundamental errors are 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.~~

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;

This term was deleted due to the change in IPSAS 3.

Functional currency was added due to the change in IPSAS 4.

- (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" is a new term defined by IASB.

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

*Joint venture* is a binding arrangement whereby two or more parties are committed to undertake an activity ~~which~~ that is subject to joint control.

*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.

Pls note IASB uses "economical decisions". PSC used "decisions" when "materiality" was first defined in IPSAS 1. Staff retained the description in IPSAS 1.

*Materiality:* ~~information is material if its 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 item or error omission or misstatement judged in the particular surrounding circumstances of omission or misstatement. The size or nature of the information item, or a combination of both, could be the determining factor.~~

*Minority interest* is that ~~part~~ portion of the ~~net~~ surplus (deficit) and of net assets/equity of a controlled entity attributable to interests ~~which~~ that are not owned, directly or indirectly through controlled entities, by the controlling entity.

"net surplus/deficit" was deleted due to the elimination of ordinary activity and extraordinary item.

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

*Net surplus/deficit comprises the following components:*

- (a) ~~surplus or deficit from ordinary activities; and~~
- (b) ~~extraordinary items.~~

“Notes” is a new term defined by IASB.

*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.*

“Ordinary activity” was deleted due to the change in IPSAS 3.

~~*Ordinary activities are any activities which are undertaken by an entity as part of its service delivery or trading activities. Ordinary activities include such related activities in which the entity engages in furtherance of, incidental to, or arising from these activities.*~~

*Presentation currency is the currency in which the financial statements are presented.*

Presentation currency was added due to the change in IPSAS 4.

Reporting currency was deleted due to the change in IPSAS 4.

*Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.*

~~*Reporting currency is the currency used in presenting the financial statements.*~~

*Reporting date means the date of the last day of the reporting period to which the financial statements relate.*

*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.*

Separate financial statements is a new defined by IASB due to changes made in IAS 27.

This term was deleted due to the proposed elimination of this item from the statement of financial performance.

*Separate financial statements are those presented by a controlling entity, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.*

~~*Surplus/deficit from ordinary activities is the residual amount that remains after expenses arising from ordinary activities have been deducted from revenue arising from ordinary activities.*~~

## Economic Entity



79. The term “economic entity” is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.
810. Other terms sometimes used to refer to an economic entity include “administrative entity”, “financial entity”, “consolidated entity” and “group”.
911. An economic entity may include entities with both social policy and commercial objectives. For example, a government housing department may be an economic entity which includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.

### **Future Economic Benefits or Service Potential**

1012. 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**

1113. 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 and Accounting for Controlled Entities* 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**

Pls note the characteristics of users in para 14 were introduced by IASB in final standard, not in ED.

14. 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 business 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

15. “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.

Please note: this section is located before the definition section in improved IAS 1.

## Purpose of Financial Statements

16. Financial statements are a structured representation of the financial position of and ~~the transactions undertaken~~ financial performance ~~by~~ 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.

~~14~~17. 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.

~~15~~18. 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; ~~and~~
- (f) other changes in net assets/equity; and
- (~~f~~g) cash flows.

~~16~~19. Whilst the information contained in financial statements can be relevant for the purpose of meeting the objectives in paragraph ~~13~~16, 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.

Pls note this section has been removed by IASB in improved IAS 1, but staff proposed to retain it due to its usefulness.

## Responsibility for Financial Statements

~~17~~20. 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).

1821. 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).

Please note:  
this section  
is located  
before the  
definition  
section in  
improved  
IAS 1.

## Components of Financial Statements

1922. *A complete set of financial statements includes the following components:*

- (a) *statement of financial position;*
- (b) *statement of financial performance;*
- (c) *statement of changes in net assets/equity;*
- (d) *cash flow statement; and*
- (e) *accounting policies and notes to the financial statements, comprising a summary of significant accounting policies and other explanatory notes.*

2023. The components listed in paragraph 19 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 to the financial statements may include items referred to as “schedules” in some jurisdictions.

2124. 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.

- ~~22~~25. 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.
- ~~23~~26. 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.
- ~~24~~27. 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

**2528.** *Financial statements ~~should~~ 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 ~~appropriate~~ application of International Public Sector Accounting Standards, with additional disclosures when necessary, is presumed to results, in ~~virtually all circumstances~~, in financial statements that achieve a fair presentation.*

Pls note that IASB used description: "definitions and recognition criteria set out in the Framework". Staff used different description due to lack of Framework.

**2629.** *An entity whose financial statements comply with International Public Sector Accounting Standards ~~should~~ shall ~~disclose that fact~~ make an explicit and unreserved statement of such compliance in the notes. Financial statements ~~should~~ shall not be described as complying with International Public Sector Accounting Standards unless they comply with all the requirements of ~~each applicable~~ all International Public Sector Accounting Standards.*

**30.** 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;

Current para 30 was relocated from original para 32 with minor changes.

- (b) to present information, including accounting policies, in a manner which provides relevant, reliable, comparable and understandable information; and
- (c) to provide additional disclosures when compliance with the specific requirements in International Public Sector Accounting Standards are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

**2731.** *Inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material.*

**2832.** *In the extremely rare circumstances when 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, ~~and therefore that the entity shall depart from a that requirement in the manner set out in paragraph 33 if the regulatory framework requires, or otherwise does not prohibit, such a departure.~~ ~~is necessary to achieve a fair presentation, an entity should disclose:~~*

**33.** *When an entity departs from a requirement of a Standard in accordance with paragraph 32, it shall disclose:*

- (a) *that management has concluded that the financial statements ~~fairly~~ present fairly the entity's financial position, financial performance and cash flows;*
- (b) *that it has complied ~~in all material respects~~ with applicable International Public Sector Accounting Standards, except that it has departed from a particular requirement ~~Standard in order~~ 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 the entity's net surplus or deficit, assets, liabilities, net assets/equity, and cash flows for each period presented.

Paras 34-35 were added by IASB to clarify how to treat prior period departures in the current period.

**34. 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 33 (c) and (d).**

35. Paragraph 34 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.

Para 36 was added to solve the possible problems existed in the circumstance where the regulatory framework prohibits departure.

**36. 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.**

Current para 37 was relocated from original ara 34.

37. For the purpose of paragraphs 32-36, 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 an International Public Sector Accounting 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.

~~29. Financial statements may be described as being “based on” or “complying with the significant requirements of”, or “in compliance with the accounting requirements of” International Public Sector Accounting Standards. There may be no further information, although it is clear that significant disclosure requirements, if not accounting requirements, are not met. Such statements are misleading because they detract from the reliability and understandability of the financial statements.~~

~~30. In order to ensure that financial statements that claim compliance with International Public Sector Accounting Standards will meet the standards required by users internationally, this Standard includes an overall requirement that financial statements should give a fair presentation, guidance on how the fair presentation requirement is met, and further guidance for determining the extremely rare circumstances when a departure is necessary. It also requires prominent disclosure of the circumstances surrounding a departure. However, where an entity adopts International Public Sector Accounting Standards, the existence of conflicting national requirements (for example, where financial reporting requirements set by the government conflict with these Standards) is not, in itself, sufficient to justify a departure in financial statements that claim compliance with International Public Sector Accounting Standards.~~

~~34~~38. 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 necessary to achieve fair presentation as outlined in paragraph ~~28~~25. If such

departures are material an entity cannot claim to be complying with International Public Sector Accounting Standards.

Original  
para 32 was  
relocated to  
current para  
30 with  
minor  
changes.

~~32. In virtually all circumstances, a fair presentation is achieved by compliance in all material respects with applicable International Public Sector Accounting Standards. A fair presentation requires:~~

- ~~(a) selecting and applying accounting policies in accordance with paragraph 37;~~
- ~~(b) presenting information, including accounting policies, in a manner which provides relevant, reliable, comparable and understandable information; and~~
- ~~(c) providing additional disclosures when the requirements in International Public Sector Accounting Standards are insufficient to enable users to understand the impact of particular transactions or events on the entity's financial position and financial performance.~~

~~33. In extremely rare circumstances, application of a specific requirement in an International Public Sector Accounting Standard might result in misleading financial statements. This will be the case only when the treatment required by the Standard is clearly inappropriate and thus a fair presentation cannot be achieved either by applying the Standard or through additional disclosure alone. Departure is not appropriate simply because another treatment would also give a fair presentation.~~

~~34. When assessing whether a departure from a specific requirement in International Public Sector Accounting Standards is necessary, consideration is given to:~~

Original  
para 34 was  
relocated to  
current para  
37.

- ~~(a) the objective of the requirement and why that objective is not achieved or is not relevant in the particular circumstances; and~~
- ~~(b) the way in which the entity's circumstances differ from those of other entities which follow the requirement.~~

~~35. Because the circumstances requiring a departure are expected to be extremely rare and the need for a departure will be a matter for considerable debate and subjective judgment, it is important that users are aware that the entity has not complied in all material respects with International Public Sector Accounting Standards. It is also important that they are given sufficient information to enable them to make an informed judgment on~~

~~whether the departure is necessary and to calculate the adjustments that would be required to comply with the Standard.~~

- ~~36. When, in accordance with specific provisions in that Standard, an International Public Sector Accounting Standard is applied before its effective date, that fact should be disclosed.~~

Please note:  
the  
accounting  
policy  
section (ie  
pars 37-42)  
was  
relocated to  
IPSAS 3.

## **Accounting Policies**

- ~~37. Management should select and apply an entity's accounting policies so that the financial statements comply with all the requirements of each applicable International Public Sector Accounting Standard. Where there is no specific requirement, management should develop policies to ensure that the financial statements provide information that is:~~

- ~~(a) relevant to the decision-making needs of users; and~~
- ~~(b) reliable in that they:
 
  - ~~(i) represent faithfully the financial performance and financial position of the entity;~~
  - ~~(ii) reflect the economic substance of events and transactions and not merely the legal form;~~
  - ~~(iii) are neutral, that is, free from bias;~~
  - ~~(iv) are prudent; and~~
  - ~~(v) are complete in all material respects.~~~~

- ~~38. If one or more alternative accounting policies (benchmark or allowed alternative) are available under an International Public Sector Accounting Standard, an entity should choose and apply consistently one of those policies unless the Standard specifically requires or permits categorization of items (transactions, events, balances, amounts, etc.) for which policies are to be chosen. If a Standard requires or permits separate categorization of items, a single accounting policy should be selected and applied consistently to each category.~~

- ~~39. Once an initial policy has been selected, a change in accounting policy should only be made in accordance with International Public Sector Accounting Standard IPSAS 3 Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies and applied to all items or categories of items in the manner specified in paragraph 38.~~

40. ~~Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.~~
41. ~~The quality of information provided in financial statements determines the usefulness of the financial statements to users. Paragraph 37 requires the development of accounting policies to ensure that the financial statements provide information that meets a number of qualitative characteristics. Appendix 2 to this Standard summarizes the qualitative characteristics of financial reporting.~~
42. ~~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 these 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.~~

## Going Concern

- 4339.** *When preparing financial statements an assessment of an entity's ability to continue as a going concern ~~should~~ shall be made. This assessment should be made by those responsible for the preparation of the financial statements. Financial statements ~~should~~ 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 ~~which~~ that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties ~~should~~ shall be disclosed. When the financial statements are not prepared on a going concern basis, that fact ~~should~~ shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not ~~considered~~ regarded to be as a going concern.*

4440. 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 the financial statements take into account all available information ~~for~~ about the ~~foreseeable~~ future, which ~~should be~~ is at least, but is not limited to, twelve months from the approval of the financial statements.

4541. 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.

4642. 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 the financial statements may need to consider a wide range of factors surrounding 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

**4743.** *The presentation and classification of items in the financial statements ~~should~~ 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 of the ~~entity~~ or a review of its financial statements, that another presentation or classification would be ~~demonstrates that the change will result in a more appropriate~~ having regard to the criteria for the selection and application of accounting policies in IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors presentation of events or transactions; or*
- (b) *~~a change in presentation is required by an International Public Sector Accounting Standard~~ requires a change in presentation.*

**4844.** A significant acquisition or disposal, or a review of the presentation of the financial statements ~~presentation~~, might suggest that the financial statements ~~should~~ 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.

**4945.** 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 or if the benefit of an alternative presentation is clear, should an entity change the presentation of its financial statements.~~ When making such changes in presentation ~~are made~~, an entity reclassifies its comparative information in accordance with paragraph ~~62~~56 and 57. ~~Where~~

~~an entity has adopted International Public Sector Accounting Standards, a change in presentation to comply with national requirements is permitted as long as the revised presentation is consistent with the requirements of this Standard.~~

## Materiality and Aggregation

**5046.** ~~*Each material class of similar Items that are material by virtue of their nature should*~~ ***shall*** ~~*be presented separately in the financial statements. Items that are material by virtue of their size but which have the same nature may be aggregated. Immaterial amounts should be aggregated with amounts of a similar nature or function and need not*~~ ***Items of dissimilar nature or function shall be presented separately unless they are immaterial.***

**5147.** Financial statements result from processing large quantities numbers of transactions or other events that are ~~structured by being aggregated into groups~~ 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, ~~that which~~ form line items either on the face of the financial statements 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 ~~the financial~~ those statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of ~~the financial~~ those statements may nevertheless be sufficiently material ~~that for it should to~~ be presented separately in the notes.

**52.** ~~In this context, information is material if its non-disclosure could influence the decision making and evaluations of users about the allocation and stewardship of resources, and the performance of the entity, made on the basis of the financial statements. Materiality depends on the size and nature of the item judged in the particular circumstances of its omission. In deciding whether an item or an aggregate of items is material, the size and nature of the item are evaluated together. Depending on the circumstances, either the size or the nature of the item could be the determining factor. For example, individual revenues or receipts with the same nature and function are aggregated even if the individual amounts are large. However, large items which differ in nature or function are presented separately.~~

This para  
was deleted  
due to the  
addition of  
current para  
14.

5348. Applying ~~The principle concept~~ of materiality ~~provides means~~ that ~~the a specific disclosure requirements of in an~~ International Public Sector Accounting Standards need not be ~~met~~ satisfied if the ~~resulting~~ information is not material.

## Offsetting

5449. *Assets and liabilities, revenue and expenses, ~~should~~ shall not be offset ~~except when offsetting is~~ unless required or permitted by ~~another~~ an International Public Sector Accounting Standard.*

55. ~~Items of revenue and expense should not be offset except when, and only when:~~

- ~~(a) an International Public Sector Accounting Standard requires or permits it; or~~
- ~~(b) gains, losses and related expenses arising from the same or similar transactions and other events are not material. Such amounts should be aggregated in accordance with paragraph 50.~~

5650. It is important that ~~both~~ assets and liabilities, and revenue and expenses, ~~when material~~, are reported separately. Offsetting in ~~either~~ 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 ~~undertaken~~, other events and conditions that have occurred and to assess the entity's future cash flows of the entity. ~~The reporting of Measuring assets net of valuation allowances,----for example, obsolescence allowances on inventories and doubtful debts allowances on receivables,----is not offsetting.~~

5751. Revenue relating to exchange transactions is 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 transactions ~~which~~ that do not generate revenue but ~~which~~ 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 ~~that are~~ reimbursed under a contractual arrangement with a third party (for example, a ~~sub-letting~~ supplier's warranty agreement) are may be netted against the related reimbursement; ~~and~~
- (c) ~~extraordinary items may be presented net of related taxation and minority interest, where appropriate, with the gross amounts shown in the notes.~~

5852. 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 ~~purposes~~. Such gains and losses are, however, reported separately if they are material ~~their size, nature or incidence is such that separate disclosure is required by IPSAS 3.~~

5953. The offsetting of cash flows is dealt with in International Public Sector Accounting Standard IPSAS 2 *Cash Flow Statements*.

## Comparative Information

6054. ~~Unless~~ Except when *an International Public Sector Accounting Standard permits or requires otherwise, comparative information should shall be disclosed in respect of the previous period for all ~~numerical information amounts reported in the financial statements, except in respect of the financial statements for the reporting period to which this Standard is first applied.~~ Comparative information should shall be included ~~in~~ for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.*

Per discussion at Berlin meeting, first application issue will be dealt with in transitional provision section.

6155. 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 ~~knowing~~ 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.

~~6256.~~ *When the presentation or classification of items in the financial statements is amended, comparative amounts ~~should~~ shall be reclassified; unless ~~it~~ the reclassification is impracticable ~~to do so, to ensure comparability with the current period, and the nature, amount of, and reason for any reclassification should be disclosed.~~ When it is impracticable to reclassify comparative amounts are reclassified, an entity ~~should~~ shall disclose; ~~the reason for not reclassifying and the nature of the changes that would have been made if amounts were reclassified.~~*

*(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.*

~~57.~~ *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.*

~~6358.~~ *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 ~~C~~ircumstances may exist, when 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 previous period(s) in a way ~~which~~ that allows reclassification, and it may not be practicable to recreate the information. ~~In~~ such circumstances, the nature of the adjustments to comparative amounts that would have been made are disclosed.*

~~59.~~ *IPSAS 3 contains guidance ~~on~~ deals with the adjustments required to comparative information required following a when an entity changes ~~in an~~ accounting policy or corrects an error that is applied retrospectively.*

## Structure and Content

## Introduction

- ~~6460.~~ This Standard requires certain particular disclosures on the face of the financial statements, statement of financial position, statement of financial performance and statement of changes in net assets/equity; and requires disclosure of other line items to be disclosed either on the face of the financial those statements or in the notes; and IPSAS 2 sets out requirements for the presentation of a cash flow statement recommended formats as an appendix to the Standard which an entity may follow as appropriate in its own circumstances.
- ~~6561.~~ This Standard sometimes uses the term ‘disclosure’ in a broad sense, encompassing items presented on the face of each financial the statement of financial position, statement of financial performance and cash flow statement as well as in the notes to the financial statements. Disclosures are also required by other International Public Sector Accounting Standards are made in accordance with the requirements of those Standards. Unless specified to the contrary elsewhere in this or another Standard specifies to the contrary, such disclosures are made either on the face of the relevant financial statement of financial position, statement of financial performance and cash flow statement (whichever is relevant), or in the notes.

## Identification of Financial Statements

- ~~6662.~~ *The Ffinancial statements should shall be clearly identified clearly and distinguished from other information in the same published document.*
- ~~6763.~~ International Public Sector Accounting Standards apply only to ~~the~~ financial statements, and not to other information presented in an annual report or other document. Therefore, it is important that users are able to distinguish information that is prepared using International Public Sector Accounting Standards from other information ~~which that~~ may be useful to users but is not the subject of those requirements Standards.
- ~~6864.~~ *Each component of the financial statements should shall be clearly identified clearly. In addition, the following information should shall be prominently displayed prominently, and repeated when it is necessary for a proper understanding of the information presented:*

Presentation  
in currency  
is a new  
term  
defined in  
proposed  
IPSAS 4.

- (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 the ~~related~~ component of the financial statements;*
- (d) *the ~~reporting~~ presentation currency, as defined in IPSAS 4 The Effects of Changes in Foreign Exchange Rates; and*
- (e) *the level of ~~precision~~ rounding used in the ~~presentation of figures~~ amounts in the financial statements.*

6965. The requirements in paragraph 6860 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 ~~read~~ presented electronically, separate pages ~~may~~ are not be always used; the above items are then presented frequently enough to ensure a proper understanding of the information ~~given~~ included in the financial statements.

7066. Financial statements are often made more understandable by presenting information in thousands or millions of units of the ~~reporting~~ presentation currency. This is acceptable as long as the level of ~~precision~~ rounding in presentation is disclosed and ~~relevant~~ material information is not ~~lost~~ omitted.

## Reporting Period

7167. *Financial statements ~~should~~ shall be presented at least annually. When, ~~in exceptional circumstances~~, an entity's reporting date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity ~~should~~ shall disclose, in addition to the period covered by the financial statements:*

- (a) *the reason for using a longer or shorter period ~~other than one year being used~~; and*
- (b) *the fact that comparative amounts for certain statements such as the statement of financial performance, changes*

*in net assets/equity, cash flows and related notes are not entirely comparable.*

7268. 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.
7369. 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 ~~for practical reasons~~. This Standard does not preclude this practice, as because the resulting financial statements are unlikely to be materially different to those that would be presented for one year.

### Timeliness

The equivalent para in IAS 1 was deleted. Staff still retained it due to the lack of framework in IPSASs.

7470. 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

### The Current/Non-current Distinction

7571. *~~Each entity should shall determine, based on the nature of its operations, whether or not to present current and non-current assets, and current and non-current liabilities as separate classifications on the face of the statement of its financial position.— in accordance with Paragraphs 7977 to 88 of this Standard apply except when a presentation based on liquidity provides information that is reliable and is more relevant this distinction is made. When that exception applies an entity~~*

~~chooses not to make this classification, all assets and liabilities should~~ shall be presented broadly in order of their liquidity.

- ~~76~~72. ~~Whichever method of presentation is adopted, an entity should disclose for each asset and liability line item that combines amounts expected to be recovered or settled both before (a) no more than twelve months after the reporting date; and (b) more than after twelve months from after the reporting date, an entity shall disclose the amount expected to be recovered or settled after more than twelve months.~~
- ~~77~~73. 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.
74. 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.
75. In applying paragraph 71, 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.
- ~~78~~76. Information about ~~the maturity~~ expected dates of realization of assets and liabilities is useful in assessing the liquidity and solvency of an entity. ~~Guidance on the IPSAS 15 Financial Instruments: Disclosure and Presentation~~ requires disclosure of the maturity dates of financial assets and financial liabilities ~~can be found in International Accounting Standard IAS 32, Financial Instruments: Disclosure and Presentation~~. 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 ~~between~~ as current and non-current.

### Current Assets

~~79~~77. *An asset ~~should~~ shall be classified as a current-asset 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 course of the entity's operating cycle;~~or~~*
- (b) *it is held primarily for trading the purposes of being trade;~~or for the short-term and~~*
- (c) *it is expected to be realized within twelve months of after the reporting date; or*
- (ed) *it is cash or a cash equivalent asset (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 ~~should~~ shall be classified as non-current assets.*

~~80~~78. This Standard uses the term “non-current assets” to include ~~tangible, intangible, operating~~ and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as ~~their~~ the meaning is clear.

~~81~~79. 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.

~~82~~80. 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 of the reporting date. Current assets also include assets held primarily for the purpose of being trade (guidance on the classification of financial assets within this category could be

found in International Accounting Standard IAS 39 *Financial Instruments: Recognition and Measurement*) ~~Marketable securities are classified as current assets if they are expected to be realized within twelve months of the reporting date; otherwise they are classified as~~ and the current portion of non-current financial assets.

### Current Liabilities

**8381.** *A liability ~~should~~ shall be classified as ~~a~~ current liability when it satisfies any of the following criteria:*

- (a) *it is expected to be settled in the entity's normal course of the entity's operating cycle;* ~~or~~
- (b) *it is held primarily for the purpose of being traded;*
- (bc) *it is due to be settled within twelve months of 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 ~~should~~ shall be classified as non-current liabilities.*

**8482.** ~~Current liabilities can be categorized in a similar way to current assets. Some current liabilities, such as government transfers payable and accruals for employee and other operating costs, form~~ are part of the working capital used in the normal operating cycle of the entity. Such operating items are classified as current liabilities even if they are due to be settled after more than twelve months from 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.

**8583.** ~~Other current liabilities are not settled as part of the current normal operating cycle, but are due for settlement within twelve months of after the reporting date or held primarily for the purpose of being trade. Examples are financial liabilities classified as held for trading (guidance on the classification of financial liabilities could be found in IAS 39), the current portion of interest bearing liabilities, bank overdrafts, and the current portion of non-current financial liabilities, dividends~~

This para was  
formerly in  
black letters  
and amended  
to reflect the  
notion that



payable, income taxes and other non-trade payables. ~~Interest-bearing Financial~~ liabilities that provide the financing for ~~working capital~~ 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 80 and 81.

8684. An entity ~~should continue to classify~~sy its long-term interest-bearing financial liabilities as non-current, ~~even~~ when they are due to be settled within twelve months ~~of~~ after the reporting date, ~~even~~ if:

- (a) the original term was for a period of ~~more~~ longer than twelve months; and
- ~~(b) the entity intends to refinance the obligation on a long-term basis; and~~
- (eb) ~~that intention is supported by an agreement to refinance, or to reschedule payments, on a long-term basis which is completed after the reporting date and before the financial statements are approved~~ authorized for issue.

~~*The amount of any liability that has been excluded from current liabilities in accordance with this paragraph, together with information in support of this presentation, should be disclosed in the notes to the statement of financial position.*~~

8785. ~~Some obligations that are due to be repaid within the next operating cycle may be expected to be refinanced or "rolled over" at~~ 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, of the entity and, therefore, are not expected to use current working capital of the entity. Such obligations are considered to form part of the entity's long-term financing and should be it ~~classified~~ the obligation as non-current, even if it would otherwise be due within a shorter period. However, ~~in situations in which~~ when refinancing or rolling over the obligation is not at the discretion of the entity (as ~~would be the case if for example, there were~~ is no agreement to refinance), the potential to refinancing ~~cannot be~~ is not considered automatic and the obligation is classified as current ~~unless the completion of a refinancing agreement before approval of the financial statements provides evidence that the substance of the liability at the reporting date was long-term.~~

Original para 88 was amended to reflect the notion that if the entity does not have an unconditional right to defer the settlement of liabilities within 12m after the reporting date, it shall classify it as current,

8886. ~~Some borrowing agreements incorporate~~When an entity breaches an undertakings under a long-term loan agreement (covenants) by the borrower which have on or before the reporting date with the effect that the liability becomes payable on demand, ~~if certain conditions related to the borrower's financial position are breached. In these circumstances, if the conditions have been breached, the liability is classified as non-current, only when: even if~~

the lender has agreed, after the reporting date and prior to before the approval authorization of the financial statements, 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; and

(b) ~~it is not probable that further breaches will occur within twelve months of the reporting date.~~

87. 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.

88. 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

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

(a) *property, plant and equipment;*

- (b) *investment property;*
- ~~(bc)~~ *intangible assets;*
- ~~(ed)~~ *financial assets (excluding amounts shown under ~~(de)~~, ~~(fg)~~, (h) and ~~(hi)~~);*
- ~~(de)~~ *investments accounted for using the equity method;*
- ~~(ef)~~ *inventories;*
- ~~(fg)~~ *recoverables from non-exchange transactions, including taxes and transfers;*
- ~~(gh)~~ *receivables from exchange transactions;*
- ~~(hi)~~ *cash and cash equivalents;*
- ~~(ij)~~ *taxes and transfers payable;*
- ~~(jk)~~ *payables under exchange transactions;*
- ~~(kl)~~ *provisions;*
- ~~(lm)~~ *non-current financial liabilities (excluding amounts shown under (j), (k) and (l));*
- ~~(mn)~~ *minority interest, presented within net assets/equity;*  
*and*
- ~~(no)~~ *net assets/equity attributable to net assets/equity holders of the controlling entity.*

90. *Additional line items, headings and sub-totals ~~should~~ shall be presented on the face of the statement of financial position ~~when an International Public Sector Accounting Standard requires it, or when such presentation is necessary~~ relevant to present fairly an understanding of the entity's financial position.*

Note: The original Appendix in IAS 1 was changed into Implementation Guidance by IASB. Staff still keep it as an appendix.

91. This Standard does not prescribe the order or format in which items are to be presented. Paragraph 89 simply provides a list of items that are ~~so~~ sufficiently different in nature or function ~~that they deserve to warrant~~ separate presentation on the face of the statement of financial position. Illustrative formats are set out in Appendix 1 to this Standard. ~~Adjustments to the line items above include the following~~ In addition:

- (a) line items are ~~added~~ included ~~when another International Public Sector Accounting Standard requires separate presentation on the face of the statement of financial position, or when the size, nature or function of an item or~~

aggregation of similar items is such that separate presentation ~~would assist in presenting fairly~~ 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 ~~necessary for~~ relevant to an overall understanding of the entity's financial position.

This para  
was also  
deleted by  
IASB.

92. ~~The line items listed in paragraph 89 are broad in nature and need not be limited to items falling within the scope of other Standards. For example, the line item intangible assets includes goodwill and assets arising from development costs.~~

9392. The judgment on whether additional items are separately presented is based on an assessment of:

- (a) ~~the nature and liquidity of assets and their materiality, leading, in most cases, to the separate presentation of goodwill and assets arising from development costs, monetary and non-monetary assets and current and non-current assets;~~
- (b) ~~their~~ the function of assets within the entity, leading, for example, ~~to the separate presentation of operating and financial assets, inventories, receivables and cash and cash equivalent assets; and~~
- (c) the amounts, nature and timing of liabilities, ~~leading, for example, to the separate presentation of interest bearing and non interest bearing liabilities and provisions, classified as current or non-current as appropriate.~~

9493. ~~Assets and liabilities that differ in nature or function are sometimes subject to different measurement bases. For example certain classes of property, plant and equipment may be carried at cost, or at revalued amounts. 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**

9594. *An entity ~~should~~ shall disclose, either on the face of the statement of financial position or in the notes ~~to the statement of financial position~~, further sub-classifications of the line items presented, classified in a manner appropriate to the entity's operations. ~~Each item should be sub-classified, when appropriate, by its nature, and amounts payable to and receivable from the controlling entity, fellow controlled entities and associates and other related parties should be disclosed separately.~~*

9695. The detail provided in sub-classifications, ~~either on the face of the statement of financial position or in the notes~~ 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 9392 ~~are also~~ are used to decide the basis of sub-classification. The disclosures ~~will vary~~ for each item, for example:

- (a) ~~tangible assets items of property, plant and equipment should be classified by~~ are disaggregated into classes in accordance with ~~any appropriate standards that address accounting for IPSAS 17~~ Property, Plant and Equipment;
- (b) receivables are ~~analyzed between~~ are disaggregated into amounts receivable from user charges, taxes and other non-reciprocal revenues, other members of the economic entity, receivables from related parties, prepayments, and other amounts;
- (c) inventories are sub-classified in accordance with ~~appropriate standards that address accounting for IPSAS 12~~ Inventories, into classifications such as merchandise, production supplies, materials, work in progress and finished goods;
- (d) taxes and transfers payable are ~~analyzed between~~ disaggregated into tax refunds payable, transfers payable, and amounts payable to other members of the economic entity;
- (e) provisions are ~~analyzed showing separately~~ disaggregated into provisions for employee benefit costs and any other items ~~classified in a manner appropriate to the entity's operations~~;
- (f) components of net assets/equity are ~~analyzed showing separately~~ disaggregated into contributed capital, accumulated surpluses and deficits and any reserves.

**9796.** *When an entity has no share capital, it ~~should~~ shall separately disclose the following, either on the face of the statement of financial position or in the notes:*

- (a) *net assets/equity, showing separately:*
  - (i) *contributed capital, being the cumulative total at the reporting date of contributions from owners, less distributions to owners;*
  - (ii) *accumulated surpluses or deficits;*

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

(iv) *minority interests; and*

(b) *the amount of a distribution (other than the return of capital) ~~proposed or~~ declared after the reporting date but before the financial statements were authorized for issue.*

9897. 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 — ~~which~~ that reflect the net assets/equity attributable to the entity's operations.

9998. 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.

~~10099.~~ *When an entity has share capital, in addition to the disclosures in paragraph 9796, it ~~should~~ 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 ~~itself~~ or by its controlled entities or associates ~~of the entity~~; and*

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

Subparas (c) and (d) were relocated to current para 149.

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

~~(c) *the amount of dividends that were proposed or declared after the reporting date but before the financial statements were authorized for issue; and*~~

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

## Statement of Financial Performance

### Surplus or Deficit for the Period

Please note the “Surplus or Deficit for the period” section was relocated from paras 10-12 in IPSAS 3 because the contents are more relevant to IPSAS 1.

**100.** *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.*

**101.** *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 *Accounting Policies, Changes in Accounting Estimates and Errors* deals with two such circumstances: the correction of errors and the effect of changes in accounting policies.*

**102.** *ther Standards deal with items that may meet definitions of revenue or expense set out in IPSASs but are usually excluded from surplus or deficit. Examples include revaluation surpluses (see IPSAS 17 *Property, Plant and Equipment*), particular gains and losses arising on translating the financial statements of a foreign operation (see IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*) and gains or losses on remeasuring available-for-sale financial assets (guidance on the measurement of these assets could be found in International Accounting Standard IAS 39).*

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

~~101~~**103.** *As a minimum, the face of the statement of financial performance ~~should~~ shall include line items ~~which~~ that present the following amounts for the period:*



- (a) ~~revenue from operating activities;~~
- (b) ~~surplus or deficit from operating activities;~~
- (c) ~~finance costs;~~
- (d) ~~share of net the surpluses or deficits of associates and joint ventures accounted for using the equity method;~~
- (e) ~~surplus or deficit from ordinary activities;~~
- (f) ~~extraordinary items;~~
- (g) ~~minority interest share of net surplus or deficit; and~~
- (h) ~~net surplus or deficit for the period.~~

Please note, based on improved IAS 1, references to "net surplus or deficit" are amended to "surplus or deficit".

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 net assets/equity holders of the controlling entity.

104. Additional line items, headings and sub-totals ~~should~~ shall be presented on the face of the statement of financial performance ~~when required by an International Public Sector Accounting Standard, or when such presentation is necessary relevant to present fairly an understanding of the entity's financial performance.~~

~~102. In the context of the statement of financial performance, operating activities refers to those activities which an entity carries out in order to achieve its primary objectives. Revenues and expenses arising from operating activities are distinguished from those arising from holding assets or financing an entity's operations. For example, a local government's operations may include the generation of revenue from property taxes and the incurrence of expenses such as wages, depreciation and consumables. Other items such as finance costs and gains and losses on the sale of property, plant and equipment are generally incidental to the local government's primary objectives and therefore outside its operating activities.~~

This para was deleted because there is no item presented under operating activities in the statement of financial performance per amendments.

~~103~~105. 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 the disclosure of the elements components of financial

performance assists in an understanding of the financial performance achieved and in making predicting 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 be ~~taken into consideration~~ include materiality and the nature and function of the ~~various~~ components of revenue and expenses. Revenue and expense items are not offset only when unless the criteria in paragraph 5545 are met.

The elimination of extraordinary items is a major change to this IPSAS.

**106. An entity shall not present any items of revenue and expense as extraordinary items, either on the face of the statement of financial performance or in the notes.**

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

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

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

Paras 107 and 108 were relocated from paras 26 and 28 of IPSAS 3 due to the contents more relevant to IPSAS 1.

- (a) write-downs of inventories to net realizable value or of property, plant and equipment to recoverable amount, 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) disposals of investments;
- (e) discontinuing operations;
- (f) litigation settlements; and
- (g) other reversals of provisions.

In equivalent para 110 in IAS 1, IASB removed the description of "either on the face of the statement or in the notes". Staff retained it because it made no difference.

**104109. An entity ~~should~~ shall present, either on the face of the statement of financial performance or in the notes ~~to the statement of financial performance~~, a sub-classification of total revenue, classified in a manner appropriate to the entity's operations.**

**105110. An entity ~~should~~ shall present, either on the face of the statement of financial performance or in the notes ~~to the statement of financial performance~~, an analysis of expenses**

*using a classification based on either the nature of expenses or their function within the entity, ~~as appropriate~~ whichever provides information that is reliable and more relevant.*

106111. Entities are encouraged to present the analysis in paragraph 105110 on the face of the statement of financial performance.

107112. Expense items are ~~further~~ sub-classified ~~in order~~ to highlight the costs and cost recoveries of particular programs, activities or other relevant segments of the reporting entity. This information may be provided in one of two ways.

108113. The first form of analysis is ~~referred to as~~ 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, wages, employee benefits and salaries, advertising costs)~~, and are not reallocated amongst various functions within the entity. This method ~~is~~ may be simple to apply ~~in many smaller entities~~ because no allocations of ~~operating~~ expenses between functional classifications are necessary. An example of a classification using the nature of expense method is as follows:

Revenue <del>from operating activities</del>		X	
Salaries and <del>e</del> Employee benefits costs	X		
Depreciation and amortization expense	X		
Other <del>operating</del> expenses	X		
Total expenses		(X)	
Surplus <del>from operating activities</del>			X

109114. The second form of analysis, ~~referred to as~~ is the functional of expense method ~~of expense classification, and~~ classifies expenses according to the program or purpose for which they were made. This presentation often provides more relevant information to users than the classification of expenses by nature, ~~although the~~ but ~~allocating on~~ of expenses costs to functions ~~can be~~ may require arbitrary allocations and involves considerable judgment. An example of a classification using the functional of expense method of expense classification is as follows:

Total revenue	X
Expenses:	

Health expenses	(X)
Education expenses	(X)
Other expenses	(X)

Surplus/(deficit)	<u>X</u>
-------------------	----------

Pls note IASB used "employment benefit expense" and referred to IAS 19 for the meaning of the term. Staff retained previous description because there is no equivalent IAS 19 in IPSASs.

~~110~~115. 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.

~~111~~116. *Entities classifying expenses by function ~~should~~ shall disclose additional information on the nature of expenses, including depreciation and amortization expense, salaries and employee benefits, and finance costs.*

~~112~~117. The choice of ~~analysis~~ between the functional of expense method and the nature of expense method depends on ~~both~~ the historical and regulatory factors and the nature of the organization. Both methods provide an indication of ~~the~~ those costs ~~which~~ that might be expected to vary, directly and indirectly, with the outputs of the entity. Because each method of presentation has its merits for different types of entities, this Standard ~~provides a choice~~ requires management to select the most relevant and reliable presentation between classifications based on what fairly presents the elements of an entity's performance.

~~113~~118. *When an entity provides a dividend to its owners and has share capital, it ~~should~~ 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 ~~per share, declared or proposed,~~recognized as distributions to owners for during the period covered by the financial statements and the related amount per share.*

## Statement of Changes in Net Assets/Equity

~~114~~119. *An entity ~~should~~ shall present, ~~as a separate component of its financial statements,~~ a statement of changes in net assets/equity showing on the face of the statement:*

(a) ~~the net~~ surplus or deficit for the period;

- (b) *each item of revenue and expense, ~~which that,~~ as required by other Standards, is recognized directly in net assets/equity, and the total of these items; ~~and~~*
- (c) *total revenue and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to net assets/equity holders of the controlling entity and to minority interest; and*
- (d) *for each component of net assets/equity, the cumulative effects of changes in accounting policies and the corrections of fundamental errors dealt with under the benchmark treatments recognized in accordance with IPSAS 3.*

~~115120.~~ *An entity shall also present, either within this on the face of the statement of changes in net assets/equity or in the notes:*

- (a) *the amounts of transactions with ~~contributions by owners acting in their capacity as owners, and showing separately distributions to owners, in their capacity as owners;~~*
- (b) *the balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date, and the movements for 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 movement change.*

~~116121.~~ Changes in an entity's net assets/equity between two reporting dates reflect the increase or decrease in its ~~wealth net assets~~ during the period, ~~under the particular measurement principles adopted and disclosed in the financial statements.~~

~~117122.~~ The overall change in net assets/equity represents the total ~~net~~ 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.

~~118123.~~ 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.

~~119~~124. ~~IPSAS 3~~ This Standard requires all items of revenue and expense recognized in a period to be included in ~~the determination of net surplus or deficit for the period unless another International Public Sector Accounting Standard requires or permits otherwise.~~ Other Standards require ~~certain~~ some items, ~~(such as revaluation surpluses and deficits, and certain particular foreign exchange differences,)~~ to be recognized directly as changes in net assets/equity ~~along with capital transactions with and distributions to the entity's owners.~~ ~~Since in assessing the changes in an entity's financial position between two reporting dates~~ Because it is important to take into consideration all items of revenue and expense which contribute to the in assessing changes in an entity's financial position between two reporting dates, this Standard requires a ~~separate component of the financial statements of changes in net assets/equity which that highlights both an entity's net surplus/deficit for the period and total revenue and expenses, including those items that have been are~~ separate component of the financial statements of changes in net assets/equity which that highlights both an entity's net surplus/deficit for the period and total revenue and expenses, including those items that have been are recognized directly in net assets/equity ~~during the period.~~

125. 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 119(d) requires disclosure in the statement of changes in net assets/equity of the total adjustment to each component of net assets/equity resulting to the extent that components of net assets/equity are separately disclosed, 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.

~~120~~126. The requirements in paragraphs ~~114~~119 and ~~115~~120 may be met by using a columnar format ~~which~~ that reconciles the opening and closing balances of each element within net assets/equity, ~~including all items listed in paragraphs 114 and 115. Paragraph 114 also requires a sub-total of all items of revenue and expense, which, as required by other Standards, have been recognized directly in net assets/equity. An alternative is to present only the items set out in paragraph 119 in the statement of changes in net assets/equity. Under this approach, the items described in paragraph 120 are shown in the notes.~~

## Cash Flow Statement

~~121~~127. IPSAS 2 *Cash Flow Statements* sets out requirements for the presentation of the cash flow statement and related disclosures. It states that cash flow information is useful in providing 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.

## Notes to the Financial Statements

### Structure

~~122~~128. *The notes to the financial statements of an entity should shall:*

Please note, based on improved IAS 1, references to “notes to the financial statements” were amended to “notes”.

- (a) *present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 133-140 ~~selected and applied for significant transactions and other events;~~*
- (b) *disclose the information required by International Public Sector Accounting Standards that is not presented elsewhere in the financial statements 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—~~which that~~ that is not presented on the face of the financial statements the statement of financial position, statement of financial performance, statement of changes in net assets/equity or cash flow statement, but that is ~~necessary for a fair presentation~~ relevant to an understanding of any of them.*

~~123~~129. *Notes to the financial statements ~~should~~ shall be presented in a systematic manner. Each item on the face of the statement of financial ~~performance~~ position, statement of financial ~~position~~ performance, statement of changes in net assets/equity and cash flow statement ~~should~~ shall be cross-referenced to any related information in the notes.*

Para 124 was deleted because the content is now embodied in the definition of “notes”.

~~124~~. *Notes to the financial statements include narrative descriptions or more detailed schedules or analyses of amounts shown on the face of the statement of financial performance, statement of financial position, cash flow statement and statement of changes in net assets/equity, as well as additional information such as*



~~contingent liabilities and commitments. They include information required and encouraged to be disclosed by International Public Sector Accounting Standards, and other disclosures necessary to achieve a fair presentation.~~

~~125130.~~ Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them with financial statements of those of other entities:

- (a) a statement of compliance with International Public Sector Accounting Standards (see paragraph 2629);
- (b) a statement of the measurement basis (bases) and summary of significant accounting policies applied (see paragraph 133);
- (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 each financial statement, in the order in which each line item and each financial statement is presented; and
- (d) other disclosures, including:
  - (i) contingencies, contingent liabilities (see IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets), and unrecognized contractual commitments and other financial disclosures; and
  - (ii) non-financial disclosures, eg the entity's financial risk management objectives and policies (see IPSAS 15 Financial Instruments: Disclosure and Presentation).

~~126131.~~ In some circumstances, it may be necessary or desirable to vary the ordering of specific items within the notes. For example, information on interest rates and changes in fair value adjustments recognized in surplus or deficit may be combined with information on maturities of financial instruments, although the former ~~are statement of financial performance 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.

~~127~~132. Notes provide ~~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.

### **Presentation Disclosure of Accounting Policies**

~~128~~133. ~~An entity shall disclose in the summary of significant The accounting policies—section of the notes to the financial statements should describe the following:~~

- (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) ~~each specific the other accounting policies~~ *that is are necessary for a proper relevant to an understanding of the financial statements.*

~~129~~134. ~~In addition to the specific accounting policies used in the financial statements, it is important for users to be aware~~ informed of the measurement basis (or bases) used in the financial statements (for example, historical cost, current cost, realizable value, fair value or ~~present value~~ recoverable amount) because ~~they form the basis on which the whole of the financial statements are prepared~~ significantly affects their analysis. When more than one measurement basis is used in the financial statements, for example when ~~certain items~~ 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.

~~130~~135. In deciding whether a ~~specific particular~~ accounting policy should be disclosed, management considers whether disclosure would assist users in understanding ~~the way in which— how~~ transactions, other events and ~~events~~ conditions are reflected in the reported financial performance and financial position. ~~The 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 *Property, Plant and Equipment* 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. ~~that an entity might consider presenting include, but are not restricted to, the following:~~

- (a) ~~Revenue recognition~~
- (b) ~~Consolidation principles, including controlled entities~~
- (c) ~~Investments~~
- (d) ~~Recognition and depreciation/amortization of tangible and intangible assets~~
- (e) ~~Capitalization of borrowing costs and other expenditure:~~
  - ~~—inventories held for sale~~
  - ~~—other qualifying assets~~
- (f) ~~Construction contracts~~
- (g) ~~Investment properties~~
- (h) ~~Financial instruments and investments~~
- (i) ~~Leases~~
- (j) ~~Research and development costs~~
- (k) ~~Inventories:~~
  - ~~—held for resale~~
  - ~~—for consumption~~
- (l) ~~Provisions~~
- (m) ~~Employee benefit costs~~
- (n) ~~Foreign currency translation and hedging~~
- (o) ~~Definition of segments and the basis for allocation of costs between segments~~
- (p) ~~Inflation accounting~~
- (q) ~~Government grants.~~

~~131~~136. Each entity considers the nature of its operations and the policies ~~which~~ 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 ~~and the hedging of such gains and losses~~ would be expected. ~~In consolidated financial statements~~ When business combinations have occurred, the policies ~~used for determining~~ measuring goodwill and minority interest ~~is~~ are disclosed.

- ~~132~~137. An accounting policy may be significant because of the nature of the entity's operation even if amounts ~~shown~~ for current and prior periods are not material. It is also appropriate to disclose ~~an each significant accounting policy for each policy~~ that is not covered specifically required by existing International Public Sector Accounting Standards, but is selected and applied in accordance with ~~paragraph 37~~ IPSAS 3.

Paras  
138-148  
were  
added  
based on  
improve  
d IAS 1.

- 138. An entity shall disclose, in the summary of significant accounting policies or other notes, the judgments, apart from those involving estimations (see paragraph 141), 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.**

Para 138 is  
a new  
disclosure  
requirement  
added to  
IPSAS 1.  
The  
disclosure  
regarding  
estimation  
is dealt  
with in next  
subsection.

139. 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.

140. Some of the disclosures made in accordance with paragraph 138 are required by other IPSASs. For example, IPSAS 6 *Consolidated and Separate Financial Statemetnts* 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 *Investment Property* 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**

Pls note  
para 141 is  
a new  
disclosure  
requirement  
added to  
IPSAS 1.

**141. 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.**

142. 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 effect of technological obsolescence on inventories held for sale or distribution, 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.

143. The key assumptions and other key sources of estimation uncertainty disclosed in accordance with paragraph 141 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.

144. The disclosures in paragraph 141 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).

145. The disclosures in paragraph 141 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.
146. 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.
147. The disclosures in paragraph 138 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 141.
148. The disclosure of some of the key assumptions that would otherwise be required in accordance with paragraph 141 is required by other IPSASs. For example, IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* requires

disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. IPSAS 15 *Financial Instruments: Disclosure and Presentation* 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

Current  
para 149  
was  
relocated  
from  
previous  
para 100  
(c) and (d).

### **149. 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.**

**133150. An entity ~~should~~ 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

**134151. All provisions of this Standard should be applied from the date of first ~~adoption~~ application of this Standard, except in relation to items which 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 are**

Per Berlin  
meeting's  
discussion, Staff  
have transferred  
the transitional  
provision for  
comparative  
information from  
previous para 60.

**not required in respect of the financial statements to which this Standard is first applied.**

- ~~135~~152. 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

~~136~~153. **An entity shall apply ~~This International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after 1XX July X 2001~~200X. Earlier application is encouraged. If an entity applies this Standard for periods before XX X 200X, it shall disclose that fact.**

- ~~137~~154. 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.



Pls note the similar appendix was changed to an implementation guidance in improved IAS 1, due to the consistency with other IPSASs. Staff retained it as an appendix.

## Appendix 1 – Illustrative Financial Statement Structure

*This appendix is illustrative only and does not form part of the standards. The purpose of the appendix is to illustrate the application of the standards and to assist in clarifying their meaning.*

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 ~~establishes~~ describes further items that may be presented either on the face of the relevant financial statement or in the notes.

~~The purpose of this appendix is to provide~~ This appendix is to provide simple examples of the ways in which the requirements for the presentation of the statement of financial performance, statement of financial position and changes in net assets/equity might be ~~met presented in the primary financial statements~~. The order of presentation and the descriptions used for line items should be changed ~~where~~ 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.

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.

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.

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.

**PUBLIC SECTOR ENTITY – STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 20X2**

(in thousands of currency units)

	20X2	20X2	20X1	20X1
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	X		X	
Receivables	X		X	
Inventories	X		X	
Prepayments	X		X	
Investments	X		X	
		X		X
<b>Non-current assets</b>				
Receivables	X		X	
Investments	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
<b>Total assets</b>		X		X
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Payables	X		X	
Short-term borrowings	X		X	
Current portion of borrowings	X		X	
Provisions	X		X	
Employee benefits	X		X	
Superannuation	X		X	
		X		X
<b>Non-current liabilities</b>				
Payables	X		X	
Borrowings	X		X	
Provisions	X		X	
Employee benefits	X		X	
Superannuation	X		X	
		X		X
<b>Total liabilities</b>		X		X
<b>Net assets</b>		X		X
<b>NET ASSETS/EQUITY</b>				
Capital contributed by other government entities	X		X	
Reserves	X		X	
Accumulated surpluses/(deficits)	X		X	
		X		X
Minority interest		X		X
<b>Total net assets/equity</b>		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	
<b>Operating Revenue</b>			
Taxes	X	X	
Fees, fines, penalties and licenses	X	X	
Revenue from exchange transactions	X	X	
Transfers from other government entities	X	X	
Other operating revenue	X	X	
<b>Total operating revenue</b>	<u>X</u>	<u>X</u>	
<b>Operating Expenses</b>			
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	
<u>Finance costs</u>	<u>X</u>	<u>X</u>	
<b>Total operating expenses</b>	<u>X</u>	<u>X</u>	
<b>Surplus/(deficit) from operating activities</b>	<u>X</u>	<u>X</u>	
<del>Finance costs</del>	<del>(X)</del>	<del>(X)</del>	
Gains on sale of property, plant and equipment	X	X	
<b>Total non-operating revenue (expenses)</b>	<u>(X)</u>	<u>(X)</u>	
<b>Surplus/(deficit) from ordinary activities</b>	<u>X</u>	<u>X</u>	
Minority interest share of surplus/(deficit) <sup>†</sup>	<u>(X)</u>	<u>(X)</u>	
<b>Net surplus/(deficit) before extraordinary items</b>	<u>X</u>	<u>X</u>	
Extraordinary items	(X)	(X)	

<sup>†</sup> The minority interest share of the surplus/(deficit) from ordinary activities includes the minority interest share of extraordinary items. The presentation of extraordinary items net of minority interest is permitted by paragraph 57(c) of International Public Sector Accounting Standard IPSAS 1 *Presentation of Financial Statements*. Disclosure of the minority interest share of extraordinary items is shown in the notes to the financial statements.

**Net surplus/(deficit) for the period**

Attributable to:

Net assets/equity holders of the controlling entity

Minority interests

X

X

X

X

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
<b>Operating Revenue</b>		
Taxes	X	X
Fees, fines, penalties and licenses	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
Other operating revenue	X	X
<b>Total Operating Revenue</b>	<u>X</u>	<u>X</u>
<b>Operating Expenses</b>		
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
Other operating expenses	X	X
Finance costs	<u>X</u>	<u>X</u>
<b>Total Operating Expenses</b>	<u>X</u>	<u>X</u>
<b>Surplus/(deficit) from operating activities</b>	<u>X</u>	<u>X</u>
Finance costs	(X)	(X)
Gains on sale of property, plant and equipment	X	X
<b>Total non-operating revenue (expenses)</b>	<u>(X)</u>	<u>(X)</u>
<b>Surplus/(deficit) from ordinary activities</b>	<u>X</u>	<u>X</u>
Minority interest share of surplus/(deficit) <sup>2</sup>	<u>(X)</u>	<u>(X)</u>
<b>Net surplus/(deficit) before extraordinary items</b>	<u>X</u>	<u>X</u>
Extraordinary items	(X)	(X)
<b>Net surplus/(deficit) for the period</b>	<u>X</u>	<u>X</u>
Attributable to:		
Net assets/equity holder of the controlling entity	<u>X</u>	<u>X</u>
Minority interest	<u>X</u>	<u>X</u>
	<u>X</u>	<u>X</u>

<sup>2</sup> The minority interest share of the surplus/(deficit) from ordinary activities includes the minority interest share of extraordinary items. The presentation of extraordinary items net of minority interest is permitted by paragraph 57(c) of International Public Sector Accounting Standard IPSAS 1 *Presentation of Financial Statements*. Disclosure of the minority interest share of extraordinary items is shown in the notes to the financial statements.

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

(in thousands of currency units)

	<u>Attributable to net assets/equity holders of the controlling entity</u>				<u>Minority interest</u>	<u>Total equity</u>
	<b>Contributed Capital</b>	<b>Revaluation Reserve</b>	<b>Translation Reserve</b>	<b>Accumulated Surpluses/ (Deficits)</b>	<b>Total</b>	
Balance at 31 December 20X0	X	X	(X)	X	X	<u>X</u>
Changes in accounting policy	(X)			(X)	(X)	<u>(X)</u>
Restated balance	X	X	X	X	X	<u>X</u>
Surplus on revaluation of property		X			X	<u>X</u>
Deficit on revaluation of investments		(X)			(X)	<u>X</u>
Currency translation differences			(X)		(X)	<u>(X)</u>
Net gains and losses not recognized in the statement of financial performance		X	(X)		X	<u>X</u>
<del>Net</del> <u>Surplus</u> for the period				X	X	<u>X</u>

Balance at 31 December 20X1	X	X	(X)	X	X	<u>X</u>	<u>X</u>
Deficit on revaluation of property		(X)			(X)	<u>(X)</u>	<u>(X)</u>
Surplus on revaluation of investments		X			X	<u>X</u>	<u>X</u>
Currency translation differences			(X)		X	<u>X</u>	<u>X</u>
Net gains and losses not recognized in the statement of financial performance		(X)	(X)		(X)	<u>(X)</u>	<u>(X)</u>
Net deficit for the period				(X)	(X)	<u>(X)</u>	<u>(X)</u>
Balance at 31 December 20X2	X	X	(X)	X	X	<u>X</u>	<u>X</u>



## Appendix 2 – Qualitative Characteristics of Financial Reporting

Paragraph ~~3730~~ of this Standard requires ~~the development of accounting policies—~~ an entity to ensure that the financial statements present information, including accounting policies, in a manner provide ~~information~~ that meets a number of qualitative characteristics. This appendix 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.

## 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* (revised 2003). 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 “entity”, “revenue”, “statement of financial performance”, “statement of financial position” and “net assets/equity” in IPSAS 1. The equivalent terms in IAS 1 are “enterprise”, “income”, “income statement”, “balance sheet” and “equity”.
- ~~□ The definition of the term “extraordinary item” differs from that used in International Accounting Standards IAS 8, *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*. The definition includes an additional criterion, namely that the items be “outside the control or influence of the entity” (paragraph 6).~~
- IAS 1 defines “International Financial Reporting Standards (IFRS), IPSAS 1 does not include the equivalent definition, as the term “International Public Sector Accounting Standards “ is very clear.
- IPSAS 1 contains a different set of definitions of technical terms from IAS 1 (paragraph 68).
- IPSAS 1 contains commentary to responsibility of financial statements because of its usefulness.

- IPSAS 1 uses the description “the objective of financial statements set out in this IPSAS” to replace the equivalent description “the objective of financial statement set out in Framework” in IAS 1 because of the lack of the framework in IPSASs.
- IPSAS 1 contains commentary to timeliness of financial statements because of the lack of the conceptual framework in IPSASs.
- 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 ~~134~~151).
- IPSAS 1 contains a summary of qualitative characteristics (based on the IASC framework) in Appendix 2.

## **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 8 new terms: “change in accounting estimate”, “prior period errors”, “prospective application”, “retrospective application” and “retrospective restatement”, “impracticable”, “material” and “notes”.
- to delete in paragraph 8 the terms: “extraordinary items”, “ordinary activities”, “net surplus/deficit”, and “surplus/deficit from ordinary activities”.

#### **Materiality**

- to stipulate in paragraph 14 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 19-20).
- 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 29).

#### **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 52).

**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 33-37); or the error had been corrected (paragraphs 53-55), prospectively from the earliest date practicable.
- to include guidance on the interpretation of “impracticable” in paragraphs 60-63.

**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 39 and 40).
- 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.



IFAC

Public

Sector

Committee

Issued MM YYYY May 2000

IPSAS 3

~~Net Surplus or Deficit~~  
~~for the Period,~~  
~~Fundamental Errors~~  
~~and Changes in~~  
Accounting Policies,  
Changes in Accounting  
Estimates and Errors

International Public Sector

Accounting Standard

Issued by  
the International  
Federation of  
Accountants



~~This Standard was approved by the Public Sector Committee of the International Federation of Accountants.~~

### ***Acknowledgment***

This International Public Sector Accounting Standard is drawn primarily from International Accounting Standard IAS 8, ~~Net Profit or Loss for the period, Fundamental Errors and Changes in Accounting Policies,~~ Changes in Accounting Estimates and Errors published by the International Accounting Standards ~~Committee Board~~ (IASB). Extracts from IAS 8 are reproduced in this publication of the Public Sector Committee of the International Federation of Accountants with the permission of IASCF.

The approved text of the International Accounting Standards (IASs) is that published by IASB in the English language, and copies may be obtained directly from IASC, ~~166 Fleet~~ 30 Cannon Street, London EC4 ~~MA 2DY~~ 6XH, United Kingdom.

**E-mail: [publications@iasc.org.uk](mailto:publications@iasc.org.uk)**

IASs, Exposure Drafts and other publications of the IASC ~~and IASB~~ are copyright of the IASCF.

“IAS”, “IASC” and “International Accounting Standards” are registered Trade Marks of the IASC and should not be used without the approval of the IASC.

Information about the International Federation of Accountants and copies of this Standard can be found at its internet site, <http://www.ifac.org>.

The approved text of this Standard is that published in the English language.

Copyright © ~~2000~~ by the International Federation of Accountants. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the International Federation of Accountants.

ISBN: ~~1-887464-48-4~~

International Federation of Accountants  
5~~34~~5 Fifth Avenue, ~~26~~14th Floor  
New York, New York 10017  
United States of America

# INTRODUCTION

## Accounting Standards for the Public Sector

The International Federation of Accountants — Public Sector Committee (the Committee) is developing ~~a set of~~ recommended accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The Committee 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 Intro has been updated to reflect the latest introdn agreed by the PSC in the ED issued on Impairment of assets

The IPSASs are based on the International Financial Reporting Standards (IFRSs), formerly known as International Accounting Standards (IASs), issued by the International Accounting Standards Board (IASB), where the requirements of those Standards are applicable to the public sector. The Committee is also developing IPSASs that deal with accounting issues in the public sector that are not addressed in the IFRSs or IASs.

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 Committee strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in these Exposure Drafts. The Committee recognizes the right of governments and national standard setters to establish guidelines and accounting standards for financial reporting by the public sector in their jurisdictions. The Committee 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 ~~International Public Sector Accounting Standard~~ IPSAS.

~~The objective of the current phase of the Committee's workplan is to develop IPSASs based on the International Accounting Standards (IASs) issued by the International Accounting Standards Committee and extant at 31 August 1997, or their subsequently revised versions. Some accounting issues in the public sector are not fully addressed in the IASs. Similarly, accounting for a number of complex issues will be addressed in IASs currently under development. Although these issues are not included in the brief of the current phase of the Committee's workplan, it~~ IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*

~~is cognizant of the importance of these issues and expects to address them once it has issued its initial set of Standards.~~

IPSAS 3 ~~*Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*~~

Item 12.6 *Marked-up IPSASs re: “General Improvements Project”*  
PSC Buenos Aires March 2004

# Contents

## International Public Sector Accounting Standard IPSAS 3

### ~~Net Surplus or Deficit for the Period,~~ ~~Fundamental Errors and Changes in Accounting~~ ~~Policies, Changes in Accounting Estimates and~~ ~~Errors~~

#### OBJECTIVE

SCOPE	Paragraphs	<del>1—5</del>
-------	------------	----------------

DEFINITIONS		<del>6—9</del>
-------------	--	----------------

Future Economic Benefits or Service Potential		<del>7</del>
---	--	--------------

Government Business Enterprises		<del>8</del>
---------------------------------	--	--------------

Net Assets/Equity		<del>9</del>
-------------------	--	--------------

NET SURPLUS OR DEFICIT FOR THE PERIOD		<del>10—37</del>
---------------------------------------	--	------------------

Extraordinary Items		<del>14—25</del>
---------------------	--	------------------

Distinct from Ordinary Activities		<del>17—18</del>
-----------------------------------	--	------------------

Not Expected to Recur in Foreseeable Future		<del>19</del>
---	--	---------------

Outside the Control or Influence of the Entity		<del>20</del>
--	--	---------------

Examples of Extraordinary Items		<del>21—24</del>
---------------------------------	--	------------------

Disclosure of Extraordinary Items		<del>25</del>
-----------------------------------	--	---------------

Surplus or Deficit from Ordinary Activities		<del>26—29</del>
---	--	------------------

Changes in Accounting Estimates		<del>30—37</del>
---------------------------------	--	------------------

IPSAS 3 ~~Net Surplus or Deficit for the Period, Fundamental Errors and~~  
~~Changes in Accounting Policies, Changes in Accounting Estimates and~~  
~~Errors~~

Item 12.6 *Marked-up IPSASs re: “General Improvements Project”*  
PSC Buenos Aires March 2004

## FUNDAMENTAL ERRORS

~~38—47~~

### Benchmark Treatment

~~41—44~~

### Allowed Alternative Treatment

~~45—47~~

## CHANGES IN ACCOUNTING POLICIES

~~48—68~~

### Adoption of an International Public Sector Accounting Standard

~~55—58~~

### Other Changes in Accounting Policies – Benchmark Treatment

~~59—64~~

### Other Changes in Accounting Policies – Allowed Alternative Treatment

~~65—68~~

## EFFECTIVE DATE

~~69—70~~

## APPENDIX

### Extraordinary Items

### Fundamental Errors

### Changes in Accounting Policy

## COMPARISON WITH IAS 8

IPSAS 3 ~~*Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies*~~, *Changes in Accounting Estimates and Errors*

Item 12.6 *Marked-up IPSASs re: “General Improvements Project”*  
PSC Buenos Aires March 2004

# INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS 3

## **Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors**

This has been retained, but the IASB has a different introd'n. Pls refer to covering memo (item 12.3)

*The standards, which have been set in bold italic type, should be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the “Preface to International Public Sector Accounting Standards”. International Public Sector Accounting Standards are not intended to apply to immaterial items.*

### **Objective**

1. The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the classification, disclosure and accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and the correction of errors. This Standard is intended to of certain items in the financial statements so that all entities prepare and present these items on a consistent basis. This enhances the relevance and reliability of an entity's financial statements, and the comparability of those both with the entity's financial statements over time of previous periods and with the financial statements of other entities.

Para 2 has been moved from the scope section to the objective section in this IPSAS

2. This Standard deals with, among other things, the disclosure of certain items of net surplus or deficit for the period. These disclosures requirements for accounting policies, except for those changes in accounting policies, are set out in are made in addition to any other disclosures required by other International Public Sector Accounting Standards, including IPSAS 1 Presentation of Financial Statements.

Accordingly, this Standard requires the classification and disclosure of extraordinary items and the separate disclosure of certain items in the financial statements. It also specifies the accounting treatment for IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*

~~changes in accounting estimates, changes in accounting policies and the correction of fundamental errors.~~

~~The disclosure of extraordinary items in the cash flow statement is required by International Public Sector Accounting Standard IPSAS 2 *Cash Flow Statements*.~~

## Scope

~~3. 1. — An entity which prepares and presents financial statements under the accrual basis of accounting should apply This Standard shall be applied in selecting and applying in presenting surplus or deficit from ordinary activities and extraordinary items in the statement of financial performance and accounting policies, and accounting for changes in accounting policies, in accounting for changes in accounting estimates, fundamental and corrections of prior period errors and changes in accounting policies.~~

4. 3. — The tax effects of ~~extraordinary items, fundamental~~the correction 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 Accounting Standard IAS 12, *Income Taxes* contains guidance on the treatment of tax effects. ~~Where IAS 12 refers to unusual items, this should be read as extraordinary items as defined in this Standard.~~

~~5. 4. — This Standard applies to all public sector entities other than Government Business Enterprises.~~

6. 5. — The Preface to International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) explains that International Financial Reporting Standards (IFRSs) are designed to apply to general purpose financial statements of all profit-oriented entities. Government Business Enterprises (GBEs) are defined in paragraph 8 below. They are profit-oriented entities. Accordingly, they are required to comply with IFRSs and International Accounting Standards (IASs) issued by the International Accounting Standards Committee. The Public Sector Committee's Guideline No. 1 *Financial Reporting by Government Business Enterprises* notes

IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*

Standard  
change  
following  
PSC  
decisions



~~that IASs are relevant to all business enterprises, regardless of whether they are in the private or public sector. Accordingly, Guideline No. 1 recommends that GBEs should present financial statements that conform, in all material respects, to IASs.~~

7. The International Accounting Standards Board (IASB) was established in 2001 to replace the International Accounting Standards Committee (IASC). The IASs issued by the IASC remain in force until they are amended or withdrawn by the IASB.

## Definitions

8. ~~6.~~ *The following terms are used in this Standard with the meanings specified:*

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

Accrual basis means a basis of accounting under which transactions, ~~and~~ other events and conditions are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions, ~~and 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.

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.

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

IPSAS 3 ~~Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors~~

the IASB has defined 'change in accounting estimate'

***Cash flows are inflows and outflows of cash and cash equivalents.***

***A change in accounting estimate 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.***

***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.***

***Control is the power to govern the financial and operating policies of another entity so as to benefit from its activities.***

***A discontinued operation**<sup>1</sup> *results from the sale or abandonment of an operation that represents a separate, major line of business of an entity and of which the assets, net surplus or deficit and activities can be distinguished physically, operationally and for financial reporting purposes.**

---

<sup>1</sup> IFAC PSC has not yet addressed the issue of discontinuing operations, which was previously included within International Accounting Standard IAS 8 (Revised ~~1993~~2003), *Net Profit/Loss for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors* and which is now the subject of a separate Standard, International Accounting Standard IAS 35, *Discontinuing Operations*.  
IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*

*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.*

The notion of extraordinary items was deleted

~~*Extraordinary items are revenue or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the entity, are not expected to recur frequently or regularly and are outside the control or influence of the entity.*~~

*Financing activities are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.*

*Foreign entity is a foreign operation, the activities of which are not an integral part of those of the reporting entity.*

*Foreign operation is a controlled entity, associate, joint venture or branch of the reporting entity, the activities of which are based or conducted in a country other than the country of the reporting entity.*

Fundamental errors have been deleted – replaced with ‘errors’. The IASB did not define ‘errors’

~~*Fundamental errors are 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.*~~

*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;*

IPSAS 3 ~~*Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*~~

- (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.*

IASB has defined the term 'impracticable'

*Impracticable 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.*

*Liabilities* *are present obligations of the entity arising from past events, the settlement of which is expected to result in an*

IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*

*outflow from the entity of resources embodying economic benefits or service potential.*

IASB has now defined the term 'material'

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

Consequence of eliminating extraordinary items, dfns such as net surplus/deficit and ordinary activities have been deleted

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

*Net surplus/deficit comprises the following components:*

*(a) — surplus or deficit from ordinary activities; and*

*(b) — extraordinary items.*

*Operating activities are the activities of the entity that are not investing or financing activities.*

~~*Ordinary activities are any activities which are undertaken by an entity as part of its service delivery or trading activities. Ordinary activities include such related activities in which the entity engages in furtherance of, incidental to, or arising from these activities.*~~

'Prior period errors' is a new term introduced and defined by the IASB

*Prior period errors 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 statement 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.*

*IPSAS 3 Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*

Item 12.6 Marked-up IPSASs re: "General Improvements Project"  
PSC Buenos Aires March 2004

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

'Prospective application' is a new term introduced and defined by the IASB

Prospective application 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.

The terms 'retrospective application' and 'retrospective restatement' have now been defined by the IASB.

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

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

***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.***

~~Surplus/deficit from ordinary activities is the residual amount that remains after expenses arising from ordinary activities have been deducted from revenue arising from ordinary activities.~~

## **Future Economic Benefits or Service Potential**

9. ~~7.~~ — 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

IPSAS 3 ~~Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors~~



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

10. ~~8.~~ 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 Financial Statements and Accounting for Controlled Entities* 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

The characteristics of users were introduced by IASB in final Standards, but no in the ED.

11. Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of those users. Users are assumed to have a reasonable knowledge of business 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 economic decisions.

## Net Assets/Equity

12. ~~9.~~ “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.

IPSAS 3 ~~*Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*~~

Item 12.6 *Marked-up IPSASs re: “General Improvements Project”*  
PSC Buenos Aires March 2004

This section has been moved to IPSAS 1

## ~~Net Surplus or Deficit for the Period~~

~~10. All items of revenue and expense recognized in a period should be included in the determination of the net surplus or deficit for the period unless an International Public Sector Accounting Standard requires or permits otherwise.~~

~~11. Normally, all items of revenue and expense recognized in a period are included in the determination of the net surplus or deficit for the period. This includes extraordinary items and the effects of changes in accounting estimates. However, circumstances may exist when certain items may be excluded from net surplus or deficit for the current period. This Standard deals with two such circumstances: the correction of fundamental errors and the effect of changes in accounting policies.~~

~~12. Other International Public Sector Accounting Standards deal with items which may meet definitions of revenue or expense but which are usually excluded from the determination of net surplus or deficit. Examples include a revaluation surplus on physical assets (which are accounted for in accordance with appropriate standards on property, plant and equipment) and gains and losses arising on the translation of the financial statements of a foreign entity (see International Public Sector Accounting Standard IPSAS 4 The Effects of Changes in Foreign Exchange Rates).~~

~~13. The net surplus or deficit for the period comprises the following components, each of which should be disclosed on the face of the statement of financial performance:~~

~~(a) surplus or deficit from ordinary activities; and~~

~~(b) extraordinary items.~~

## ~~Extraordinary Items~~

~~14. The nature and the amount of each extraordinary item should be separately disclosed.~~

~~15. Extraordinary items should be separately disclosed in the statement of financial performance.~~

This section was deleted to reflect the decision made by the IASB in IAS 1 (IPSAS 1)

IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*

Item 12.6 Marked-up IPSASs re: "General Improvements Project"  
PSC Buenos Aires March 2004



~~16. Extraordinary items should be rare, unusual and material. The disclosure of cash flows associated with extraordinary items within a cash flow statement is required by IPSAS 2. IPSAS 2 outlines the requirements for the disclosure of extraordinary items within a cash flow statement. It requires that the cash flows associated with extraordinary items be classified as arising from operating, investing or financing activities as appropriate, and separately disclosed.~~

### **~~Distinct from Ordinary Activities~~**

~~17. Virtually all items of revenue and expense included in the determination of net surplus or deficit for the period arise in the course of the ordinary activities of the entity.~~

~~18. Whether an event or transaction is clearly distinct from the ordinary activities of the entity is determined by the nature of the event or transaction in relation to the activities ordinarily carried on by the entity rather than by the frequency with which such events are expected to occur. An event or transaction may be extraordinary for one entity or level of government, but not extraordinary for another entity or level of government because of the differences between their respective ordinary activities. In the context of whole of government reporting, extraordinary items will be extremely rare.~~

### **~~Not Expected to Recur in Foreseeable Future~~**

~~19. The event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates. The nature of extraordinary items is such that they would not normally be anticipated at the beginning of a reporting period and therefore would not be included in a budget. Inclusion of an item in a budget suggests that the occurrence of the item is foreseen and therefore not extraordinary.~~

### **~~Outside the Control or Influence of the Entity~~**

~~20. The event or transaction should be outside the control or influence of the entity. An event or transaction is presumed to be outside the control or influence of an entity if the decisions or determinations of the entity do not normally influence the occurrence of that transaction or event. However, a gain or loss arising because of a decision to sell an asset rather than hold the asset is not to be considered extraordinary~~

~~IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*~~

because the event originated within the entity and was therefore within the control or influence of management.

### **Examples of Extraordinary Items**

21. — Examples of extraordinary items should be considered in the context of the entity's operating environment and the level of government within which it operates. Judgment should be exercised in each case. Although an event may meet the definition of an extraordinary item for a particular level of government, for example, local or provincial government, it is unlikely that many events will be extraordinary in the context of a national government.

22. — Examples of the costs associated with events or transactions that may, although not necessarily, give rise to extraordinary items for some public sector entities or levels of government are:

(a) — short term costs associated with the provision of services to refugees where the need for such services was unforeseen at the beginning of the period, outside the ordinary scope of activities for the entity and outside the control of the entity. If such services were provided for more than one reporting period they would not generally be classified as extraordinary; and

(b) the costs associated with the provision of services following a natural or man-made disaster, for example, the provision of shelter to homeless people following an earthquake. In order for a such an event to qualify as an extraordinary event it would need to be of a magnitude that would not normally be expected in either the geographic area in which it occurred or the geographic area associated with the entity, and the provision of emergency services or the restoration of essential services would need to be outside the scope of ordinary activities of the entity concerned. Where an entity has responsibility for providing assistance to those affected by natural disasters then costs associated with this activity would not generally meet the definition of an extraordinary item.

23. — By contrast, the following activities, or the prevention of such activities, are generally within the control of an entity and would rarely, if ever, be extraordinary for an entity:

(a) — gains or losses from exchange of foreign currencies;

IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*

- ~~(b) — the gain or loss on disposal of an activity of the entity; and~~
- ~~(c) restructuring costs.~~

~~24. — The restructuring of activities is an example of an event which would not normally be extraordinary for either an individual public sector entity or the whole of government entity which incorporates that government body. All three criteria within the definition of an extraordinary item must be satisfied before an item can be classified as extraordinary. A restructuring may clearly be distinct from the ordinary activities of the entity. However, at the whole of government level, restructuring may occur frequently. More importantly, restructuring is usually within the control or influence of a whole of government entity.~~

### **~~Disclosure of Extraordinary Items~~**

~~25. — The disclosure of the nature and amount of each extraordinary item may be made on the face of the statement of financial performance, or in the notes to the financial statements. If disclosure is made in the notes to the financial statements, the total amount of all extraordinary items should be disclosed on the face of the statement of financial performance.~~

### **~~Surplus or Deficit from Ordinary Activities~~**

~~26. — *When items of revenue and expense within surplus or 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, the nature and amount of such items should be disclosed separately.*~~

~~27. — Although the items described in paragraph 26 are not extraordinary items, the nature and amount of such items may be relevant to users of financial statements. The disclosures may assist users in understanding the financial position and performance of an entity and in making projections about financial position and performance. Disclosure of such information is usually made in the notes to the financial statements.~~

~~28. — Circumstances which may give rise to the separate disclosure of items of revenue and expense in accordance with paragraph 26 include:~~

~~IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*~~

~~(a) the write-down of inventories to net realizable value or property, plant and equipment to recoverable amount, as well as the reversal of such write-downs;~~

~~(b) — a restructuring of the activities of an entity and the reversal of any provisions for the costs of restructuring;~~

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

~~(d) — privatizations or other disposals of long term investments;~~

~~(e) — discontinued operations;~~

~~(f) — litigation settlements; and~~

~~(g) — other reversals of provisions.~~

~~29. — Where the impact of a government's restructuring has a material impact upon the financial statements, relevant disclosures in relation to the statement of financial performance would include staff expenses such as redundancy or retraining, relocation and refurbishment expenses, and the net surplus or deficit associated with the sale or disposal of assets.~~

Paras 37 – 42 (ie the accounting policies section) of IPSAS 1 and paras 48 – 68 have been moved to become paras 13 – 41.

The IASB introduced a new section called 'Accounting Policies' which moved the following to before the old paras 30 – 37 of the existing IPSAS 3 (ie the section on Changes in Accounting Estimates)

## Accounting Policies

### Selection and Application of Accounting Policies

**13. 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 Appendices issued by the PSC for the Standard.**

~~IPSAS 3 Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors~~

In para 13, implemntn guidance has been replaced with 'Appendices'. Pls refer to the memo (item 12.3) for a fuller discussion.

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004

14. International Public Sector Accounting Standards (IPSASs) set out accounting policies that the PSC 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.

In the updated IAS 8, there is a paragraph that notes that Implementation Guidance does not form part of the Standard. Staff have attached the relevant paragraph below for your attention. Please refer to the item 12.4 for a fuller discussion on the authority of appendices in IPSASs.

14A. Implementation Guidance for Standards issued by the IASB does not form part of those Standards, and therefore does not contain requirements for financial statements.

Paras 15 –  
19 originate  
from  
IPSAS 1  
paras 37 –  
42.

15. *In the absence of an Management should select and apply an entity's accounting policies so that the financial statements comply with all the requirements of each applicable International Public Sector Accounting Standard that. Where there is no specifically applies to a transaction, other event or condition requirement, management shouldshall use its judgment in developing and applying an accounting policyies that results in to ensure that the financial statements provide information that is:*

- (a) *relevant to the decision-making needs of users; and*
- (b) *reliable, in that they financial statements:*
  - (i) *represent faithfully the financial performance and financial position of the entity;*
  - (ii) *reflect the economic substance of events and transactions and not merely the legal form;*
  - (iii) *are neutral, that isie, free from bias;*

IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*

- (iv) *are prudent; and*
- (v) *are complete in all material respects.*

para 16  
is from  
IPSAS 1  
para 38

**16.** *If one or more alternative accounting policies (benchmark or allowed alternative) are available under an International Public Sector Accounting Standard, an entity should choose and apply consistently one of those policies unless the Standard specifically requires or permits categorization of items (transactions, events, balances, amounts, etc.) for which policies are to be chosen. If a Standard requires or permits separate categorization of items, a single accounting policy should be selected and applied consistently to each category.*

Para 17  
is from  
IPSAS 1  
para 39

**17.** *Once an initial policy has been selected, a change in accounting policy should only be made in accordance with International Public Sector Accounting Standard IPSAS 3 ~~Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors~~ and applied to all items or categories of items in the manner specified in paragraph 16~~38~~.*

Para 18  
is from  
IPSAS 1  
para 40

**18.** The quality of information provided in financial statements determines the usefulness of the financial statements to users. Paragraph ~~37~~15 requires the development of accounting policies to ensure that the financial statements provide information that meets a number of qualitative characteristics. Appendix 2 to ~~this Standard~~IPSAS 1 summarizes the qualitative characteristics of financial reporting.

Para 19 been updated and reflected as black letter (to follow the changes in IAS 8).  
Previously, this was a commentary para.

Para 19  
is from  
IPSAS 1  
para 42

**19.** *~~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~~the judgment, described in paragraph 15,~~*

IPSAS 3 ~~Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors~~



*management shall refer to, and considers 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 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 these 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.*~~

In its equivalent IAS para, part (b) refers to the defns, recognition, & mesmt criteria in the Framework.

This replicates para 19(c), but uses the revised IAS structure. The IAS equivalent refers to a framework. See para 20A.

**20.** *In making the judgment described in paragraph 15, management may also consider the 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 19(a) of this paragraph. For example, pronouncements of the International Accounting Standards CommitteeBoard (IASCB), including the Framework for the Preparation and Presentation of Financial Statements, International Accounting-Financial Reporting Standards and interpretations issued by the IASCB's International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee(SIC).*

In the revised IAS 8, the IASB used para 20A (see below). It refers to the conceptual framework.

20A. In making the judgment described in paragraph 10 (*the IPSAS equivalent is para 15*), management may also consider the most recent IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*

pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources in paragraph 19.

## Consistency of Accounting Policies

21. 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**

Para 51 was moved to before para 48.

~~22.~~ ~~51.~~ *An entity shall change ~~an~~ accounting policy ~~should be made~~ only if ~~the change~~:*

(a) *is required by statute (including a mandatory regulation), or by an International Public Sector Accounting Standard-setting body, or*

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

~~23.~~ ~~48.~~ Users of financial statements need to be able to compare the financial statements of an entity over a period of time to identify trends in its financial position, performance and cash flows. Therefore the same accounting policies are normally adopted in applied within each period and from one period to the next unless a change in accounting policy meets one of the criteria in paragraph 22.

IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*



Paras 24 and 25 were added by the PSC. But, para 24 has been updated to reflect that guidance on the selection and application of accounting policies (that were previously in IPSAS 1) has been moved to this IPSAS.

24. ~~49.~~ *~~The selection and application of accounting policies are discussed in IPSAS 1. A change from one basis of accounting to another basis of accounting is a change in accounting policy.~~*

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

26. ~~52.~~ *~~The following are not changes in accounting policies:~~*

- (a) *~~the adoption~~ application of an accounting policy for events or transactions, other events or conditions that differ in substance from those previously occurring ~~events or transactions~~; and*
- (b) *~~the application~~ adoption of a new accounting policy for ~~events or transactions~~, other events or conditions ~~which that~~ did not occur previously or that were immaterial.*

27. ~~53.~~ *~~The initial adoption~~ application of a policy to ~~carry assets at revalued assets amounts in accordance with IPSAS 17 Property, Plant and Equipment or other International Public Sector Accounting Standards that deal with the revaluation of 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. However, where another appropriate accounting standard establishes requirements for dealing with revaluations in relation to a specific class of assets, such as property, plant and equipment, such changes should be dealt with in accordance with that this Standard.*

28. *~~Paragraphs 29-41 do not apply to the change in accounting policy described in paragraph 27.~~*

Unlike its equivalent IAS para, para 27 does not refer to IAS 39 as the PSC has not dealt with the issue of intangible assets

IPSAS 3 *~~Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors~~*

~~54.—— A change in accounting policy is applied retrospectively or prospectively in accordance with the requirements of this Standard. Retrospective application results in the new accounting policy being applied to events and transactions as if the new accounting policy had always been in use. Therefore, the accounting policy is applied to events and transactions from the date of origin of such items. Prospective application means that the new accounting policy is applied to the events and transactions occurring after the date of the change. With respect to prospective application, no adjustments relating to prior periods are made either to the opening balance of accumulated surpluses or deficits or in reporting the net surplus or deficit for the current period because existing balances are not recalculated. However, the new accounting policy is applied to existing balances as from the date of the change. For example, an entity may decide to change its accounting policy for borrowing costs and capitalize those costs in conformity with the allowed alternative treatment in International Public Sector Accounting Standard IPSAS 5 *Borrowing Costs*. Under prospective application, the new policy only applies to borrowing costs that are incurred after the date of the change in accounting policy.~~

## **Adoption of an International Public Sector Accounting Standard**

~~55.——~~

~~56.—— The transitional provisions in an International Public Sector Accounting Standard may require either a retrospective or a prospective application of a change in accounting policy.~~

~~57.—— IPSAS 1 sets out the principles to be applied in the selection and application of accounting policies.~~

~~58.—— When an entity has not adopted a new International Public Sector Accounting Standard which has been published but which has not yet come into effect, the entity is encouraged to disclose the nature of the future change in accounting policy and an estimate of the effect of the change on its net surplus or deficit, financial position, and/or net increase/(decrease) in cash and cash equivalents as appropriate.~~

~~IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*~~

Item 12.6 *Marked-up IPSASs re: “General Improvements Project”*  
PSC Buenos Aires March 2004

Paras 13  
and 19 now  
deal with  
this issue  
'adptn of  
IPSAS'.

Para 55 has  
been  
moved to  
para 29.

## **OtherApplying Changes in Accounting Policies—Benchmark Treatment**

29. ~~55. A change in accounting policy which is made on the adoption of an International Public Sector Accounting Standard should be accounted for in accordance with the specific transitional provisions, if any, in that International Public Sector Accounting Standard. In the absence of any transitional provisions, the change in accounting policy should be applied in accordance with the benchmark treatment in paragraphs 59, 60, 63 and 64 or the allowed alternative in paragraphs 65, 67 and 68. Subject to paragraph 32:~~

(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.

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

31. 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 20, apply an accounting policy from the 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 19(a) of this paragraph. For example, pronouncements of the International Accounting Standards ~~Committee~~ Board (IASCB), including the *Framework for the Preparation and Presentation of Financial Statements*, International ~~Accounting~~ Financial Reporting Standards and

Para 31 has the same issue as para 20. The relevant para used by the IASB in the revised IAS is attached as para 31A below.

IPSAS 3 ~~Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors~~

interpretations issued by the IASB~~E~~'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.

31A. In the absence of a Standard that specifically applies to a transaction, other event or condition, management may, in accordance with paragraph 12 (*the IPSAS equivalent is para 20*), apply an accounting policy from the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards. 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

~~59.~~ Subject to paragraph 33, when a change in accounting policy should be applied retrospectively in accordance with paragraph 29(a) or (b), the entity shall unless the amount of any resulting adjustment that relates to prior periods is not reasonably determinable.

~~32.~~ 60. Any resulting adjustment should be reported as an adjustment to the opening balance of each affected component of accumulated surpluses or deficits net assets/equity for the earliest period presented and other. Comparative amounts information should be restated unless it is impracticable to do so disclosed as if the new accounting policy had always been applied.

~~61.~~ The financial statements, including the comparative information for prior periods, are presented as if the new accounting policy had always been in use. Therefore, comparative information is restated in order to reflect the new accounting policy. The amount of the adjustment relating to periods prior to those included in the financial statements is adjusted against the opening balance of accumulated surpluses or deficits of the earliest period presented. Any other information with respect to

IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*

~~prior periods, such as historical summaries of financial data, is also restated.~~

- ~~62. The restatement of comparative information does not necessarily give rise to the amendment of financial statements which have been approved by the governing body or registered or filed with regulatory authorities. However, national laws may require the amendment of such financial statements.~~

*Limitations on retrospective application*

33. When a retrospective application is required by paragraph 29(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.

34. 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 accumulated surplus or deficits for that period.

35. ~~63.~~ When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new ~~The change in~~ accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy from the earliest date practicable ~~should be applied prospectively when the amount of the adjustment to the opening balances required by paragraph 60 cannot be reasonably determined.~~

The IASB inserted 3 new paragraphs between the old paragraphs 63 and 64.

IPSAS 3 *~~Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors~~*

36. 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 retained earnings. 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 it practicable.
37. 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 35, 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 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 60 - 63 provide guidance when it is impracticable to apply a new accounting policy to one or more prior periods.

### Disclosure

New  
requirement

38. *When initial application of an International Public Sector Accounting Standard has an effect on the current period or any prior period presented, 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 should disclose:*

(a) *the title of the Standard;*

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

IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*



- (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 possible; and
- (h) if retrospective application required by paragraph 29(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.

Additional  
disclosure  
requirement

**39. 64.**—When a voluntary change in accounting policy has an ~~material~~ effect on the current period or any prior period presented, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or may might have an material effect on subsequent future periods, an entity should disclose the following:

- (a) the nature of the change in accounting policy;
- (ab) the reasons for the change why applying the new accounting policy provides more reliable and more relevant information;
- (c) for the current period and each prior period presented, to the extent practicable, the amount of the

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

adjustment for each financial statement line item affected;

(~~bd~~) the amount of the adjustment ~~for the current period and for each~~ relating to periods before those presented, to the extent possible;

(~~ee~~) 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. ~~the amount of the adjustment relating to periods prior to those included in the comparative information; and~~

(~~d~~) ~~the fact that comparative information has been restated or that it is impracticable to do so.~~

Financial statements of subsequent periods need not repeat these disclosures.

40. 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.

41. In complying with paragraph 40, 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;

IPSAS 3 ~~Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors~~



- (c) the date by which application of the International Public Sector Accounting Standard is required;
- (d) the date as at which it plans to apply the International Public Sector Accounting 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.

## **Other Changes in Accounting Policies—Allowed Alternative Treatment**

As proposed in the ED, the allowed alternative treatment was deleted.

~~65. A change in accounting policy should be applied retrospectively unless the amount of any resulting adjustment that relates to prior periods is not reasonably determinable. Any resulting adjustment should be included in the determination of the net surplus or deficit for the current period. Comparative information should be presented as reported in the financial statements of the prior period. Additional pro forma comparative information, prepared in accordance with paragraph 60, should be presented unless it is impracticable to do so.~~

~~66. Adjustments resulting from a change in accounting policy are included in the determination of the net surplus or deficit for the period. However, additional comparative information is presented, often as separate columns, in order to show the net surplus or deficit and the financial position of the current period and any prior periods presented as if the new accounting policy had always been applied. It may be necessary to apply this accounting treatment in countries where the financial statements are required to include comparative information which agrees with the financial statements presented in prior periods.~~

~~67. The change in accounting policy should be applied prospectively when the amount to be included in net surplus or deficit~~

IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*

~~for the current period required by paragraph 65 cannot be reasonably determined.~~

~~68. When a change in accounting policy has a material effect on the current period or any prior period presented, or may have a material effect in subsequent periods, an entity should disclose the following:~~

- ~~(a) the reasons for the change;~~
- ~~(b) the amount of the adjustment recognized in net surplus or deficit in the current period; and~~
- ~~(c) the amount of the adjustment included in each period for which pro forma information is presented and the amount of the adjustment relating to periods prior to those included in the financial statements. If it is impracticable to present pro forma information, this fact should be disclosed.~~

## Changes in Accounting Estimates

~~42. 30.~~ As a result of the uncertainties inherent in delivering services, conducting trading or other activities, many financial statement items cannot be measured with precision but can only be estimated. ~~The e~~Estimation ~~process~~ involves judgments based on the latest ~~information~~ available, reliable information. For example, Eestimates may be required, ~~for example~~, 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 economic benefits or service potential of embodied in depreciable assets, or the percentage completion of road construction; and
- ~~(e)~~ warranty obligations.

IPSAS 3 ~~Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies,~~ Changes in Accounting Estimates and Errors

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

44. ~~31.~~—An estimate may have to be revised if changes occur regarding in the circumstances on which the estimate was based or as a result of new information, or more experience ~~or subsequent developments~~. By its nature, the revision of the an estimate does not ~~bring the adjustment within the definitions of an extraordinary item~~ relate to prior periods and is not the correction of or a fundamental an error.

45. ~~32.~~—A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When ~~Sometimes~~ it is difficult to distinguish ~~between~~ a change in accounting policy and from a change in an accounting estimate. ~~In such cases,~~ the change is treated as a change in an accounting estimate, ~~with appropriate disclosure~~.

46. ~~33.~~—*The effect of a change in an accounting estimate, other than a change to which paragraph 47 applies, should shall be recognized prospectively by including it in the determination of net 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.*

New  
rq'ment/  
clarification

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

48. ~~34.~~—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 the current period's surplus or deficit, only or surplus of deficit of both the current period and future periods. For

IPSAS 3 ~~Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors~~

example, a change in the estimate of the amount of bad debts affects only the current period's surplus or deficit and is therefore is recognized immediately 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 in the current period and in for each period during the asset's remaining useful life of the asset. 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.

~~35. — The effect of a change in an accounting estimate should be included in the same statement of financial performance classification as was used previously for the estimate.~~

~~36. — To ensure the comparability of financial statements of different periods, the effect of a change in an accounting estimate for estimates which were previously included in the surplus or deficit from ordinary activities is included in that component of net surplus or deficit. The effect of a change in an accounting estimate for an estimate which was previously included as an extraordinary item is reported as an extraordinary item.~~

### Disclosure

~~49. 37. — An entity shall disclose The nature and amount of a change in an accounting estimate that has an material effect in the current period or which is expected to have an material effect in subsequent future periods should be disclosed when it is impracticable to estimate that effect.~~

~~50. — If it is impracticable to quantify the amount, this fact should be disclosed.~~

## **Fundamental Errors**

~~51. 38. — Errors in the preparation of the financial statements of one or more prior periods may be discovered in the current period. Errors may occur as a result of mathematical mistakes, mistakes in applying accounting policies, misinterpretation of facts, fraud or oversights. The correction of these errors is~~

~~IPSAS 3 Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors~~

~~normally included in the determination of net surplus or deficit for the current period. 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 52-57).~~

39. ~~On rare occasions, an error has such a significant effect on the financial statements of one or more prior periods that those financial statements can no longer be considered to have been reliable at the date of their issue. These errors are referred to as fundamental errors. An example of a fundamental error is the omission of a major class of revenue or expense from the financial statements. The correction of fundamental errors that relate to prior periods requires the restatement of the comparative information or the presentation of additional pro forma information.~~

40. 

Para 40 has been moved to after paragraph 57 of the updated IPSAS 3.

## **Benchmark Treatment**

52. ~~41. Subject to paragraph 53, an entity shall~~The amount of the correction of a fundamental material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

~~(a) restating the that relates to prior periods should be reported by adjusting the opening balance of accumulated surpluses or deficits. Comparative information should be restated, unless it is impracticable to do so amounts for prior period(s) presented in which the error occurred; or~~

IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*

- (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

53. 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.

54. 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).

55. 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.

56. 42.——The correction of a prior period is excluded from surplus or deficit for the period in which the error is discovered. The financial statements, including the comparative information for prior periods, are presented as if the fundamental error had been corrected in the period in which it was made. Therefore the amount of the correction that relates to each period presented is included within the net surplus or deficit for that period. The amount of the correction relating to periods prior to those included in the comparative information in the financial statements is adjusted against the opening balance of accumulated surpluses or deficits in the earliest period presented. Any other information reportedpresented about with respect to prior periods, such asincluding historical summaries of financial data, is also restated as far back as is practicable.

- 43.——The restatement of comparative information does not necessarily give rise to the amendment of financial statements which IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*



~~have been approved by the governing body or registered or filed with regulatory authorities. However, national laws may require the amendment of such financial statements.~~

57. ~~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 55, 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 60-63 provide guidance on when it is impracticable to correct an error for one or more prior periods.~~

58. ~~40. The e~~Corrections ~~of fundamental errors can be~~ 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 ~~which previously could not be estimated reliably~~ does is not constitute the correction of an fundamental error.

## Disclosure of Prior Period Errors

59. ~~44. In applying paragraph 52, A~~an entity should~~shall~~ disclose the following:

- (a) ~~the nature of the fundamental 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 the current period and for each prior period presented;~~
- (c) ~~the amount of the correction at the beginning of the earliest relating to prior periods presented prior to those included in the comparative information; and~~
- (d) ~~if retrospective restatement the fact that comparative information has been restated or that it is impracticable to do so for a particular prior period, the circumstances that led to the existence of that~~

IPSAS 3 ~~Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors~~

*condition and a description of how and from when the error has been corrected.*

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

## **Allowed Alternative Treatment**

~~45. — The amount of the correction of a fundamental error should be included in the determination of net surplus or deficit for the current period. Comparative information should be presented as reported in the financial statements of the prior period. Additional pro forma information, prepared in accordance with paragraph 41, should be presented unless it is impracticable to do so.~~

~~46. — The correction of the fundamental error is included in the determination of the net surplus or deficit for the current period. However, additional information is presented, often as separate columns, to show the net surplus or deficit of the current period and any prior periods presented as if the fundamental error had been corrected in the period when it was made. It may be necessary to apply this accounting treatment in countries where the financial statements are required to include comparative information which agrees with the financial statements presented in prior periods.~~

~~47. — An entity should disclose the following:~~

~~(a) — the nature of the fundamental error;~~

~~(b) — the amount of the correction included in each period for which pro forma information is presented and the amount of the correction relating to periods prior to those included in the pro forma information. If it is impracticable to present pro forma information, this fact should be disclosed; and~~

~~(c) — the amount of any correction recognized in net surplus or deficit for the current period.~~

IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*



## **Impracticability in Respect of Retrospective Application and Retrospective Restatement**

New guidance/ explanation on the notion of impracticability

60. In some circumstances, it is impracticable to adjust comparative information for one or more 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 61-63, its prospective application to prior periods) or retrospective restatement to correct a prior period error, and it may be impracticable to recreate the information.
61. 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.
62. 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

IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*

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.

63. 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 measuring financial assets previously classified as held-to-maturity investments in accordance with International Accounting Standards IAS 39 *Financial Instruments: Recognition and Measurement*, it does not change their basis of measurement for that period if management decided later not to hold them to maturity. In addition, when an entity corrects a prior period error in calculating its liability for employees' accumulated sick leave in accordance with International Accounting Standards IAS 19 *Employee Benefits*, it disregards information about an unusually severe influenza season 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.

The IASB used examples using issues which the PSC yet to issue an IPSAS. Staff have not changed these examples. The PSC may want to adapt examples for the public sector.

## Effective Date

64. ~~69.~~—*This International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after ~~1DD MM YYYY~~ July 2001. Earlier application is encouraged.*

65. ~~70.~~—When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards,

IPSAS 3 ~~*Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*~~

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.

IPSAS 3 ~~*Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies*~~, *Changes in Accounting Estimates and Errors*

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004

## Appendix

*This appendix is illustrative only and does not form part of the standards. The purpose of this appendix is to illustrate the application of the standards and to assist in clarifying their meaning. Extracts from the financial statements are provided to show the effects on the financial statements of the transactions described in this appendix. These extracts do not necessarily conform with all the disclosure and presentation requirements of other International Public Sector Accounting Standards.*

### **Example 1 – Fundamental Retrospective Restatement of Errors**

1.1. During 20X2, the entity discovered that revenue from income taxes was incorrect. Income taxes of CU<sup>2</sup>6,500 that should have been recognized in 20X~~1~~ were incorrectly omitted from 20X1 and recognized as revenue in 20X~~2~~.

1.2. The entity's accounting records for 20X~~2~~ show revenue from taxation of CU60,000 (including the CU6,500 taxation which should have been recognized in opening inventory 20X~~1~~), and expenses of CU86,500.

1.3. In 20~~X~~1, the entity reported:

	<u>CU</u>
Revenue from taxation	34,000
User charges	3,000
Other operating revenue	<u>30,000</u>
Total revenue	67,000
Expenses	<u>(60,000)</u>
Net surplus	<u><u>7,000</u></u>

1.4. 20-1 opening accumulated surplus was CU2,000 and closing accumulated surplus was CU34,000.

---

<sup>2</sup> In these examples, monetary amounts are denominated in 'currency units' (CU).

IPSAS 3 ~~*Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*~~

- 1.5. 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  
~~UNDER THE BENCHMARK TREATMENT~~ (EXTRACT)**

	20X <del>2</del> (restated)	20X <del>1</del> (restated)
	<u>CU</u>	<u>CU</u>
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)
Net surplus	11,000	13,500

**PUBLIC SECTOR ENTITY  
STATEMENT OF CHANGES IN EQUITY (EXTRACT)**

	<u>Contributed capital</u>	<u>Accumulated Surpluses</u>	<u>Total</u>
	<u>CU</u>	<u>CU</u>	<u>CU</u>
<u>Balance at 31 December 20-0</u>	<u>5,000</u>	<u>10,000</u>	<u>15,000</u>
<u>Surplus for the year ended December 31 20-1 as restated</u>	<u>=</u>	<u>13,500</u>	<u>13,500</u>
<u>Balance at 31 December 20-1</u>	<u>5,000</u>	<u>23,500</u>	<u>28,500</u>
<u>Surplus for the year ended 31 December 20-2</u>	<u>=</u>	<u>11,000</u>	<u>11,800</u>
<u>Balance at 31 December 20-2</u>	<u>5,000</u>	<u>34,500</u>	<u>40,300</u>

**~~PUBLIC SECTOR ENTITY – STATEMENT OF CHANGES IN NET ASSETS/EQUITY UNDER THE BENCHMARK TREATMENT~~**

20X2      20X1  
(restated)

IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*

Item 12.6 *Marked-up IPSASs re: “General Improvements Project”*  
PSC Buenos Aires March 2004

Opening accumulated surpluses as previously reported	17,000	10,000
Correction of fundamental error (Note 1)	6,500	–
Opening accumulated surpluses	23,500	10,000
Net surplus	11,000	13,500
Closing accumulated surpluses	34,500	23,500

### 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 20-2.

	<u>Effect on 20-1</u>
	<u>CU</u>
<u>Increase revenue</u>	<u>6,500</u>
<u>Increase in surplus</u>	<u>6,500</u>
<u>Increase in debtors</u>	<u>6,500</u>
<u>Increase in net assets/equity</u>	<u>6,500</u>

### ~~PUBLIC SECTOR ENTITY – STATEMENT OF FINANCIAL PERFORMANCE UNDER THE ALLOWED ALTERNATIVE TREATMENT (EXTRACT)~~

	20X2	20X1	Pro-forma 20X2 (restated)	20X1 (restated)
Revenue from taxation (Note 1)	60,000	34,000	53,500	40,500
User charges	4,000	3,000	4,000	3,000
Other operating revenue	40,000	30,000	40,000	30,000
Total revenue	104,000	67,000	97,500	73,500
Expenses	(86,500)	(60,000)	(86,500)	(60,000)
Net surplus	17,500	7,000	11,000	13,500

~~IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*~~

**PUBLIC SECTOR ENTITY—STATEMENT OF CHANGES IN NET ASSETS/EQUITY UNDER THE ALLOWED ALTERNATIVE TREATMENT**

	20X2	20X1	Pro-forma 20X2 (restated)	20X1 (restated)
Opening accumulated surpluses as previously reported	17,000	10,000	17,000	10,000
Correction of fundamental error (Note 1)	—	—	6,500	—
Opening accumulated surpluses as restated	17,000	10,000	23,500	10,000
Net surplus	17,500	7,000	11,000	13,500
Closing accumulated surpluses	34,500	17,000	34,500	23,500

**Extracts from Notes to the Financial Statements**

1. ~~Revenue from taxation of 6,500 was incorrectly omitted from the financial statements of 20X1. Restated pro-forma information for 20X2 and 20X1 is presented as if the error had been corrected in 20X1.~~

**Example 2 - Changes in Accounting Policy with Retrospective Application**

- 2.1. ~~During 20X2, the entity changed its accounting policy with respect to 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 in accordance with the allowed alternative treatment in IPSAS 5. The entity has now decided to expense, rather than capitalize them, these costs in order to conform with the benchmark treatment in IPSAS 5. Management judges that the new policy is preferable because it results in a more transparent treatment of finance costs and is consistent with~~

*IPSAS 3 Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*

local industry practice, making the entity's financial statements more comparable.

2.2. The entity capitalized borrowing costs incurred of CU2,600 during 20X-1 and CU5,200 in periods prior to 20X-1. 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 ~~from operating activities~~ before interest of CU30,000; and interest expense of CU3,000 (which relates only to 20X2).

2.4. In 20X1, the entity reported:

	<u>CU</u>
Surplus <del>from operating activities</del> before interest	18,000
Interest expense	—
<del>Net s</del> Surplus from ordinary activities	<u>18,000</u>

2.5. 20X-1 opening accumulated surpluses were CU20,000 and closing accumulated surpluses ~~were~~was CU38,000.

**PUBLIC SECTOR ENTITY – STATEMENT OF FINANCIAL PERFORMANCE  
UNDER THE BENCHMARK TREATMENT (EXTRACT)**

	20 <u>X</u> 2 <u>(restated)</u>	20 <u>X</u> -1 <u>(restated)</u>
	<u>CU</u>	<u>CU</u>
Surplus <del>from operating activities</del> before interest	30,000	18,000
Interest expense	(3,000)	(2,600)
<del>Net s</del> Surplus from ordinary activities	<u>27,000</u>	<u>15,400</u>

**PUBLIC SECTOR ENTITY – STATEMENT OF CHANGES IN NET  
ASSETS/EQUITY UNDER THE BENCHMARK TREATMENT**

IPSAS 3 ~~Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors~~

Item 12.6 Marked-up IPSASs re: “General Improvements Project”  
PSC Buenos Aires March 2004



	<u>Contributed capital</u>	<u>20X2 Accumulated Surplus (restated)</u>	<u>Total</u>
		<u>20X-1 (restated)</u>	
	<u>CU</u>	<u>CU</u>	<u>CU</u>
<u>Opening accumulated surpluses</u>			
<u>Balance at 31 December 20-0</u> as previously reported	<u>10,000</u>	<u>38,000</u>	<u>20,000</u>
Change in accounting policy with respect to the capitalization of interest (Note 1)	=	(7,800)	(5,200)
<u>Opening accumulated surpluses</u>			
<u>Balance at 31 December 20-0</u> as restated	<u>10,000</u>	<u>30,200</u>	<u>14,800</u>
<u>Net Surplus for the year ended 31 December 20-1 (restated)</u>	=	<u>27,000</u>	<u>15,400</u>
<u>Balance at 31 December 20-1</u>	<u>10,000</u>	<u>30,200</u>	<u>40,200</u>
<u>Surplus for the year ended 31 December 20-2</u>	=	<u>27,000</u>	<u>27,000</u>
<u>Closing accumulated surpluses at 31 December 20-2</u>	<u>10,000</u>	<u>57,200</u>	<u>67,200</u>

### Extracts from the Notes to the Financial Statements

- During 20X-2, the entity changed its accounting policy with respect to for the treatment of borrowing costs related to a hydro-electric power station which is in the course of construction for use. Previously, In order to conform with the benchmark treatment in IPSAS-5, the entity now expenses rather than capitalizes 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 20X-1 have been restated to conform to the changed policy. The effect of the change on 20-1 is tabulated below is an increase in interest expense of 3,000
- IPSAS 3 Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors

~~(20X2) and 2,600 (20X1)~~. Opening accumulated surpluses for 20X<sub>-1</sub> have been reduced by CU5,200 which is the amount of the adjustment relating to periods prior to 20X<sub>-1</sub>.

**~~PUBLIC SECTOR ENTITY—STATEMENT OF FINANCIAL PERFORMANCE UNDER THE ALLOWED ALTERNATIVE TREATMENT (EXTRACT)~~**

	20X2	20X1	Pro-forma 20X2 (restated)	20X1 (restated)
Surplus from operating activities before interest	30,000	18,000	30,000	18,000
Interest expense	(3,000)	—	(3,000)	(2,600)
Cumulative effect of change in accounting policy	(7,800)	—	—	—
Net surplus	19,200	18,000	27,000	15,400

**~~PUBLIC SECTOR ENTITY—STATEMENT OF CHANGES IN NET ASSETS/EQUITY UNDER THE ALLOWED ALTERNATIVE TREATMENT~~**

	20X2	20X1	Pro-forma 20X2 (restated)	20X1 (restated)
Opening accumulated surpluses as previously reported	38,000	20,000	38,000	20,000
Change in accounting policy with respect to the capitalization of interest (Note 1)	—	—	(7,800)	(5,200)
Opening accumulated surpluses as restated	38,000	20,000	30,200	14,800
Net surplus	19,200	18,000	27,000	15,400
Closing accumulated surpluses	57,200	38,000	57,200	30,200

IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*

Item 12.6 Marked-up IPSASs re: “General Improvements Project”  
PSC Buenos Aires March 2004

### **Extracts from Notes to the Financial Statements**

1. ——— An adjustment of 7,800 has been made in the statement of financial performance for 20X2 representing the effect of a change in accounting policy with respect to the treatment of borrowing costs relating to the construction of a hydro electric power station which is in the course of construction for use. In order to conform with the benchmark treatment in IPSAS 5, the entity now expenses rather than capitalizes such costs. This change in accounting policy has been accounted for retrospectively. Restated pro forma information, which assumes that the new policy had always been in use, is presented. The opening accumulated surpluses in the pro forma information for 20X1 have been reduced by 5,200 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 20-2, 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 20-2, the entity's asset records were not sufficiently detailed to apply a components approach fully. At the end of year 20-1, 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 202. 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 20-2. Also, the change from a cost model to a revaluation model is required

IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*

to be accounted for prospectively. Therefore, management concluded that it should apply the entity's new policy prospectively from the start of 20-2.

#### 3.4. Additional information:

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

#### Extract from the Notes

1. From the start of 20-2, 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 20-2 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

IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004

revaluation reserve at the start of the year of CU6,000; and increase depreciation expense by CU5,000.

This example was deleted because extraordinary items have been deleted from IPSASs.

## **Extraordinary Items**

~~The examples shown below are intended to illustrate the disclosure of extraordinary items in a statement of financial performance. The disclosure of extraordinary items in a cash flow statement is required by IPSAS 2. The classification of an event or transaction as extraordinary is dependent upon the nature of the event and the entity. Events or transactions which may be an extraordinary item for one entity may not be extraordinary for another entity. In particular, few events are likely to be extraordinary at the whole of government level.~~

### **PUBLIC SECTOR ENTITY – STATEMENT OF FINANCIAL PERFORMANCE (EXTRACT)**

	20X2	20X1
Surplus from ordinary activities	7,900	8,400
Extraordinary item—loss on destruction of overseas broadcasting operation (Note 1)	—	(3,150)
Net surplus for the period	<u>7,900</u>	<u>5,250</u>

### **Extracts from Notes to the Financial Statements**

- ~~On 1 October 20X1, the overseas broadcasting operations of the entity were destroyed by an earthquake. The results of this operation had previously been reported in the “Broadcasting” segment. The loss arising from the earthquake has been accounted for as an extraordinary item as earthquakes are uncommon in this region. The loss arising from the earthquake is the net carrying amount of the assets and liabilities of the operation at the date of the earthquake. The revenues recognized relating to this operation from 1 January 20X1 until 1 October 20X1 were 10,000 and the surplus was 2,000.~~

IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*

Item 12.6 *Marked-up IPSASs re: “General Improvements Project”*  
PSC Buenos Aires March 2004

## Comparison with IAS 8

International Public Sector Accounting Standard IPSAS 3 ~~*Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*~~ is drawn primarily from International Accounting Standard IAS 8 (Revised 2003), *Net Profit or Loss for the Period, Fundamental Errors and Changes in 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 ~~“entity”~~, “revenue”, “statement of financial performance”, “statement of financial position” and “net assets/equity” in IPSAS 3. The equivalent terms in IAS 8 are ~~“enterprise”~~, “income”, “income statement”, “balance sheet” and “equity”.
- IPSAS 3 contains a different set of definitions of technical terms from IAS 8 (paragraph 8~~6~~).
- ~~IPSAS 3 contains a different definition of extraordinary items from IAS 8. IPSAS 3 contains a specific requirement that extraordinary items must be outside the control or influence of the entity (paragraph 6).~~

IPSAS 3 ~~*Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*~~

## **Summary of Main Changes**

### **IPSAS 4 *The Effects of Changes in Foreign Exchange Rates***

The main changes proposed are:

#### **Scope**

- to now exclude in paragraph 3 foreign currency derivatives that are within the scope of international or national accounting standards that address the recognition and measurement of financial instruments. (Hedge accounting that was previously excluded in IPSAS 4 will remain excluded in IPSAS 4 because it is a form of derivative.)

#### **Definitions**

- to replace the term ‘reporting currency’ with two notions (in paragraph 12):
  - functional currency – currency of the primary economic environment in which the entity operates
  - presentation currency – currency in which the financial statements are presented
- to modify the definitions in paragraph 12 the terms: “exchange difference”, “foreign currency”, and “net investment in a foreign operation”

#### **Functional Currency**

- to require each reporting entity to determine its functional currency and measure its results and financial position in that currency in paragraphs 27 and 31. Consequently, the entity:
  - does not have a free choice of functional currency (paragraphs 16-20); and
  - cannot avoid restatement when reporting in a hyperinflationary economy (paragraphs 21, 51, 56-57).
- to disclose the functional currency of the entity when the functional currency is different from its presentation currency and to clarify why in paragraph 72.
- to disclose when there has been a change in functional currency, and the reasons for the change in paragraph 73.
- to replace the previous requirement to account for a change in the classification of a foreign operation with a requirement that a change in functional currency is accounted for prospectively in paragraph 18.

#### **Integral Foreign Operations vs Foreign Entities**

- to eliminate the distinction between integral foreign operations and foreign entities. Consequently:
  - an entity that was previously classified as an integral foreign operation will have the same functional currency as the reporting entity; and

Item 12.6 *Marked-up IPSASs re: “General Improvements Project”*

PSC Buenos Aires March 2004

- only one translation method is used for foreign operations;

### **Reporting Foreign Currency Transactions in the Functional Currency - Recognition of Exchange Differences**

- to remove the allowed alternative treatment where an entity can capitalize exchange differences resulting from a severe devaluation or depreciation of a currency against which there is no means of hedging. Now, the Standard requires that such exchange differences be reflected in the surplus or deficit in paragraph 32.

### **Use of a Presentation Currency other than the Functional Currency**

- to clarify in paragraph 50 that this Standard permits an entity to present its financial statements in any currency (or currencies).
- to now require that goodwill and fair value adjustments to assets and liabilities that arise on the acquisition of a foreign entity only be treated as part of the assets and liabilities of the acquired entity and translated at the closing rate in paragraph 65. Previously, an entity was also allowed to treat these types of goodwill and fair value adjustments as assets and liabilities of the reporting entity. This paragraph has also changed to bold italic type from a commentary paragraph.

### **Disclosure**

- to require in paragraph 76 that when the entity disclose financial information where the presentation currency is not its functional currency and the translation method does not comply with each applicable IPSASs, the entity shall:
  - clearly identify the information as supplementary information to distinguish it from other information that complies with IPSASs;
  - disclose the currency in which supplementary information is displayed; and
  - disclose the entity's functional currency and the method of translation used to determine the supplementary information.

### **Transitional Provisions**

- to provide a new transitional provision in paragraph 80 for those entities which previously applied the eliminated alternative treatment for goodwill and fair value adjustments arising on the acquisition of a foreign operation. An entity, on first application this Standard, is allowed to apply prospectively these types of goodwill and fair value adjustments in accordance to the new requirements in this Standard. (Retrospective application is allowed.)
- to require in paragraph 81 that all changes, except for the application of the transitional provisions in paragraph 80, shall be accounted for in accordance with the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.



IFAC  
Public  
Sector  
Committee

Issued May 2000

IPSAS 4

---

The Effects of Changes in Foreign Exchange Rates  
International Public Sector Accounting Standard

Issued by  
the  
International  
Federation of

*General Improvements Project”*



~~This Standard was approved by the Public Sector Committee of the International Federation of Accountants.~~

### ***Acknowledgment***

This International Public Sector Accounting Standard is drawn primarily from International Accounting Standard IAS 21, *The Effects of Changes in Foreign Exchange Rates* (Revised 2003) published by the International Accounting Standards Committee Board (IASB). ~~The IASB and the International Accounting Standards Committee Foundation (IASCF) were established in 2001 to replace the International Accounting Standards Committee (IASC). The International Accounting Standards (IASs) issued by the IASC remain in force until they are amended or withdrawn by the IASB.~~ Extracts from IAS 21 are reproduced in this publication of the Public Sector Committee of the International Federation of Accountants with the permission of ~~the IASB~~.

The approved text of the International Accounting Standards (IASs) is that published by IASB in the English language, and copies may be obtained directly from IASCF Publications Department, ~~16630 FleetCannon~~ Street, London EC4MA ~~2DY6XH~~, United Kingdom.

**E-mail: [publications@iasb.org.uk](mailto:publications@iasb.org.uk)**

**Web: <http://www.iasb.org>**

IASs, Exposure Drafts and other publications of the IASC ~~and IASB~~ are copyright of the IASCF.

“IAS”, “IASB”, “IASC”, “IASCF”, “IFRS”, “International Financial Reporting Standards” and “International Accounting Standards” are registered Trade Marks of the IASCF and should not be used without the approval of the IASCF.

Information about the International Federation of Accountants and copies of this Standard can be found at its internet site, <http://www.ifac.org>.

The approved text of this Standard is that published in the English language.

Copyright © ~~2000XXXX~~ by the International Federation of Accountants. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the International Federation of Accountants.

ISBN: ~~1-887464-49-2~~

International Federation of Accountants  
535 Fifth Avenue, 26th Floor  
New York, New York 10017  
United States of America

# INTRODUCTION

## Accounting Standards for the Public Sector

The International Federation of Accountants — Public Sector Committee (the Committee) is developing a set of recommended accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The Committee 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 introd  
has been  
updated to  
reflect the  
latest  
introdn  
agreed by  
the PSC in  
the ED  
issued on  
impairment  
of assets

The IPSASs are based on the International Financial Reporting Standards (IFRSs), formerly known as International Accounting Standards (IASs), issued by the International Accounting Standards Board (IASB), where the requirements of those Standards are applicable to the public sector. The Committee is also developing IPSASs that deal with accounting issues in the public sector that are not addressed in the IFRSs or IASs.

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 Committee strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in these Exposure Drafts. The Committee recognizes the right of governments and national standard-setters to establish guidelines and accounting standards for financial reporting by the public sector in their jurisdictions. The Committee 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 International Public Sector Accounting Standard.

~~The objective of the current phase of the Committee's workplan is to develop IPSASs based on the International Accounting Standards (IASs) issued by the International Accounting Standards Committee and extant at 31 August 1997, or their subsequently revised versions. Some accounting issues in the public sector are not fully addressed in the IASs. Similarly, accounting for a number of complex issues will be addressed in IASs currently under development. Although these issues are not included in the brief of the current phase of the Committee's workplan, it~~

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004

~~is cognizant of the importance of these issues and expects to address them  
once it has issued its initial set of Standards.~~

*IPSAS 4 The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: “General Improvements Project”*  
PSC Buenos Aires March 2004

# Contents

## International Public Sector Accounting Standard

### IPSAS 4

## The Effects of Changes in Foreign Exchange Rates

### OBJECTIVE

**SCOPE** Paragraphs **1—8**

**DEFINITIONS** **9—15**

Economic Entity **10—12**

Future Economic Benefits or Service Potential **13**

Government Business Enterprises **14**

Net Assets/Equity **15**

**FOREIGN CURRENCY TRANSACTIONS** **16—32**

**Initial Recognition** **16—19**

**Reporting at Subsequent Reporting Dates** **20—21**

**Recognition of Exchange Differences** **22—32**

Net Investment in a Foreign Entity **27—29**

Allowed Alternative Treatment **30—32**

**FINANCIAL STATEMENTS OF FOREIGN OPERATIONS** **33—59**

**Classification of Foreign Operations** **33—36**

**Foreign Operations that are Integral to the Operations of the Reporting Entity** **37—40**

**Foreign Entities** **41—56**

*IPSAS 4 The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: “General Improvements Project”*  
PSC Buenos Aires March 2004

Disposal of a Foreign Entity	55—56
<b>Change in the Classification of a Foreign Operation</b>	<b>57—59</b>
<b>ALL CHANGES IN FOREIGN EXCHANGE RATES</b>	<b>60</b>
<b>Tax Effects of Exchange Differences</b>	<b>60</b>
<b>DISCLOSURE</b>	<b>61—65</b>
<b>TRANSITIONAL PROVISIONS</b>	<b>66</b>
<b>EFFECTIVE DATE</b>	<b>67—68</b>
<b>COMPARISON WITH IAS 21</b>	

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: “General Improvements Project”*  
PSC Buenos Aires March 2004

# INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS 4

## The Effects of Changes in Foreign Exchange Rates

This has been retained, but the IASB has a different introdn. Pls refer to covering memo.

*The standards, which have been set in bold italic type, should be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the “Preface to International Public Sector Accounting Standards”. International Public Sector Accounting Standards are not intended to apply to immaterial items.*

## Objective

1. An entity may carry on foreign activities in two ways. It may have transactions in foreign currencies or it may have foreign operations. In addition, an entity may present its financial statements in a foreign currency. The objective of this Standard is to prescribe how ~~In order to~~ include foreign currency transactions and foreign operations in the financial statements of an entity, transactions must be expressed in the entity’s reporting currency and how to the financial statements of foreign operations must be translated ~~financial statements~~ into a the entity’s reporting presentation ~~currency~~.
2. The principal issues are which exchange rate(s) to use in accounting for foreign currency transactions and foreign operations are to decide which exchange rate to use and how to recognize in the financial statements the financial report ~~effects~~ of changes in exchange rates in the financial statements.

## Scope

3. ~~1. —~~ *An entity which prepares and presents financial statements under the accrual basis of accounting ~~should~~ shall apply this Standard:*

In para 3(a), the IASB has excluded derivative transactions and balances that are within the scope of IAS 39. Staff have modified the reference to IAS 39 with ‘national and international accounting standards’

- (a) *in accounting for transactions and balances (including the subsequent reporting of monetary and non-monetary items) in foreign currencies, except for those derivative transactions and balances that are*

*The Effects of Changes in Foreign Exchange Rates*

5 Marked-up IPSASs re: “General Improvements Project”  
Buenos Aires March 2004

within the scope of international and national accounting standards that deal with the recognition and measurement of financial instruments; and

(b) in translating the financial performance and financial statements position of foreign operations that are included in the financial statements of the entity by consolidation, proportionate consolidation or by the equity method; and

(c) in translating an entity's financial performance and financial position into a presentation currency.

Staff replaced 'an entity's results' with 'an entity's financial performance'

4. International and national accounting standards which apply to currency derivatives are accordingly excluded from the scope of this Standard. However, those foreign currency derivatives that are not within the scope of those international and national accounting standards (eg some foreign currency derivatives that are embedded in other contracts) are within the scope of this Standard. In addition, this Standard applies when an entity translates amounts relating to derivatives from its functional currency to its presentation currency.

In its equivalent para, the IASB explains that IAS 39 applies to currency derivatives. Staff have modified para 4 as there is no equivalent IAS 39 in IPSASs.

2.5. This Standard does not deal with hedge accounting for foreign currency items other than the classification of exchange differences arising on a foreign currency liability accounted for as a hedge of a net investment in a foreign entity. Accordingly, entities may apply relevant national accounting standards dealing with hedge accounting.

3.6. Guidance on other aspects of hedge accounting, including the criteria to use hedge accounting, can be found in International Accounting Standard IAS 39, *Financial Instruments: Recognition and Measurement*.

7. 4.—This Standard applies to all public sector entities other than Government Business Enterprises.

8. 5.—The Preface to International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) explains that International Financial Reporting Standards (IFRSs) are designed to apply to the general purpose

Standard change following PSC decisions

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004



financial statements of all profit-oriented entities. Government Business Enterprises (GBEs) are defined below~~required to comply with International Accounting Standards (IASs) issued by the International Accounting Standards Committee. The Public Sector Committee's Guideline No. 1 *Financial Reporting by Government Business Enterprises* notes that IASs are relevant to all business enterprises, regardless of whether they are in the private or public sector. Accordingly, Guideline No. 1 recommends that GBEs should present financial statements that conform, in all material respects, They are profit-oriented entities. Accordingly, they are required to comply with IFRSs and International Accounting Standards (IASs).~~

9. The IASB was established in 2001 to replace the International Accounting Standards Committee (IASC). The IASs issued by the IASC remain in force until they are amended or withdrawn by the IASB.

10. ~~6. This Standard applies to~~ does not specify the currency in which an entity presents its financial statements in a foreign currency and sets out requirements for the resulting financial statements to be described as complying with International Public Sector Accounting Standard. However, an entity normally uses the currency of the country in which it is domiciled. For translations of financial information into a foreignIf it uses a different currency that does not meet these requirements, this Standard specifies information to be requires disclosed of the reason for using that currency. This Standard also requires disclosure of the reason for any change in the reporting currency.

The IASB has introduced new disclosure reqts on restating functional currency to presentation currency.

7. ~~This Standard does not deal with the restatement of an entity's financial statements from its reporting currency into another currency for the convenience of users accustomed to that currency or for similar purposes.~~

11. ~~8. This Standard deals with the presentation of revenue and expenses arising from transactions in a foreign currency and translating the financial statements of a foreign operation. It does not deal with apply to the presentation in a cash flow statement of cash flows arising from transactions in a foreign currency and/or to the translation of cash flows of a foreign~~

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004

operation (see International Public Sector Accounting Standard IPSAS 2 *Cash Flow Statements*).

## Definitions

12. ~~9.~~ — The following terms are used in this Standard with the meanings specified:

As proposed in item 12.4, to delete definitions that are not significant in this IPSAS.

~~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.~~

~~Associate is an entity in which the investor has significant influence and which is neither a controlled entity nor a joint venture of the investor.~~

~~Cash comprises cash on hand and demand deposits.~~

~~Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.~~

~~Cash flows are inflows and outflows of cash and cash equivalents.~~

~~Closing rate is the spot exchange rate at the reporting date.~~

~~Consolidated financial statements are the financial statements of an economic entity presented as those of a single 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~~

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004

~~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.~~

~~Control is the power to govern the financial and operating policies of another entity so as to benefit from its activities.~~

~~Controlled entity is an entity that is under the control of another entity (known as the controlling entity).~~

~~Controlling entity is an entity that has one or more controlled entities.~~

~~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.~~

~~Economic entity means a group of entities comprising a controlling entity and one or more controlled entities.~~

~~Equity method is a method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets/equity of the investee. The statement of financial performance reflects the investor's share of the results of operations of the investee.~~

Updated defn

Exchange difference is the difference resulting from translating a given~~reporting the same~~ number of units of ~~a one~~ foreign currency into another~~the reporting~~ currency at different exchange rates.

Exchange rate is the ratio for exchange of two currencies.

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004

~~*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.*~~

~~*Extraordinary items are revenue or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the entity, are not expected to recur frequently or regularly and are outside the control or influence of the entity.*~~

~~*Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.*~~

~~*Financing activities are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.*~~

Updated defn

*Foreign currency is a currency other than the **reporting functional** currency of **an**the entity.*

Foreign entity has been deleted & the notion of foreign entity has been moved into foreign operation

~~*Foreign entity is a foreign operation, the activities of which are not an integral part of those of the reporting entity.*~~

*Foreign operation is **an entity that is** a controlled entity, associate, joint venture or branch of **thea** reporting entity, the activities of which are based or conducted in a country other than **the country**those of the reporting entity.*

Introduced new dfn 'functional currency'

***Functional currency is the currency of the primary economic environment in which the entity operates.***

~~*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;*~~

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004

~~(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.~~

~~Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.~~

~~Joint venture is a binding arrangement whereby two or more parties are committed to undertake an activity which is subject to joint control.~~

~~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.~~

~~Minority interest is that part of the net surplus (deficit) and of net assets/equity of a controlled entity attributable to interests which are not owned, directly or indirectly through controlled entities, by the controlling entity.~~

Updated defn

Monetary items are units of currency held and assets and liabilities to be received or paid in fixed or determinable number units of currency amounts of money.

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

Updated defn

Net investment in a foreign ~~entity~~ operation is the amount of the reporting entity's share interest in the net assets/equity of that operation ~~entity~~.

~~Net surplus/deficit comprises the following components:~~

~~(a) surplus or deficit from ordinary activities; and~~

~~(b) extraordinary items.~~

IPSAS 4 The Effects of Changes in Foreign Exchange Rates

Item 12.6 Marked-up IPSASs re: "General Improvements Project"  
PSC Buenos Aires March 2004

~~Operating activities are the activities of the entity that are not investing or financing activities.~~

~~Ordinary activities are any activities which are undertaken by an entity as part of its service delivery or trading activities. Ordinary activities include such related activities in which the entity engages in furtherance of, incidental to, or arising from these activities.~~

~~Presentation currency is the currency in which the financial statements are presented.~~

~~Proportionate consolidation is a method of accounting and reporting whereby a venturer's share of each of the assets, liabilities, revenue and expenses of a jointly controlled entity is combined on a line-by-line basis with similar items in the venturer's financial statements or reported as separate line items in the venturer's financial statements.~~

Reporting currency  
was deleted to be  
replaced with  
functional currency

~~Reporting currency is the currency used in presenting the financial statements.~~

~~Reporting date means the date of the last day of the reporting period to which the financial statements relate.~~

~~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.~~

New defn – spot  
exchange rate

~~Spot exchange rate is the exchange rate for immediate delivery.~~

~~Surplus/deficit from ordinary activities is the residual amount that remains after expenses arising from ordinary activities have been deducted from revenue arising from ordinary activities.~~

~~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.~~

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004



## Elaboration on the Definitions

### **Economic Entity**

Propose to delete 'economic entity' section

13. ~~10.~~—The term “economic entity” is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.
14. ~~11.~~—Other terms sometimes used to refer to an economic entity include “administrative entity”, “financial reporting entity”, “consolidated entity” and “group”.
15. ~~12.~~—An economic entity may include entities with both social policy and commercial objectives. For example, a government housing department may be an economic entity which includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.

### Functional Currency

16. The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. An entity considers the following factors in determining its functional currency:

(a) the currency:

(i) that mainly influences sales prices for goods and services that are sold (this will often be the currency in which sales prices for its goods and services are denominated and settled); and

(ii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services where such sales are made.

(b) the currency that mainly influences labor, material and other costs of providing goods and services (this will often be the currency in which such costs are denominated and settled).

Staff have modified from IAS to note that 16(a) applies where sales occur

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: “General Improvements Project”*  
PSC Buenos Aires March 2004

17. The following factors may also provide evidence of an entity's functional currency:

In para 17(a) – modified to note the role of taxes. Further refinements will be necessary when IPSAS is finalized

- (a) the currency in which funds from financing activities (ie issuing debt and equity instruments and raising taxes where the reporting entity is a government) are generated.
- (b) the currency in which receipts from operating activities are usually retained.

18. The following additional factors are considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the reporting entity (the reporting entity, in this context, being the entity that has the foreign operation as its controlled entity, branch, associate or joint venture):

The old para 34-36 have been moved and updated into this new para 18

However, in paras 34 & 35, the PSC had added additional public sector examples. Staff have retained them in the new para 18.

- (a) whether the activities of the A-foreign operation are that is integral to the operations of the reporting entity carried out on its activities as if it were an extension of the reporting entity's operations rather than being carried out with a significant degree of autonomy. For an example of the former is, when a department of defense might have a number of overseas bases which conduct activities on behalf of a national government. The defense bases might conduct their activities substantially in the reporting functional currency of the reporting entity. For example, military personnel may be paid in the reporting functional currency and receive only a small allowance in local currency. Purchases of supplies and equipment might be largely obtained via the reporting entity with purchases in local currency being kept to a minimum. Another example would be an overseas campus of a public university which operates under the management and direction of the domestic campus. In such cases, a change in the exchange rate between the reporting currency and the currency in the country of foreign operation has an almost immediate effect on the reporting entity's cash flow from operations. Therefore, the change in the exchange rate affects the individual monetary items

*IPSAS 4 The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004



~~held by the foreign operation rather than the reporting entity's net investment in that operation.~~

35. ~~In contrast, a~~ foreign ~~entity~~operation with a significant degree of autonomy may accumulates cash and other monetary items, incurs expenses, generates revenue and perhaps arranges borrowings, all substantially in its local currency. ~~It may also enter into transactions in foreign currencies, including transactions in the reporting currency.~~ Some examples of government-owned foreign entities which may operate independently of other government agencies include tourist offices, petroleum exploration companies, trade boards and broadcasting operations. Such entities may be established as Government Business Enterprises. When there is a change in the exchange rate between the reporting functional currency and the local currency, there is little or no direct effect on the present and future cash flows from operations of either the foreign entity or the reporting entity. The change in the exchange rate affects the reporting entity's net investment in the foreign entity operation rather than the individual monetary and non-monetary items held by the foreign entity operation.

36. ~~The following are indications that a foreign operation is a foreign entity rather than a foreign operation that is integral to the operations of the reporting entity:~~

- (a) ~~while the reporting entity may control the foreign operation, the activities of the foreign operation are carried out with a significant degree of autonomy from those of the reporting entity;~~
- (b) whether transactions with the reporting entity are ~~not~~ a high or low proportion of the foreign operation's activities;
- (ed) whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by ~~financed mainly from its own operations~~

Part (c) is on the next page

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004

~~or local borrowings rather than from the reporting entity;~~

- ~~(d) costs of labor, material and other components of the foreign operation's products or services are primarily paid or settled in the foreign operation's local currency rather than in the reporting currency;~~
- ~~(e) the foreign operation's revenues are mainly in currencies other than the reporting currency; and~~
- ~~(fc) whether cash flows of the reporting entity are insulated from the day-to-day activities of the foreign operation rather than being directly affected by the activities of the foreign operationthe cash flows of the reporting entity and are readily available for remittance.~~

~~—— It is not necessary for all these indicators to be present in order to classify a foreign operation as a foreign entity. The appropriate classification for each operation can, in principle, be established from factual information related to the indicators listed above. In some cases, the classification of a foreign operation as either a foreign entity or an integral operation of the reporting entity may not be clear, and judgment is necessary to determine the appropriate classification.~~

19. When the above indicators are mixed and the functional currency is not obvious, management uses its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. As part of this approach, management gives priority to the primary indicators in paragraph 16 before considering the indicators in paragraphs 17 and 18, which are designed to provide additional supporting evidence to determine an entity's functional currency.
20. An entity's functional currency reflects the underlying transactions, events and conditions that are relevant to it. Accordingly, once determined, the functional currency is not changed unless there is a change in those underlying transactions, events and conditions.

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004

21. If the functional currency is the currency of a hyperinflationary economy, the entity's financial statements are restated in accordance with IPSAS 10 *Financial Reporting Hyperinflationary Economies*. An entity cannot avoid restatement in accordance with IPSAS 10 by, for example, adopting as its functional currency a currency other than the functional currency determined in accordance with this Standard (such as the functional currency of its controlling entity).

Consider to  
delete paras  
22 & 23

### **Future Economic Benefits or Service Potential**

22. ~~13.~~—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**

23. ~~14.~~—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 Financial Statements and Accounting for Controlled Entities* 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.

IASB  
included a  
number of  
examples to  
illustrate  
para 24  
which are  
not done  
here. See  
para 24A  
below

### **Monetary Items**

24. The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004

of currency. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency.

24A. The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: pensions and other employee benefits to be paid in cash; provisions that are settled in cash; and cash dividends that are recognized as a liability. Similarly, a contract to receive (or deliver) a variable number of the entity's own net assets/equity instruments or a variable amount of assets in which the fair value to be received (or delivered) equals a fixed or determinable number of units of currency is a monetary item. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services (eg prepaid rent); goodwill; intangible assets; inventories; property, plant and equipment; and provisions that are settled by the delivery of non-monetary asset.

### **Net Assets/Equity**

25. ~~15.~~—“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.

### **Net Investment in a Foreign Operation**

26. ~~28.~~—An entity may have a monetary item that is receivable from, or payable to, a foreign entity operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, ~~an extension to, or deduction from a part of,~~ the entity's net investment in that foreign entity operation, and is accounted for in accordance with paragraphs 44 to 45. Such monetary items may include long-term receivables or loans. They do not include trade receivables and trade payables.

The old para 28 was moved to the defn section.

### *IPSAS 4 The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: “General Improvements Project”*  
PSC Buenos Aires March 2004

## **Summary of the Approach Required by this Standard**

27. In preparing financial statements, each entity – whether a stand-alone entity, an entity with foreign operations (such as a controlling entity) or a foreign operation (such as a controlled entity or branch) – determines its functional currency in accordance with paragraphs 16-21. The entity translates foreign currency items into its functional currency and reports the effects of such translation in accordance with paragraphs 30 – 49 and 69.
28. Many reporting entities comprise a number of individual entities (eg a group is made up of a parent and one or more subsidiaries). Various types of entities, whether members of a group or otherwise, may have investments in associates or joint ventures. They may also have branches. It is necessary for the results and financial position of each individual entity included in the reporting entity to be translated into the currency in which the reporting entity presents its financial statements. This Standard permits the presentation currency of a reporting entity to be any currency (or currencies). The results and financial position of any individual entity within the reporting entity whose functional currency differs from the presentation currency are translated in accordance with paragraphs 50-69.
29. This Standard also permits a stand-alone entity preparing financial statements or an entity preparing separate financial statements in accordance with IPSAS 6 *Consolidated and Separate Financial Statements* to present its financial statements in any currency (or currencies). If the entity's presentation currency differs from its functional currency, its results and financial position are also translated into the presentation currency in accordance with paragraphs 50-69.

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004

## **Reporting Foreign Currency Transactions in the Functional Currency**

### **Initial Recognition**

**30.** ~~16.~~—A foreign currency transaction is a transaction ~~which~~that is denominated ~~in~~ or requires settlement in a foreign currency, including transactions arising when an entity either:

- (a) buys or sells goods or services whose price is denominated in a foreign currency;
- (b) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or
- ~~(c) becomes a party to an unperformed foreign exchange contract; or~~
- ~~(d)~~ otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

**31.** ~~17.~~—A foreign currency transaction ~~should~~shall be recorded, on initial recognition in the ~~reporting~~functional currency, by applying to the foreign currency amount the spot exchange rate between the ~~reporting~~functional currency and the foreign currency at the date of the transaction.

**32.** ~~18.~~—The ~~exchange rate at the~~ date of ~~the~~a transaction is the date on which the transaction first qualifies for recognition in accordance with International Public Sector Accounting Standard~~often referred to as the spot rate~~. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is ~~unreliable~~inappropriate.

**33.** ~~19.~~—Exchange rate changes may have an impact on cash or cash equivalents held or due in a foreign currency. The presentation of such exchange differences is dealt with in IPSAS 2. Although these changes are not cash flows, the effect

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004

of exchange rate changes on cash or cash equivalents held or due in a foreign currency are reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. These amounts are presented separately from cash flows from operating, investing and financing activities and include the differences, if any, had those cash flows been reported at end-of-period exchange rates.

## Reporting at Subsequent Reporting Dates

34. ~~20.~~—At each reporting date:

- (a) foreign currency monetary items ~~should~~shall be reported using the closing rate;
- (b) non-monetary items ~~which~~that are ~~carried~~measured in terms of historical cost ~~denominated~~in a foreign currency ~~should~~shall be reported using the exchange rate at the date of the transaction; and
- (c) non-monetary items which are carried at fair value ~~denominated~~in a foreign currency ~~shall~~should be ~~translated~~reported using the exchange rates ~~that existed at the date~~when the fair values ~~were~~was determined.

35. ~~21.~~—The carrying amount of an item is determined in ~~accordance~~conjunction with ~~the other~~ relevant International Public Sector Accounting Standards. For example, ~~certain financial instruments and~~ property, plant and equipment may be measured ~~at~~in terms of fair value or ~~at~~historical cost in accordance with IPSAS 17 Property, Plant and Equipment. Whether the carrying amount is determined on the ~~based on~~ of historical cost or on the basis of fair value, ~~if the amounts is so determined for in a foreign currency it is items are then reported~~translated into the reporting functional currency in accordance with this Standard.

36. The carrying amount of some items is determined by comparing two or more amounts. For example, the carrying amount of inventories that are not held distributed at no charge or for a nominal charge is the lower of cost and net realizable value in accordance with IPSAS 12 Inventories. Similarly, in accordance

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*



To be updated  
when ED 23 is  
finalized

with IPSAS ED 23 *Impairment of Assets*, the carrying amount of an asset for which there is an indication of impairment is the lower of its carrying amount before considering possible impairment losses and its recoverable service amount. When such an asset is non-monetary and is measured in a foreign currency, the carrying amount is determined by comparing:

- (a) the cost or carrying amount, as appropriate, translated at the exchange rate at the date when that amount was determined (ie the rate at the date of the transaction for an item measured in terms of historical cost); and
- (b) the net realizable value or recoverable service amount, as appropriate, translated at the exchange rate at the date when that value was determined (eg the closing rate at the reporting date).

The effect of this comparison may be that an impairment loss is recognized in the functional currency but would not be recognized in the foreign currency, or vice versa.

IASB uses  
cash flows.  
PSC may  
want to  
consider  
other forms

37. When several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. If exchangeability between two currencies is temporarily lacking, the rate used is the first subsequent rate at which exchanges could be made.

## Recognition of Exchange Differences

~~22. Paragraphs 24 to 28 set out the accounting treatment required by this Standard in respect of exchange differences on foreign currency transactions. These paragraphs include the benchmark treatment for exchange differences that result from a severe devaluation or depreciation of a currency against which there is no practical means of hedging and that affects liabilities which cannot be settled and which arise directly on the recent acquisition of assets invoiced in a foreign currency. The allowed alternative treatment for such exchange differences is set out in paragraph 31.~~

- ~~38. 23.~~—This Standard does not deal with hedge accounting for foreign currency items other than the classification of exchange differences arising on a foreign currency liability accounted for IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004



as a hedge of a net investment in a foreign entity. Guidance in relation to other aspects of hedge accounting, including the criteria to use hedge accounting, can be found in IAS 39.

Where the IASB uses the term 'profit or loss', Staff have replaced it with 'surplus or deficit'. PSC may want to consider a new term.

**39. ~~24.~~—Exchange differences arising on the settlement of monetary items or on ~~reporting~~translating ~~an entity's~~ monetary items at rates different from those at which they were translated on initially recorded recognition during the period, ~~or reported~~ in previous financial statements, ~~should~~shall be recognized ~~as revenue~~in surplus or ~~as expenses~~deficit in the period in which they arise, ~~with the except ion of~~ exchange differences dealt with in accordance with as described in paragraphs 27 and 2944.**

**40. ~~25.~~—When monetary items arise from a foreign currency transaction and ~~An exchange difference results when~~ there is a change in the exchange rate between the transaction date and the date of settlement, an exchange difference results of any monetary items arising from a foreign currency transaction.** When the transaction is settled within the same accounting period as that in which it occurred, all the exchange difference is recognized in that period. However, when the transaction is settled in a subsequent accounting period, the exchange difference recognized in each ~~intervening~~ period up to the ~~period~~date of settlement is determined by the change in exchange rates during that period.

**41. ~~26.~~—The treatment of foreign currency exchange rate changes in a cash flow statement is described in paragraph ~~19~~33.**

**42. When a gain or loss on a non-monetary item is recognized directly in net assets/equity, any exchange component of that gain or loss shall be recognized directly in net assets/equity. Conversely, when a gain or loss on a non-monetary item is recognized in surplus or deficit, any exchange component of that gain or loss shall be recognized in surplus or deficit.**

In para 43, the IASB provided some examples.

**43. When a gain or loss on non-monetary asset is recognized directly in net assets/equity and such an asset is measured in a foreign currency, paragraph 34(c) of this Standard requires the revalued amount to be translated using the rate at the date the**

#### IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004

value is determined, resulting in an exchange difference that is also recognized in net assets/equity.

### **Net Investment in a Foreign Entity**

- 44.** ~~27.~~—*Exchange differences arising on a monetary item that, ~~in substance,~~ forms part of a ~~reporting~~ entity's net investment in a foreign ~~entity~~operation (see paragraph 26) ~~should~~shall be recognized in surplus or deficit in the separate financial statements of the reporting entity or the individual financial statements of the of the foreign operation, as appropriate. In the financial statements that include the foreign operation and the reporting entity (eg consolidated financial statements when the foreign operation is a controlled entity), such as exchange differences shall be recognized initially in a separate component of ~~classified as~~ net assets/equity in the entity's financial statements until the ~~and~~ recognized in surplus or deficit on disposal of the net investment, at which time they should be recognized as revenue or as expenses in accordance with paragraph 6755.*

Where the IASB used the term 'profit or loss', staff replaced it with 'surplus or deficit'

~~28.~~

Para 28 was moved to the elaboration of defn section

- 45.** When a monetary item forms part of a reporting entity's net investment in a foreign operation and is denominated in the functional currency of the reporting entity, an exchange difference arises in the foreign operation's individual financial statements in accordance with paragraph 39. Similarly, if such an item is denominated in the functional currency of the foreign operation, an exchange difference arises in the reporting entity's separate financial statements in accordance with paragraph 39. Such exchange differences are reclassified to the separate component of equity in the financial statements that include the foreign operation and the reporting entity (ie financial statements in which the foreign operation is consolidated, proportionally consolidated or accounted for using the equity method). However, a monetary item that forms part of the reporting entity's net investment in a foreign operation may be denominated in a currency other than the functional currency of either the reporting entity or the foreign operation. The

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004

exchange differences that arise on translating the monetary item into the functional currencies of the reporting entity and the foreign operation are not reclassified to the separate component of equity in the financial statements that include the foreign operation and the reporting entity (ie they remain recognized in surplus or deficit).

46. When an entity keeps its books and records in a currency other than its functional currency, at the time the entity prepares its financial statements all amounts are translated into the functional currency in accordance with paragraphs 30-37. This produces the same amounts in the functional currency as would have occurred had the items been recorded initially in the functional currency. For example, monetary items are translated into the functional currency using the closing rate, and non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction that resulted in their recognition.

~~29. — Exchange differences arising on a foreign currency liability accounted for as a hedge of an entity's net investment in a foreign entity should be classified as net assets/equity in the entity's financial statements until the disposal of the net investment, at which time they should be recognized as revenue or as expenses in accordance with paragraph 55.~~

## Change in Functional Currency

47. When there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.
48. As noted in paragraph 20, the functional currency of an entity reflects the underlying transactions, events and conditions that are relevant to the entity. Accordingly, once the functional currency is determined, it can be changed only if there is a change to those underlying transactions, events and conditions. For example, a change in the currency that mainly influences the sales prices of goods and services may lead to a change in an entity's functional currency.

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004

49. The effect of a change in functional currency is accounted for prospectively. In other words, an entity translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical costs. Exchange differences arising from the translation of a foreign operation previously classified in net assets/equity in accordance with paragraphs 44 and 51(c) are not recognized in surplus or deficit until the disposal of the operation.

### **Allowed Alternative Treatment**

30. ~~— The benchmark treatment for exchange differences dealt with in paragraph 31 is set out in paragraph 24.~~

31. ~~— *Exchange differences may result from a severe devaluation or depreciation of a currency against which there is no practical means of hedging and that affects liabilities which cannot be settled and which arise directly on the recent acquisition of an asset invoiced in a foreign currency. Such exchange differences should be included in the carrying amount of the related asset.*~~

32. ~~— Exchange differences are not included in the carrying amount of an asset when the entity is able to settle or hedge the foreign currency liability arising on the acquisition of the asset. However, exchange losses are part of the directly attributable costs of the asset when the liability cannot be settled and there is no practical means of hedging, for example when, as a result of exchange controls, there is a delay in obtaining foreign currency. Therefore, under the allowed alternative treatment, the cost of an asset invoiced in a foreign currency is regarded as the amount of reporting currency that the entity ultimately has to pay to settle its liabilities arising directly on the recent acquisition of the asset.~~

## **Financial Statements of Foreign Operations**

### **Classification of Foreign Operations**

33. ~~— The method used to translate the financial statements of a foreign operation depends on the way in which it is financed and operates in relation to the reporting entity. For this purpose, foreign operations are~~

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: “General Improvements Project”*  
PSC Buenos Aires March 2004

~~classified as either “foreign operations that are integral to the operations of the reporting entity” or “foreign entities”.~~

~~34.~~

Paras 34 – 36 have been moved to the new para 19.

~~35.~~

~~36.~~

## **~~Foreign Operations that are Integral to the Operations of the Reporting Entity~~**

~~37. — The financial statements of a foreign operation that is integral to the operations of the reporting entity should be translated using the standards and procedures in paragraphs 16 to 32 as if the transactions of the foreign operation had been those of the reporting entity itself.~~

~~38. — The individual items in the financial statements of the foreign operation are translated as if all its transactions had been entered into by the reporting entity itself.~~

~~39. — The cost and depreciation of property, plant and equipment is translated using the exchange rate at the date of purchase of the asset or, if the asset is carried at fair value, using the rate that existed on the date of the valuation. The cost of inventories is translated at the exchange rates that existed when those costs were incurred. The realizable value of an asset is translated using the exchange rate that existed when the net realizable value was determined. For example, when the net realizable value of an item of inventory is determined in a foreign currency, that value is translated using the exchange rate at the date as at which the net realizable value is determined. The rate used is therefore usually the closing rate. An adjustment may be required to reduce the carrying amount of an asset in the financial statements of the reporting entity to its net realizable value even when no such adjustment is necessary in the financial statements of the foreign operation. Alternatively, an adjustment in the financial statements of the foreign operation may need to be reversed in the financial statements of the reporting entity.~~

~~40. — For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates~~

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: “General Improvements Project”*  
PSC Buenos Aires March 2004

~~fluctuate significantly, the use of the average rate for a period is unreliable.~~

## **Foreign Entities Use of a Presentation Currency other than the Functional Currency**

### **Translation to the Presentation Currency**

50. An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency. For example, when a group contains individual entities with different functional currencies, the results and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.

51. ~~41. — The results and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy shall be In-translated into a different presentation currency the financial statements of a foreign entity for incorporation in its financial statements, the reporting entity should use the following procedures:~~

- (a) ~~the assets and liabilities for each statement of financial performance presented (ie including comparatives), both monetary and non-monetary, of the foreign entity should~~shall ~~be translated at the closing rate at the date of that statement of financial position date;~~
- (b) ~~revenue and expenses for each statement of financial performance (ie including comparatives) items of the foreign entity should~~shall ~~be translated at exchange rates at the dates of the transactions, except when the foreign entity reports in the currency of a hyperinflationary economy, in which case revenue and expense items should be translated at the closing rate; and~~

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004



- (c) *all resulting exchange differences ~~should~~shall be recognized as a separate component ofclassified as net assets/equity—until the disposal of the net investment.*

~~52.~~ 42.—Refer to paragraph ~~52~~57 for a discussion of the restatement of financial statements of foreign ~~entities~~operations that report in the currency of a hyperinflationary economy.

~~53.~~ 43.—In translating the cash flows, that is the cash receipts and cash payments, of a foreign ~~entity~~operation for incorporation in its cash flow statement, the reporting entity should comply with the procedures in IPSAS 2. IPSAS 2 requires that the cash flows of a ~~foreign~~-controlled entity which satisfies the definition of a foreign operation should be translated at the exchange rates between the reporting currency and the foreign currency at the dates of the cash flows. IPSAS 2 also outlines the presentation of unrealized gains and losses arising from changes in foreign currency exchange rates on cash and cash equivalents held or due in a foreign currency.

~~54.~~ 44.—For practical reasons, a rate that approximates the ~~actual~~-exchange rates at the dates of the transactions, for example an average rate for the period, is often used to translate revenue and expense items ~~of a foreign operation~~. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

~~55.~~ 45.—The ~~translation of the financial statements of a foreign entity results in the recognition of~~ exchange differences referred to in paragraph 51(c) ~~arising~~result from:

- (a) translating revenue and expenses ~~items~~ at the exchange rates at the dates of transactions and assets and liabilities at the closing rate. Such exchange differences arise both on revenue and expense items recognized in surplus and deficit and on those recognized directly in net assets/equity.;
- (b) translating the opening net ~~assets/equity investment in the foreign entity at an exchange~~ at a closing rate ~~that~~

#### IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: “General Improvements Project”*  
PSC Buenos Aires March 2004

~~different from that at which it was the~~ previously reported closing rate; and

~~(c) — other changes to net assets/equity in the foreign entity.~~

~~56.~~ These exchange differences are not recognized ~~as revenue in surplus~~ or ~~expenses deficit for the period~~ because the changes in the exchange rates have little or no direct effect on the present and future cash flows from operations ~~of either the foreign entity or the reporting entity~~. When ~~the exchange differences relate to~~ a foreign ~~operation entity that~~ is consolidated but is not wholly-owned, accumulated exchange differences arising from translation and attributable to minority interests are allocated to, and reported as part of, the minority interest in the consolidated statement of financial position.

56. The results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:

(a) all amounts (ie assets, liabilities, net assets/equity items, revenue and expenses, including comparatives) shall be translated at the closing rate at the date of the most recent statement of financial position, except that

(b) when amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts shall be those that were presented as current year amounts in the relevant prior year financial statements (ie not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).

57. 52. — When an The financial statements of a foreign entity's functional currency is the that reports in the currency of a hyperinflationary economy, the entity shall —should be restated its financial statements in accordance with IPSAS 10 Financial Reporting in Hyperinflationary Economies the appropriate standards that address financial reporting in hyperinflationary economies, before they are applying the

The old para 52 has been moved to after the new para 56

IPSAS 4 The Effects of Changes in Foreign Exchange Rates

Item 12.6 Marked-up IPSASs re: "General Improvements Project"  
PSC Buenos Aires March 2004



~~translationed method set out in paragraph 56, except for comparative amounts that are translated into the reporting currency of a non-hyperinflationary economy (see paragraph 56(b)) the reporting entity. When the economy ceases to be hyperinflationary and the foreign entity no longer restates its discontinued the preparation and presentation of financial statements in accordance with IPSAS 10 the appropriate standards addressing financial reporting in hyperinflationary economies, it should shall use the amounts expressed in the measuring unit current at the date of discontinuation as the historical costs for translation into the reporting presentation currency the amounts restated to the price level at the date the entity ceased restating its financial statements of the reporting entity.~~

## Translation of a Foreign Operation

58. Paragraphs 59-64, in addition to paragraphs 50-57, apply when the financial performance and financial position of a foreign operation are translated into a presentation currency so that the foreign operation can be included in the financial statements of the reporting entity by consolidated, proportional consolidation or the equity method.

46. —

The old para 46 has been moved to the new para 64

59. 47. — The incorporation of the results and financial ~~statements~~ position of a foreign ~~entity~~ operation ~~in~~ with those of the reporting entity follows normal consolidation procedures, such as the elimination of balances and transactions within an economic entity (see IPSAS 6 and International Public Sector Accounting Standard IPSAS 8 *Financial Reporting of Interests in Joint Ventures*).

60. 48. — However, ~~an exchange difference arising on~~ a monetary item within an economic entity, whether short term or long term, cannot be eliminated against ~~at~~ the corresponding ~~amount liability (or asset) arising on other balances~~ within an economic entity ~~because the monetary item represents a commitment to convert one currency into another and exposes the reporting entity to a~~

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004

~~gain or loss through without showing the results of~~ currency fluctuations in the consolidated financial statements. Accordingly, in the consolidated financial statements of athe reporting entity, such an exchange difference continues to be recognized as revenue or an expense or, if it arises from the circumstances described in paragraphs ~~27\_44~~ and 29, it is classified as net assets/equity until the disposal of the ~~net investment~~foreign operation.

61. ~~49.~~—When the financial statements of a foreign entityoperation are ~~drawn up to aas of the date~~ different ~~reporting date~~ from that of the reporting entity, the foreign entityoperation often prepares, ~~for purposes of incorporation in the financial statements of the reporting entity,~~ additional statements as of at the same date as the reporting entity's financial statements. When ~~it is impracticable to do this is not done~~, IPSAS 6 allows the use of financial statements drawn up to a different reporting date provided that the difference is no greater than three months and adjustments are made for the effects of any significant transactions or other events that occur between the different dates.

62. ~~50.~~—When there is a difference between the reporting date of the reporting entity and the foreign entityoperation, the assets and liabilities of the foreign entityoperation are translated at the exchange rate at the reporting date of the foreign entityoperation.

63. ~~51.~~—Adjustments are made ~~when appropriate~~ for significant movementschanges in exchange rates up to the reporting date of the reporting entity in accordance with IPSAS 6. The same approach is used in applying the equity method to associates and joint ventures and in applying proportional consolidation in joint ventures in accordance with International Public Sector Accounting Standard IPSAS 7 *Accounting for Investments in Associates* and IPSAS 8.

64. ~~46.~~—*Any goodwill arising on the acquisition of a foreign entityoperation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign entityoperation ~~are~~ shall be treated as ~~either~~:*

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004

The old para 46 has been moved to para 64.

This new para has also eliminated an alternative treatment and changed into a black letter para.

~~(a) — assets and liabilities of the foreign entity operation and translated at the closing rate in accordance with paragraph 41; or~~

~~(b) — Thus they shall be assets and liabilities of the reporting entity which either are already expressed in the reporting functional currency of the foreign operation and shall be translated — or are non-monetary foreign currency items which are reported using at the exchange closing rate at the date of the transaction in accordance with paragraphs 20(b)51 and 56.~~

~~65.~~ 53. — A hyperinflationary economy is one in which the loss of purchasing power of money is at such a rate that comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

~~66.~~ 54. — Hyperinflation is indicated by characteristics of the economic environment of a country which include the following:

- (a) the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power;
- (b) the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency;
- (c) sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;
- (d) interest rates, wages and prices are linked to a price index; and
- (e) the cumulative inflation rate over three years is approaching, or exceeds, 100%.

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: “General Improvements Project”*  
PSC Buenos Aires March 2004

## Disposal of a Foreign Operation~~Entity~~

~~67.~~ 55.—On the disposal of a foreign ~~entity~~operation, the cumulative amount of the exchange differences ~~which have been deferred in the separate component of net assets/equity and which relating to that foreign entity~~operation should~~shall~~ be recognized ~~as in revenuesurplus or as expenses~~deficit in the same period in which~~when~~ the gain or loss on disposal is recognized.

~~68.~~ 56.—An entity may dispose ~~of~~ its interest in a foreign ~~entity~~operation through sale, liquidation, repayment of contributed capital, or abandonment of all, or part of, that entity. The payment of a dividend ~~forms~~is part of a disposal only when it constitutes a return of the investment, for example, when the dividend is paid out of pre-acquisition surplus. In the case of a partial disposal, only the proportionate share of the related accumulated exchange differences is included in the gain or loss. A write-down of the carrying amount of a foreign ~~entity~~operation does not constitute a partial disposal. Accordingly, no part of the deferred foreign exchange gain or loss is recognized in surplus or deficit at the time of a write-down.

## ~~Change in the Classification of a Foreign Operation~~

~~57.~~—~~When there is a change in the classification of a foreign operation, the translation procedures applicable to the revised classification should be applied from the date of the change in the classification.~~

~~58.~~—~~A change in the way in which a foreign operation is financed and operates in relation to the reporting entity may lead to a change in the classification of that foreign operation.~~

~~59.~~—~~When a foreign operation that is integral to the operations of the reporting entity is reclassified as a foreign entity, exchange differences arising on the translation of non-monetary assets at the date of the reclassification are classified as net assets/equity. When a foreign entity is reclassified as a foreign operation that is integral to the operation of the reporting entity, the translated amounts for non-monetary items at the date of the change are treated as the historical cost for those items in the~~

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

~~period of change and subsequent periods. Exchange differences which have been deferred are not recognized as revenue or expenses until the disposal of the operation.~~

## ~~All Changes in Foreign Exchange Rates~~

### Tax Effects of Exchange Differences

~~69.~~ ~~60.~~ — For reporting entities subject to income taxes, guidance on the treatment of tax effects associated with the gains and losses on foreign currency transactions and exchange differences arising on the translating ~~on~~ of the results and financial statements position of an entity foreign operations can be found in International Accounting Standard IAS 12, *Income Taxes*.

### Disclosure

~~70.~~ In paragraphs 72 and 74-76 references to ‘functional currency’ apply, in the case of a group, to the functional currency of the controlling entity.

~~71.~~ ~~61.~~ — The entity ~~should~~ shall disclose:

- (a) the amount of exchange differences recognized in surplus or deficit included in the net surplus or deficit for the period except for those arising on financial instruments measured at fair value through surplus or deficit in accordance with international or national accounting standards that deal with the recognition and measurement of financial instruments;
- (b) *net exchange differences classified as a separate component of net assets/equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.* ~~;~~ ~~and~~
- ~~(c) — the amount of exchange differences arising during the period which is included in the carrying amount of an asset in accordance with the allowed alternative treatment in paragraph 31.~~

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: “General Improvements Project”*  
PSC Buenos Aires March 2004

The old para 62 has now been split into 2 paras.

~~72. 62. When the reporting presentation currency is different from the functional currency of the country in which the entity is domiciled, the reason for using a different currency that fact should shall be disclosed stated, together with disclosure of the functional currency and the reason for using a different presentation.~~

73. When there is a change in the functional currency of either the reporting entity or a significant foreign operation, that fact and the reason for any change in the reporting currency should also be disclosed.

~~63. When there is a change in the classification of a significant foreign operation, an entity should disclose:~~

~~(a) the nature of the change in classification;~~

~~(b) the reason for the change;~~

~~(c) the impact of the change in classification on net assets/equity; and~~

~~(d) the impact on net surplus or deficit for each prior period presented had the change in classification occurred at the beginning of the earliest period presented.~~

~~64. When goodwill and fair value adjustments arising on the acquisition of a foreign entity are recognized, an entity should disclose the method selected to translate those adjustments in accordance with paragraph 46.~~

~~65. Disclosure is also encouraged of an entity's foreign currency risk management policy.~~

74. When an entity presents its financial statements in a currency that is different from its functional currency, it shall describe the financial statements as complying with International Public Sector Accounting Standards only if they comply with all the requirements of each applicable Standard including the translation method set out in paragraphs 51 and 56.

75. An entity sometimes presents its financial statements or other financial information in a currency that is not its functional

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004



currency without meeting the requirements of paragraph 74. For example, an entity may convert into another currency only selected items from its financial statements. Or, an entity whose functional currency is not the currency of a hyperinflationary economy may convert the financial statements into another currency by translating all items at the most recent closing rate. Such conversions are not in accordance with International Public Sector Accounting Standards and the disclosures set out in paragraph 76 are required.

**76. When an entity displays its financial statements or other financial information in a currency that is different from either its functional currency or its presentation currency and the requirements of paragraph 74 are not met, it shall:**

New requirement  
PSC may want  
to consider  
this reqt

- (a) clearly identify the information as supplementary information to distinguish it from the information that complies with International Public Sector Accounting Standard;**
- (b) disclose the currency in which the supplementary information is displayed; and**
- (c) disclose the entity's functional currency and the method of translation used to determine the supplementary information.**

## Transitional Provisions

IASB made the transitional provn section part of the effective date section. Staff have not reflected that.

**77. ~~66.~~—On the first occasion that an entity applies this Standard, the entity ~~should~~shall, except when the amount is not reasonably determinable, classify separately and disclose the cumulative balance, at the beginning of the period, of exchange differences deferred and classified as net assets/equity in previous periods.**

The updated IAS 21 does not include this transitional provision (ie para 77 above). It is included in IFRS 1. As per instruction in Berlin meeting, Staff have reinstated the former paragraph 66 as para 77.

In para 80 below, the IASB has provided a new transitional provision for entities that had previously adopted IASs/IFRS.

### IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004

New  
transitional  
provision

78. An entity shall apply paragraph 64 prospectively to all acquisitions occurring after the beginning of the financial reporting period in which this International Public Sector Accounting Standard is first applied. Retrospective application of paragraph 64 to earlier acquisitions is permitted. For an acquisition of a foreign operation treated prospectively but which occurred before the date on which this Standard is first applied, the entity shall not restate prior years and accordingly may, when appropriate, treat goodwill and fair value adjustments arising on that acquisition as assets and liabilities of the entity rather than as assets and liabilities of the foreign operation. Therefore, those goodwill and fair value adjustments either are already expressed in the entity's functional currency or are non-monetary foreign currency items, which are reported using the exchange rate at the date of the acquisition.

79. All other changes resulting from the application of this International Public Sector Accounting Standard shall be accounted for in accordance with the requirements of IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors.

## **Effective Date and Transition**

80. ~~67.~~—An entity shall apply ~~This~~ International Public Sector Accounting Standard ~~becomes effective for annual financial statements covering periods beginning on or after 1 July 2001~~DD MM YYYY. If an entity applies this Standard for a period beginning before DD MM YYYY, it shall disclose that fact~~Earlier application is encouraged.~~

81. ~~68.~~—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.

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004



This section, Amendments to Other Pronouncements, is new. Only the relevant paragraphs in IPSASs that were impacted as a result of proposals in this Standard are shown in mark-up.  
Readers should note that the terms 'should' have been replaced with 'shall'.

## 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. In IPSAS 2 *Cash Flow Statements*, paragraphs 36 and 37 are amended to read as follows:

36. *Cash flows arising from transactions in a foreign currency ~~should~~shall be recorded in an entity's ~~reportingfunctional~~ currency by applying to the foreign currency amount the exchange rate between the ~~reportingfunctional~~ currency and the foreign currency at the date of the cash flow.*

37. *The cash flows of a foreign controlled entity ~~should~~shall be translated at the exchange rates between the ~~reportingfunctional~~ currency and the foreign currency at the dates of the cash flows.*

- A2. IPSAS 10 *Financial Reporting in Hyperinflationary Economies* is amended as described below:

Paragraph 1 is amended to read as follows:

1. *An entity which prepares and presents financial statements under the accrual basis of accounting ~~should~~shall apply this Standard to the ~~primaryindividual~~ financial statements, including the consolidated financial statements, of any entity ~~that reports~~whose functional currency is ~~is~~ the currency of a hyperinflationary economy.*

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004

Paragraph 11 is amended to read as follows:

11. *The financial statements of an entity ~~that reports~~ whose functional currency is ~~is~~ in the currency of a hyperinflationary economy ~~should~~ shall be stated in terms of the measuring unit current at the reporting date. The corresponding figures for the previous period required by International Public Sector Accounting Standard IPSAS 1 Presentation of Financial Statements, and any information in respect of earlier periods, ~~should~~ shall also be stated in terms of the measuring unit current at the reporting date. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 56(b) and 57 of International Public Sector Accounting Standard IPSAS 4 The Effects of Changes in Foreign Exchange Rates apply.*

Paragraph 20 is amended to read as follows:

20. A general price index may not be available for the periods for which the restatement of property, plant and equipment is required by this Standard. In these ~~rare~~ circumstances, it may be necessary to use an estimate based, for example, on the movements in the exchange rate between the ~~reporting~~ functional currency and a relatively stable foreign currency.

Paragraph 26 is deleted.

Paragraph 33 is amended to read as follows:

33. Corresponding figures for the previous reporting period, whether they were based on a historical cost approach or a current cost approach, are restated by applying a general price index so that the comparative financial statements are presented in terms of the measuring unit current at the end of the reporting period. Information that is disclosed in respect of earlier periods is also expressed in terms of the measuring unit current at the end of the reporting period. For the purpose of presenting comparative amounts in a different presentation currency,

*IPSAS 4 The Effects of Changes in Foreign Exchange Rates*

Item 12.6 *Marked-up IPSASs re: "General Improvements Project"*  
PSC Buenos Aires March 2004

paragraphs 56(b) and 57 of IPSAS 4 *The Effects of Changes in Foreign Exchange Rates* apply.

Paragraph 38 is amended to read as follows:

38. *The following disclosures ~~should~~shall be made:*

- (a) *the fact that the financial statements and the corresponding figures for previous periods have been restated for the changes in the general purchasing power of the reportingfunctional currency and, as a result, are stated in terms of the measuring unit current at the reporting date; and*

...

### ***Comparison with IAS 21***

International Public Sector Accounting Standard IPSAS 4 *The Effects of Changes in Foreign Exchange Rates* is drawn primarily from International Accounting Standard IAS 21, *The Effects of Changes in Foreign Exchange Rates* (revised in 2003). The main differences between IPSAS 4 and IAS 21 are as follows:

- Commentary additional to that in IAS 21 has been included in IPSAS 4 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 4 uses different terminology, in certain instances, from IAS 21. The most significant examples are the use of the terms “entity”, “revenue”, “statement of financial performance”, “statement of financial position” and “net assets/equity” in IPSAS 4. The equivalent terms in IAS 21 are “enterprise”, “income”, “income statement”, “balance sheet” and “equity”.
- IPSAS 4 contains a different set of definitions of technical terms from IAS 21 (paragraph 912).
- ~~IPSAS 4 paragraph 31 requires exchange differences arising from a severe devaluation or depreciation of a currency under certain circumstances to be capitalized in the related asset. IAS 21 contains the additional requirement that such capitalization cannot exceed the lower of the replacement cost and recoverable amount of the asset. The Committee intends to address this issue in a future Standard on impairment.~~
- IPSAS 4 contains an additional transitional provision allowing an entity, on first applying this Standard to classify separately and disclose the cumulative balance, at the beginning of the period, of exchange differences deferred and classified as net assets/equity in previous periods. (paragraph 77)