



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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DATE: MAY 25, 2006
MEMO TO: MEMBERS OF THE IPSASB
FROM: MATTHEW BOHUN
SUBJECT: GENERAL IMPROVEMENTS PROJECT

ACTION REQUIRED

The Board is asked to:

- **Review** the table of other comments on EDs 25 and 26 (IPSASs 1, 3 and 4);
- **Review** the draft Preface, IPSAS 1, IPSAS 3 and IPSAS 4; and
- **Approve** the draft documents for issue with the 2007 Handbook of International Public Sector Pronouncements.

AGENDA MATERIAL:

	Pages
15.2 Table of Other Comments – Preface, IPSASs 1, 3 and 4.	15.6 – 15.24
15.3 Draft Preface to International Public Sector Accounting Standards (Marked)	15.25 – 15.33
15.4 Draft IPSAS 1, “Presentation of Financial Statements” (Marked)	15.34 – 5 99
15.5 Draft IPSAS 3, “Accounting Policies, Changes in Estimates and Errors” (Marked)	15.100 – 15.134
15.6 Draft IPSAS 4, “The Effects of Changes in Foreign Exchange Rates” (Marked)	15.135 – 15.167

BACKGROUND

ED 25, “Equal Authority of paragraphs in IPSASs” and ED 26, “Improvements to International Public Sector Accounting Standards” were issued by the IPSASB in September 2005, with comments requested by January 31, 2006. Nineteen responses to ED 25 and twenty responses have been received. These were reviewed by the IPSASB at the meeting in March 2006 in Tokyo and directions provided to staff on any amendments.

No further responses have been received on EDs 25 and 26.

In addition to the summary of responses presented at the March 2006 meeting, staff have prepared a table of other comments (see attachment 15.2) included in those submissions. As directed at the March 2006 meeting, staff have prepared a draft Preface (attachment 15.3), IPSAS 1 (attachment 15.4), IPSAS 3 (attachment 15.5) and IPSAS 4 (attachment 15.6). The draft Preface is marked up for changes from the original Preface. Draft IPSASs 1, 3 and 4

are marked for changes from ED 26, it is not practical to present marked changes from the original IPSASs as the changes are pervasive, which is why the IPSASB elected to present the EDs as “clean” rather than marked.

As noted at the meeting in March, respondents generally agreed with the changes proposed:

	Agree	Disagree	No Clear View	Total
ED 25	16	2	1	19
Retain Bold and Plain Type	16	2	1	19
ED 26	18	0	2	20
IPSAS 1	16	2	2	20
IPSAS 3	16	0	4	20
IPSAS 4	16	1	3	20

IPSASB Policy on Improvements

In developing EDs 25 and 26, the PSC/IPSASB adopted a policy of only making changes to the draft IPSASs that were included in the IASB’s General Improvements Project and that resulted in an amendment to the related IAS at December 2003. Changes that were made to IASs subsequent to December 2003, such as those made on the issue of IFRS 5, “Non-Current Assets Held for Sale and Discontinued Operations” have not been included. The exception to this policy is where the IASB changed a paragraph or a provision in an IAS that the IPSASB (or PSC) had changed in the IPSAS, in which cases the paragraph or provisions in the IPSAS is retained.

Additional Comments

At the last meeting, members reviewed comments made in respect of the specific matters for comment identified in each ED. The table of other comments attached provides a summary of the additional comments made by respondents and the staff response to the comments. In addressing these comments, staff applied the IPSASB’s policy on improvements (see above). Where a respondent has suggested a change that was not included in the IASB’s improvement program, that suggestion has not been taken up as it would be contrary to the IPSASB’s policy.

In evaluating whether to include a proposed amendment, staff checked the IASB’s ED, the December 2003 version of the IASs, the PSC agenda papers for the appropriate meeting, and the minutes of those meetings. In some cases, the original agenda papers inadvertently omitted an amendment that was subsequently made as part of the IASB Improvements Project, these amendments have now been included in the draft IPSASs, as noted in attachment 15.2.

Staff have included Basis for Conclusions sections in each of the IPSASs, whilst this is repetitive in most cases, it explains why certain major proposals were not accepted and include a paragraph on the IPSAS rational underlying the improvements. Including a Basis for Conclusions in each IPSAS ensures that if an IPSAS is read on its own, users are aware of the reasons for the changes to the IPSASs.

The Comparison with the appropriate IAS has been amended to note that the IPSASs do not use the term “income” which has a broader meaning than the term “revenue”.

Staff are undertaking research into the conceptual basis of “equity accounting” and will provide the IPSASB with an update at the meeting.

ISSUES

Preface to International Public Sector Accounting Standards

At the meeting in March, the IPSASB agreed that the equal authority principle to be incorporated into the Preface should only be applied to IPSASs issued or reissued after the improvements project, when the IPSASB has had the opportunity to undertake a comprehensive review to ensure that there are no unintended consequences. Staff have made the change directed.

IPSAS 1, “Presentation of Financial Statements”

Changes were made to the IPSAS principally to ensure greater consistency with IAS 1, to include a Basis for Conclusions, and to update the Comparison with IAS 1.

Extraordinary Items

In preparing the Basis for Conclusions, staff included, as directed, a rationale for retaining commentary on “extraordinary items”. This rationale includes that the public sector definition of “extraordinary items” is different to the previous definition in IAS 1, and that as these items were not expected to recur and were outside the control of the entity, the majority of the IPSASB consider that including information about extraordinary items may be consistent with the objectives and qualitative characteristics of general purpose financial reporting in the public sector.

Dividends and Similar Distributions

One respondent noted that the term “dividend” is used in the proposed IPSAS, and argues that the term “dividend or similar distribution” be used as it encompasses situations in the public sector where distributions to owners are made that are not strictly speaking dividends. Staff agree with the respondent and have processed the amendment, however, this requires the approval of the IPSASB.

Other significant matters raised but not processed consistent with IPSAS policy were:

- One respondent suggested including the definition of “accounting policies”;
- The omission of paragraph 9 of IAS 1 relating to additional information presented outside the financial statements. The PSC omitted this paragraph from the original IPSAS 1;
- IAS 1 uses the term “income”. The IASs use the same definition of “revenue” as the IPSASs, however, the term income is broader than revenue. Although the matter was discussed at the March 2006 meeting, the IPSASB has not, at this stage, made decisions about the recognition, measurement, presentation or disclosure of gains, therefore it did not include those provisions in ED 26. Staff note that the previous

Comparison with IAS 1 (and similar comparisons in other IPSASs) implied that the IPSASB had substituted the term “revenue” for “income”. Staff have included a modified bullet in the comparison to note that the term income is broader than revenue, and that the IPSASs do not use the term “income”. As a consequence, staff also recommend deleting the Other Income section of the illustrative statement of financial performance in the Implementation Guidance;

- A respondent suggested adding additional commentary on the importance of distinguishing between current and non-current assets and liabilities;
- A respondent suggested including an additional line item in paragraph 87 (paragraph 88 in ED 26) requiring the disclosure of payables from non-exchange transactions; and
- A respondent questioned whether the term “superannuation” is widely used (see Implementation Guidance sample financial statements – Statement of Financial Position – Liabilities). This term was introduced by the PSC/IPSASB when developing the original IPSAS 1, the IPSASB may wish to consider whether an alternative term should be used.

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

The only changes made to the IPSAS are to ensure greater consistency with IAS 8, to include a Basis for Conclusions, and to update the Comparison with IAS 8.

Other significant matters raised but not processed consistent with IPSAS policy were:

- In relation to income, which was also raised in relation to IPSAS 3, a respondent recommended aligning IPSAS 3 with IAS 8. As noted above, the IPSASB has not determined how non-revenue income is to be recognized, measured, presented or disclosed; and
- In relation to paragraph 3.12(a), one respondent recommended inserting the word “economic” before “decision-making” to align with the amendment made by the IASB in finalizing IAS 8. Staff are of the view that focusing on economic decision-making is a narrower focus than that intended by the PSC when it developed IPSAS 3 and by the IPSASB in revising IPSAS 3.

IPSAS 4, “The Effect of Changes in Foreign Exchange Rates”

The only changes made to the IPSAS are to ensure greater consistency with IAS 21, to include a Basis for Conclusions, and to update the Comparison with IAS 21.

OTHER ISSUES – UPDATES RE IFRS 5

One respondent recommended that some of the improvements made as a result of the IASB issuing IFRS 5 be processed at this time rather than delaying to another review. Staff are of the view that there is a case to be made for this, however, these changes have not been made because such changes would be contrary the policy adopted by the IPSASB.

OTHER ISSUES – TABLES OF CONCORDANCE

ED 26 contains tables of concordance for several IPSASs. The IASB also included such tables in its ED and in the first handbook printed after the improved IASs were approved, but not in subsequent handbooks. Staff propose that the tables of concordance be included in the 2007 Handbook of Public Sector Pronouncements, but not the 2008.

APPLICATION DATE

Staff propose that the application date for the revised IPSASs be January 1, 2008. This will enable users a full year from the date of issue to implement the approved changes. This is consistent with the practice adopted for the original IPSASs.

RECOMMENDATION

Staff recommends that the IPSASB agree, to reissuing the Preface, and IPSASs 1, 3, 4, as amended with the 2007 Handbook of International Public Sector Pronouncements. The individual IPSASs may be made available on the IFAC website prior to the publication of the 2007 Handbook.



Matthew Bohun
TECHNICAL MANAGER

ATTACHMENT 15.2

Table of Other Comments

Question/ Paragraph	Submission Number	Name	Respondent Comment	Staff Response
All IPSASs	10	ASB & SAICA	The IPSAS comparison with the equivalent IAS has not been amended and exposed in all instances. E.g., the IFRSs contain transitional provisions for entities that have already used IFRSs, whereas the equivalent IPSASs contains transitional provisions for both first time adoption and change over from the previous IPSAS.	Staff agree and will process the amendment for review by the IPSASB.
All IPSASs	10	ASB & SAICA	Application of IFRSs by GBEs: the amendment to explain that GBEs need to apply IFRSs has not been included in all IPSASs (e.g. 12 & 13).	Staff agree and will process the amendment for review by the IPSASB.
All IPSASs	10	ASB & SAICA	Introduction paragraph to IPSASs - the paragraph has not been deleted in all instances.	Staff agree and will process the amendment for review by the IPSASB.
All IPSASs	10	ASB & SAICA	A table of concordance has been included in some of the exposed IPSASs, but not all.	The ED included tables of concordance in those IPSASs where the equivalent IAS had a table of concordance. The IASB included the tables of concordance in its handbook in 2004, but has ommitted them from 2005. The IPSASB will decide wether to follow this approach.

All IPSASs	10	ASB & SAICA	IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations" was issued after December 2003, and subsequent amendments to IASs as a result of IFRS 5 have not been taken into account in the equivalent IPSASs. However, inconsistent reference is made to the standard on non-current assets held for sale and discontinued operations in the exposed IPSASs, e.g. IPSAS 16 refers to "disposals" whereas IPSAS 17 refers to "held for disposal", and IPSAS 8 refers to "held exclusively with a view to its disposal".	While there is a case for doing this, making this amendment would not be consistent with the IPSASB's improvements policy. The IPSASB decided to make changes as at December 31, 2003. These anomalies were rectified by the IASB subsequent to that date with the issuance of IFRS 5. Staff do not propose to change the IPSASs in respect of changes made by IFRS 5, (unless the IPSASB directs otherwise).
All IPSASs	10	ASB & SAICA	Objective Paragraph: ASB & SAICA recommend that an objective paragraph be included in all the exposed IPSAS, even though the equivalent IASs many not have been amended during the IAS improvements project. This will ensure consistency in the IPSASs and will allow the users of the IPSASs to obtain a broad understanding of the content of the particular IPSAS.	The suggested change is beyond the scope of the improvements project as specified by IPSASB. Staff do not propose any change in respect of this comment.
All IPSASs	10	ASB & SAICA	"Should" and "shall": In IPSASs 12, 13 and 14, only a mark-up of the relevant paragraphs was exposed for comment. In these IPSAS, various bold paragraphs should have been amended from "should" to "shall" as a result of the improvements project. ASB & SAICA recommend that where appropriate, all improved IPSASs be amended.	Staff agree and will process the amendment for review by the IPSASB.

All IPSASs	10	ASB & SAICA	Exposing parts of an IPSAS: For IPSAS 12, 13 and 14, mark ups of the paragraphs to be amended was exposed, the same process the IASB used. Consistent with respondents to the IASB's ED, ASB & SAICA do not find this user friendly and would prefer the exposure of the complete document.	Noted - The IPSASB will need to make a decision on this for any future amendments to IPSASs. It should be noted that the IPSASB did not wish to invite comments on parts of the IPSASs not being amended.
All IPSASs	10	ASB & SAICA	Summary of Main Changes was not in all instances similar to the content in the equivalent IAS, e.g. in IPSAS 4, the last bullet under the section dealing with functional currency does not agree with the equivalent paragraph in IAS 21, which states that a foreign operation is now redundant. ASB & SAICA recommend that the summary of main changes be made similar to the equivalent IAS.	The Summary of Main Changes section in each revised IPSAS will be reviewed during the process of drafting the final IPSASs, however, it should be noted that the IPSASB made its own decision about some of these matters when issuing original IPSAS and changed text from IAS and confirmed those changes when finalizing ED 26.
IPSAS 1 - Equal Authority	11	South Africa - IPFA	<p>The equal authority paragraph states that: 'IPSAS 1 should be read in the context of its objective, the Basis for Conclusion, and the Preface to International Public Sector Accounting Standards.'</p> <p>It is unclear what will form the Basis for Conclusions for this specific standard, as none were published as part of the public comment process.</p> <p>Similarly, no Basis for Conclusions was included for IPSAS 3, 4, 6, 7, 8, and 16. As the same equal authority paragraph has been included for the proposed IPSAS 3, 4, 6, 7, 8, and 16, IPFA propose that if the IPSASB does not issue a Basis for Conclusions for this standard, the equal authority paragraph should be amended accordingly.</p>	Staff agree and will process the amendment for review by the IPSASB. The paragraph will be amended to read "... Basis for Conclusions (if any)..."

IPSAS 1.1	10	ASB & SAICA	The terminology used in the first sentence differs from IAS 1, there is no public sector reason for this, ASB & SAICA recommend changing the terminology to be consistent with IAS 1.	The first sentence of IPSAS 1's objective has always been slightly different from that of IAS 1. The change proposed is beyond the scope of the improvements project as specified by the IPSASB.
IPSAS 1.3	10	ASB & SAICA	The word "in their <i>particular</i> information needs" in IAS 1 paragraph 3 has been replaced by the word "in their <i>specific</i> information needs". This amendment was not included in paragraph 3 of this IPSAS. The improved IPSAS 1 has also omitted the second last sentence of IAS 1 that reads; "however, paragraphs 13-41 apply to such financial statements". We recommend that this paragraph be amended to be in line with the equivalent IAS 1 in order to avoid the creation of unnecessary differences between IPSAS 1 and IAS 1.	The IASB used the term "specific" in its improvements ED, however, when it approved IAS 1, it reverted to the term "particular". Staff do not propose any changes with respect to this comment.
IPSAS 1.7	11	South Africa - IPFA	IPFA proposes that the definition of 'accounting policies' be included in this standard, as reference is made to the term 'accounting policies' throughout.	Like many observations, this suggestion has merit, however, it is outside the scope of the improvements project as specified by the IPSASB. IAS 1 does not include the term "accounting policies", the glossary will be included in the Handbook and is available on the internet. Staff do not propose any changes with respect to this comment.

IPSAS 1 (no equivalent paragraph)	10	ASB & SAICA	<p>Paragraph 9 of IAS 1 contains additional explanatory material dealing with additional information that many entities present outside the financial statements which has been omitted in the improved IPSAS 1. ASB & SAICA recommend that this paragraph be incorporated in IPSAS 1 as there is no public sector specific reason to deviate from IAS 1. The suggested wording is as follow:</p> <p>XX. Many entities present, outside the financial statements, a financial review by management that describes and explains the main objectives of the entity's service delivery programmes, financial position and the principal uncertainties it faces. Such a report may include a review of:</p> <p>(a) the main factors and influences determining service delivery, including governments' welfare and social obligations policies and changes in legislation that the entity is required to comply with, the entity's response to those changes and their effect, and the entity's policy for resource allocation to maintain and enhance processes of service delivery ;</p> <p>(b) the entity's sources of funding and its target</p>	The suggested change is beyond the scope of the improvements project as specified by IPSASB. Staff do not propose any change in respect of this comment. A similar paragraph in the 1997 version of IAS 1 was omitted when the original IPSAS 1 was developed, for this reason the revised IPSAS 1 retains the commentary developed by the PSC for the original IPSAS 1.
IPSAS 1.15	10	ASB & SAICA	<p>Although paragraph 15 of the improved IPSAS 1 contains additional explanatory material that highlights the objectives of financial statements in the public sector, the second sentence differs from the equivalent paragraph in IAS 1 (IAS 1.7). The second sentence in this IPSAS should be aligned with paragraph 7 of IAS 1.</p>	The suggested change is beyond the scope of the improvements project as specified by IPSASB as the change was made during the development of the original IPSAS 1. Staff do not propose any change in respect of this comment.

IPSAS 1.17(d) & (e)	1	Australian Accounting Standards Board Staff	The comparison with IAS 1 removes the reference to the difference between revenue and income. For Consistency AASB Staff recommend that paragraph 17(d) refer to income (consisting of two components revenue and gains) instead of revenue, and paragraph 17(e) refer to expenses (including losses) instead of only expenses.	Whilst the definition of revenue in the IASs is the same as that in the IPSASs (modified for public sector terminology), IAS 1 retains a broader notion of income. The IPSASB has yet to define the term income and determine how the non-revenue components of income are to be recognized and presented in public sector financial statements. Staff do not propose any changes in respect of this comment at this stage.
IPSAS 1 - reference to framework	10	ASB & SAICA	Paragraph 17 of IAS 1 (IAS 1.17) makes reference to the Framework for the Preparation and Presentation of Financial Statements (Framework) which sets out the objectives of financial statements. IPSASB has not yet developed an equivalent framework for its IPSASs and has therefore incorporated the objectives in IPSAS 1. ASB & SAICA are of the opinion that IPSASB needs to be consistent in including references to documents that it has not yet developed and therefore recommend that where IAS 1 makes reference to the <i>Framework</i> , IPSAS 1 should refer to the relevant international or national <i>Framework for the Preparation and Presentation of Financial Statements</i> to be consistent with all other references included in other IPSASs in instances where a particular pronouncement has not yet been developed.	At the March 2004 meeting, the then PSC agreed that where the IASs refer to the framework, IPSASs would refer to definitions and measurement and recognition criteria where appropriate. Staff are following this policy and do not propose any changes in respect of this comment.
IPSAS 1.29	1	Australian Accounting Standards Board Staff	Para 29 should be amended to align with the last sentence of paragraph 27.	Paragraph 29 is virtually identical to IAS 1.15. Staff do not propose any changes in respect of this comment.

IPSAS 1.39	11	South Africa - IPFA	The last sentence of this paragraph refers to the fact that going concern should be assessed based on all available information from twelve months after the approval of the financial statements. The equivalent paragraph requires this assessment to be made twelve months after balance sheet date. IPSAS 1 should in fact refer to 'twelve months after reporting date', and not the date of approval.	Valid point. However, this change was made during the development of the original IPSAS 1. The change proposed in the comment is, therefore, outside the scope of the IPSAS improvements program. Staff do not propose any changes with respect to this comment.
IPSAS 1.67	10	ASB & SAICA	The improved IPSAS 1 has retained paragraph 67. The IAS 1 equivalent paragraph was deleted as a result of the IASB improvements project and ASB & SAICA therefore recommend the deletion of paragraph 67 as there is no public sector specific reason for retaining it.	The original IAS 1 included this paragraph as did IPSAS 1, however, the IASB ED deleted this paragraph. This was not raised as an issue in the PSC meetings discussing ED 26, and the retention of paragraph 67 appears to be an oversight. Staff propose deleting paragraph 67 in accordance with the scope of the improvements project as specified by the IPSASB.
IPSAS 1 - after paragraph 68	10	ASB & SAICA	IPSAS 1 does not contain the equivalent paragraph of paragraph 68A of IAS 1. Although we understand that the requirement to present information about non-current assets held for sale and discontinued operations has not yet been considered by IPSASB, ASB & SAICA believe that as a minimum, reference should be made to international or national guidance dealing with assets classified as held for sale and assets and liabilities included in disposal groups.	The change suggested goes beyond the scope of the improvements project as specified by IPSASB. Staff do not propose any changes in respect of this comment.

IPSAS 1.69	10	ASB & SAICA	The improved IPSAS 1 has retained paragraph 69. The IAS 1 equivalent paragraph was deleted as a result of the IASB improvements project. ASB & SAICA therefore recommend the deletion of this paragraph in the improved IPSAS 1 as there is no public sector specific reason for retaining it.	In developing ED 26, staff recommended that paragraph 69 be retained until such time as a public sector conceptual framework had been developed. The PSC did not disagree with staff and the paragraph was retained. Staff do not propose any changes in respect of this comment.
IPSAS 1 - after paragraph 69	10	ASB & SAICA	IPSAS 1 does not contain the equivalent paragraph of paragraph 70 of IAS 1. We are of the opinion that there may be certain jurisdictions where taxation may be applicable and by removing the principle contained in this paragraph, it may result in the impairment of comparability of financial statements. ASB & SAICA therefore recommend that IPSAS 1 should incorporate the equivalent IAS paragraph (IAS 1.70). In addition, the wording "where applicable" should be included at the end of the paragraph to be consistent with other IPSASs.	Paragraph IAS 1.70 was originally paragraph IAS 12.70 (Income Taxes). IAS 12 was not included in the IASB's improvement program although it was amended at a similar time, therefore, this amendment falls outside the scope of the improvements project as specified by the IPSASB. Staff do not propose any amendments in respect of this comment.
IPSAS 1.72	6	CNDC & CNR (Italy)	Some further commentary on the importance of distinguishing current and non-current assets and liabilities may be required. CNDC and CNR note that in the public sector, political considerations may require the divestiture (or retention) of items that a pure economic stance would indicate should be retained (or disposed of).	While such commentary may be useful, adding additional commentary to a standard is outside the scope of the improvements project as specified by IPSASB. Therefore, staff do not propose any changes in respect of this comment.

IPSAS 1.75	10	ASB & SAICA	Paragraph 56 of IAS 1 includes an example that illustrates the requirement to present information about expected dates of realization of assets. This example is not included in the equivalent IPSAS 1 (IPSAS 1.75). ASB & SAICA therefore recommend that this example be incorporated in IPSAS 1, as it gives further guidance on the usefulness of presenting information about expected dates of realization of asset.	The suggested change is beyond the scope of the improvements project as specified by IPSASB as the example was deleted during the development of the original IPSAS 1. Staff do not propose any change in respect of this comment.
IPSAS 1.88	10	ASB & SAICA	Paragraph 88 of IPSAS 1 is similar to the equivalent IAS paragraph (IAS 1.68) although IPSAS 1 uses public sector specific terminology. There is however certain sub-paragraphs that are not properly aligned to the equivalent IAS sub-paragraphs, for example, IAS 1.68 (f) "biological assets" and "deferred tax assets and deferred tax liabilities" were omitted in IPSAS 1. ASB & SAICA recommend that IPSAS 1.88 should incorporate the sub-paragraphs that were omitted and align the other sub-paragraphs. The wording where applicable" should also be included where IPSAS 1 deals with taxation issues in order to be consistent with other IPSASs.	In developing ED 26, staff recommended that "biological assets" be included in the list, however, the PSC directed staff to delete that item in line with its policy not to update the IPSASs for matters it had not considered, including the applicability of IAS 12, "Income Taxes" and IAS 41, "Agriculture" to the public sector. Staff do not propose any changes in respect of this comment.
IPSAS 1.88	11	South Africa - IPFA	Although not part of the improvements project, we propose that an additional line item be included in paragraph 88 that requires disclosure of 'payables from non-exchange transactions'. This is consistent with the requirements in (g) and (h) that require separate disclosure of receivables arising out of either an exchange or a non-exchange transaction.	The suggestion has merit, however, this proposed change is beyond the scope of the improvements project as specified by IPSASB. Therefore, staff do not propose any changes in respect of this comment.

IPSAS 1.102	11	South Africa - IPFA	<p>Point (d) of this paragraph makes reference to a '<u>pre-tax gain</u> or loss recognized on the disposal of assets or the settlement of liabilities attributable to <u>discontinuing</u> operations'.</p> <p>- In accordance with the revised IAS, this should be a post-tax gain, and should make reference to a discontinued operation, although this would imply that the consequential amendments of IFRS 5 have been incorporated into the improved IPSAS.</p> <p>- Further to this, it would be inconsistent to make reference to pre- or post- tax figures when no disclosures have been required for 'income tax expense' (as required by paragraph 81(d) of IAS 1). IPFA proposes that the potential effects of income tax be treated consistently throughout the revised standards, as follows: (a) include the specific requirements as indicated in the applicable IAS, and (b) reference should be made to the 'relevant international or national accounting standard dealing with Income Taxes.'</p>	In developing ED 26, staff incorporated the text changed by IFRS 5, but were directed to delete it. The current wording reflects that of the IASB improvements ED, in accordance with the improvements policy specified by the IPSASB.
IPSAS 1.102	10	ASB & SAICA	<p>Paragraph 102 of IPSAS is similar to the equivalent IAS paragraph (IAS 1.81) although IPSAS 1 uses public sector specific terminology. However, paragraph (IAS 1.81 (e)) was not adequately captured in IPSAS 1. ASB & SAICA recommend that IPSAS 1 should incorporate the wording of the equivalent paragraph (IAS 1.81 (e)) as is, and in addition, also make reference to "where applicable" to be consistent with other IPSASs.</p>	Staff believe that the term "Surplus or deficit" conveys the same meaning in the public sector as "profit or loss" in the private sector and do not propose any changes in respect of this comment.

IPSAS 1.109	10	ASB & SAICA	Although paragraph 109 of the improved IPSAS 1 is similar to the equivalent paragraph in IAS 1 (paragraph 88), IAS 1 does not allow the option to present either on the face of the income statement or in the notes. This is addressed by the heading above paragraph 86 in IAS 1. ASB & SAICA therefore recommend that the reference to "either on the face of the statement of financial performance or in the notes" be deleted in paragraph 109 of IPSAS 1.	During the development of ED 26, staff noted that the IASB had deleted the words "either on the face.. or in the notes..." but recommended that the words be retained because there is no substantive effect in removing the words, and their presence adds clarity. The PSC agreed with this approach. Consequently staff do not propose any changes in respect of this comment.
IPSAS 1.116	10	ASB & SAICA	Paragraph 94 of IAS 1 includes additional explanatory material that requires the disclosure of additional information on the nature of expenses when the classification by function of expenses method is used. This amendment is however not included in IPSAS 1. ASB & SAICA recommend that the additional explanatory material be incorporated in the improved IPSAS 1 as there is no public sector reason to deviate from IAS 1.	The IASB ED included the sentence as does the current IAS 1. The omission of the sentence in PSC meeting papers and ED 26 appears to be an oversight as the matter was not raised specifically in PSC meeting papers or minutes. Staff propose inserting the example in accordance with the scope of the improvements project as specified by the IPSASB. PAUL THE CHANGES YOU PROPOSED TO THE STAFF RESPONSE WERE NOT SUPPORTED BY THE MEETING PAPERS OR THE MINUTES TO THE MEETING IN NY IN JULY 04
IPSAS 1.117	10	ASB & SAICA	Although paragraph 117 in IPSAS 1 is similar to the equivalent paragraph in IAS 1 (paragraph 95), IPSAS 1 uses different terminology. ASB & SAICA recommend that the wording of IPSAS 1 paragraph 117 be aligned with the wording in paragraph 95 of IAS 1 as there is no public sector reason for the deviation.	This change was made during the development of the original IPSAS 1. The change proposed in the comment is, therefore, outside the scope of the improvements project as specified by the IPSASB. Staff do not propose any changes with respect to this comment.

IPSAS 1.138	10	ASB & SAICA	Paragraph 114 (a) – (d) of IAS 1 provide examples of judgments that management may make in the process of applying the entity's accounting policies. The equivalent paragraphs 138(c) and (d) in IPSAS 1 are similar to IAS, but paragraphs 138 (a) and (b) differs from the equivalent IAS paragraph. ASB & SAICA recommend that the wording in these sub-paragraphs be aligned with the wording in IAS 1.	In developing ED 26, staff recommended, and the PSC agreed, changing the examples in paragraphs (a) and (b) to be more public sector specific. Staff do not propose any changes in respect of this comment.
IPSAS 1.149	11	South Africa - IPFA	Point (a) requires that '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'. The amendments to paragraph 14 of IPSAS 14, require that 'If an entity declares dividends <u>or similar distributions</u> after the reporting date, the entity shall not recognize those distributions as a liability at the reporting date.' IPFA proposes that paragraph 149(a) be amended to take into account similar distributions that may be made by an entity, and not only dividends.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 1 Appendix	6	CNDC & CNR (Italy)	The qualitative characteristics of financial reporting should be in a separate conceptual framework and not in the appendix to IPSAS 1.	The IPSASB is initiating a conceptual framework project and may remove the appendix when that project is complete, however, removal at this stage is beyond the scope of the improvement project as specified by the IPSASB.

IPSAS 1 - Appendix SF Pos.	10	ASB & SAICA	A liability account under the name of <i>superannuation</i> has been used in the example. As this term may not be common in the accounting field, ASB & SAICA recommend that the term either be deleted or be replaced with a more well-known term.	Staff have changed the term to "Retirement Benefit Plan" which is the term used in the IFRSs. PAUL REFER TO IAS 26, "ACCOUNTING AND REPORTING BY RETIREMENT BENEFIT PLANS". SUPERANNUATION IS NOT A TERM USED IN THE USA, AND I AM SUPPOSING SOUTH AFRICA. IAS 1 DOES NOT HAVE A SIMILAR LINE ITEM.
IPSAS 1 - IG	11	South Africa - IPFA	We propose that the order of the non-current versus current items be re-positioned to align this with the Implementation Guidance contained in IAS 1, i.e. <ul style="list-style-type: none"> - Non-current assets - Current assets - Non-current liabilities - Current liabilities 	This change was made during the development of the original IPSAS 1. The change proposed in the comment is, therefore, outside the scope of the IPSAS improvements program. Staff do not propose any changes with respect to this comment.
IPSAS 3 Summary of Main Changes	24	Swiss Ad Hoc Committee	The first bullet point under "Accounting Policies" seems to imply that bold letter paragraphs have greater authority than normal font paragraphs. The Swiss Ad Hoc Committee recommend clarifying this point.	Staff have amended the bullet to clarify this point.

IPSAS 3.6	11	South Africa - IPFA	<p>The generic paragraph included for the GBE's varies from one standard to another. For example in IPSAS 4, the paragraph states the following:</p> <p>The "Preface to International Public Sector Accounting Standards" issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). <u>GBEs are defined in IPSAS 1, "Presentation of Financial Statements".</u></p> <p>The equivalent paragraph in IPSAS 3 does not include the last sentence (as underlined above). In most instances, this differs between the proposed standards. IPFA propose that this particular paragraph in each standard be reviewed for consistency, and amended accordingly.</p>	Staff have included the suggested editorial amendment.
IPSAS 3.12	11	South Africa - IPFA	<p>The equivalent paragraph in IAS 8, makes reference to 'economic decision-making needs of users.' The word 'economic' has been deleted from paragraph 12 (a) of the revised IPSAS. If there is no specific reason to deviate from the wording in the IAS, the exact wording from the IAS should be used.</p>	Staff agree and will process the amendment for review by the IPSASB. The word "economic" was not included in the IASB's ED, but was added during the approval process.

IPSAS 3.14(b)	1	Australian Accounting Standards Board Staff	Paragraph should refer to "income" instead of "revenue" since the term "income" consists of two components: revenue and gains.	The suggested change is beyond the scope of the improvements project as specified by IPSASB as the change was made during the development of the original IPSAS 1. Staff do not propose any change in respect of this comment. The IPSASB has not yet decided how gains are to be recognized, measured, presented and disclosed in general purpose financial statements.
IPSAS 3.15	11	South Africa - IPFA	Paragraph 12 of IAS 8 makes reference to '...management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted <u>industry practices</u> , ...' IPFA proposes that the reference to 'industry practices' be included in paragraph 15 of the revised IPSAS, so that any industry specific practices should also be considered in determining appropriate accounting policies.	IPSAS 3.15 refers to "... accepted public or private sector practices ..." which encompasses industry practices. Staff do not propose any changes with respect to this comment.
IPSAS 3.19 - 20	11	South Africa - IPFA	These two paragraphs should be bold letter paragraphs in accordance with IAS 8.	These paragraphs are specific to IPSASs and do not appear in IASs/IFRSs. In the 2000 version of IPSAS 3, these paragraphs were in bold-type, as they were in documents considered by the November 2004 PSC meeting, the minutes of that meeting do not record a decision to remove the bold-type. Staff will include the suggested amendment.

IPSAS 3.37	10	ASB & SAICA	Sub-paragraphs 32 (a) – (e) of IAS 1 provide examples of estimates that management may make based on the latest and reliable information available. The equivalent paragraphs in IPSAS 1 are similar in many respects except that it uses public sector specific terminology. Sub-paragraph 37 (a) provides examples of where estimates may be required i.e. tax revenue due to government and bad debts arising from uncollected taxes. ASB & SAICA are of the opinion that this paragraph conveys two different ideas and therefore recommend that paragraph 37 (a) be split into two sub-paragraphs, the one being “bad debts arising from uncollected taxes” and the other being “tax revenue due to government”.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 3.48	10	ASB & SAICA	The heading of IPSAS 1 paragraph 48 (IPSAS 1.48) referring to “ <i>Limitations on Retrospective Restatement</i> ” contains capital letters. ASB & SAICA recommend that these should be small letters and that such an amendment be effected throughout the IPSASs where appropriate.	IFAC has an established style guide. Before the final IPSAS is published, IFAC's Publications Department will review the styles used in the IPSASs for consistency with the style guide.

IPSAS 3.A2	11	South Africa - IPFA	<p>IPSAS 31 requires that when items of revenue or expense are material within net surplus (deficit) from ordinary activities are of such size, nature, or incidence that their disclosure is relevant to explain the performance of the entity for the period, their nature and amount of such items should shall be disclosed separately. IPSAS 13 identifies a number of examples of such items, including write-downs of inventories and property, plant, and equipment; provisions for restructurings; disposals of property, plant, and equipment;</p> <p>The word 'their' (as highlighted above), should be 'the'.</p>	Staff agree and will process the amendment for review by the IPSASB. PAUL, THE 'IR' PORTION DID NOT COME OUT ON THE PRINTED VERSION, I HAVE BOLDED IT HERE.
IPSAS 3.A2	11	South Africa - IPFA	<p>Changes in accounting policies adopted by the entity are dealt with in IPSAS 3. IPSAS 3 requires that changes in accounting policy should shall be made only if required by statute, or.</p> <p>The words 'only if required by statute' (as highlighted above), should not be deleted.</p>	The 2000 IPSAS 3 included a provision that accounting policies should be changed when required by statute. <u>The ED proposed that</u> this provision not be included in the improved IPSAS 3. Staff do not propose any changes with respect to this comment.
IPSAS 3 IG 1.3, 1.6	11	South Africa - IPFA	The line item 'Net surplus', should be amended to 'Surplus' in line with amendments made to IPSAS 1.	Staff agree and will process the editorial amendment for review by the IPSASB. IPSASB adopted new terminology as part of the improvements project.
IPSAS 3 IG 2.5, 2.7	11	South Africa - IPFA	IPFA proposes that the examples be updated to take into account amendments made to IPSAS 1 i.e. no more 'surplus from ordinary activities'.	Staff agree and will process the editorial amendment for review by the IPSASB. IPSASB discarded the notion of surplus from ordinary activities as part of the improvements project.
IPSAS 3 IG 2.7, note 1.	11	South Africa - IPFA	The last line of the examples states: '(decrease) in assets in the course of construction and in <u>retained earnings</u> ' This should be amended to accumulated surplus.	Staff agree and will process the editorial amendment for review by the IPSASB. The term "earnings" is not used in IPSASs.

IPSAS 4 Summary of Main Changes	10	ASB & SAICA	ASB & SAICA recommend that a reference be included in the scope section of this Standard, to the appropriate standard that deals with financial instruments. The equivalent IAS explains in IN 14 the impact on an entity whose functional currency is not the currency of a hyperinflationary economy. This is a significant change that should be highlighted and included in the summary of main changes. The phrase "(which is now redundant)" should be included in the fourth bullet under the heading "functional currency".	The scope section references international or national standards on financial instruments. MATTHEW - I AM NOT SURE OF THE POINT THEY ARE MAKING AS THE SUMMARY OF CHANGES WILL NOT BE IN THE FINAL IPSAS. YOU MIGHT WANT TO TOUCH BASE WITH ERNA ON THIS
IPSAS 4.4	10	ASB & SAICA	The word "foreign" has been omitted from the phrase 'currency derivatives in the second line of paragraph 4.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 4.17	10	ASB & SAICA	The wording "and trade receivables" has been amended to "or trade receivables" in paragraph 15 of the equivalent IAS. This amendment should also be incorporated in paragraph 17 of this IPSAS.	Staff agree and will process the amendment for review by the IPSASB.
IPSAS 4.19	10	ASB & SAICA	The example in paragraph 18 of the equivalent IAS has been omitted from paragraph 19 of this IPSAS. ASB & SAICA recommend that the example should also be included in paragraph 19 of this IPSAS.	The version of IAS 21 approved by the IASB does not contain an example in paragraph 18 (paragraph 16 in IASB ED). Staff do not propose any cahnges with respect to this comment.
IPSAS 4.52 - 54	10	ASB & SAICA	The equivalent of this section in IAS is a single paragraph. It is not clear why this IPSAS has been split into three separate paragraphs.	This change was made during the development of the original IPSAS 4. The change proposed in the comment is, therefore, outside the scope of the IPSAS improvements project as specified by the IPSASB. Staff do not propose any changes with respect to this comment.
IPSAS 4.57	11	South Africa - IPFA	This paragraph makes reference to a dividend, but does not make allowance for a 'similar distribution'. This should be included so as to ensure a public sector perspective is included.	Staff agree and will process the amendment for review by the IPSASB. As noted in the memo (Item 15.1) in the public sector, distributions to owners may not take the form of dividends.

IPSAS 4, page 102	11	South Africa - IPFA	This page has been duplicated, while page 103 has been omitted from the revised IPSAS. In the absence of a page 103, we propose that paragraphs 13, 14, 15, 16, and 17 of IAS 21 be included as part of the revised IPSAS.	The printed version of ED 26 included these paragraphs, however an error occurred in the web based version that was subsequently corrected. No change is necessary with respect to this comment.
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PREFACE TO INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

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PREFACE TO INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

Introduction

1. This Preface to the International Public Sector Accounting Standards (IPSASs) sets out the objectives and operating procedures of the International Public Sector Accounting Standards Board (IPSASB) and explains the scope and authority of the IPSASs. The Preface should be used as a reference for interpreting invitations to comment, discussion documents, exposure drafts and standards approved and published by the IPSASB.
2. The mission of the International Federation of Accountants (IFAC), as set out in its constitution, is “to serve the public interest, strengthen the accountancy profession worldwide and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards, and speaking out on public interest issues where the profession’s expertise is most relevant.” In pursuing this mission, IFAC established the IPSASB.
3. The IPSASB (formerly Public Sector Committee (PSC)) is a Board of IFAC formed to develop and issue under its own authority International Public Sector Accounting Standards (IPSASs). IPSASs are high quality global financial reporting standards for application by public sector entities other than Government Business Enterprises (GBEs).
4. The IPSASB’s Consultative Group is appointed by the IPSASB. The Consultative Group is a non-voting group. It provides a means by which the IPSASB can consult with and seek advice as necessary from a broad constituent group. The Consultative Group is chaired by the Chair of the IPSASB. The Consultative Group is primarily an electronic forum. However, regional chapters of the Consultative Group meet with the IPSASB in conjunction with any IPSASB meetings in their region. All Consultative Group members are invited to these meeting. In addition, a full meeting of all members of the Consultative Group may be held if considered necessary.

Objective of the IPSASB

5. The objective of the IPSASB is to serve the public interest by developing high quality public sector financial reporting standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of financial reporting throughout the world. The IPSASB achieves its objectives by:
 - Issuing International Public Sector Accounting Standards (IPSASs);

- Promoting their acceptance and the international convergence to these standards; and
 - Publishing other documents which provide guidance on issues and experiences in financial reporting in the public sector.
6. The IPSASs are the authoritative requirements established by the IPSASB. Apart from developing IPSASs, the IPSASB issues other non-authoritative publications including studies, research reports and occasional papers that deal with particular public sector financial reporting issues.

Membership of the IPSASB

7. The members of the IPSASB are appointed by the IFAC Board to serve on the IPSASB. The IPSASB comprises 15 members, 13 of whom are nominated by member bodies of IFAC and two of whom are public members. Public members may be nominated by any individual or organization. In addition, a limited number of observers from bodies that have an interest in public sector financial reporting are appointed to IPSASB. These observers have the privilege of the floor but are not entitled to vote.

IPSASB Meetings

8. Each IPSASB meeting requires a quorum of at least ten appointed members, in person or by simultaneous telecommunications link.
9. IPSASB meetings to discuss the development and to approve the issuance of IPSASs or other papers are open to the public. Agenda papers, including the minutes of the meetings of the IPSASB, are published on the IPSASB's web site.

Scope and Authority of International Public Sector Accounting Standards

10. The IPSASB develops IPSASs which apply to the accrual basis of accounting and IPSASs which apply to the cash basis of accounting.
11. IPSASs set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events in general purpose financial statements.
12. The IPSASs are designed to apply to the general purpose financial statements of all public sector entities. Public sector entities include national governments, regional governments (for example, state, provincial, territorial), local governments (for example, city, town) and their component entities (for example, departments, agencies, boards, commissions), unless otherwise stated. The Standards do not apply to Government Business Enterprises. Government Business Enterprises apply International Financial

Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board (IASB). IPSASs include a definition of Government Business Enterprises.

13. Any limitation of the applicability of specific IPSASs is made clear in those standards. IPSASs are not meant to apply to immaterial items.

14. The IPSASB has adopted the policy that all paragraphs in IPSASs shall have equal authority, and that the authority of a particular provision shall be determined by the language used. To avoid any unintended consequences the IPSASB has determined to apply this policy progressively as it reviews and reissues previously issued IPSASs. Consequently, IPSASs approved by the IPSASB after January 1, 2006 include paragraphs in bold and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. An individual IPSAS should be read in the context of the objective and Basis for Conclusions (if any) stated in that IPSAS and this Preface.

General Purpose Financial Statements

~~14.15.~~ Financial statements issued for users that are unable to demand financial information to meet their specific information needs are general purpose financial statements. Examples of such users are citizens, voters, their representatives and other members of the public. The term “financial statements” used in this Preface and in the standards covers all statements and explanatory material which are identified as being part of the general purpose financial statements.

~~15.16.~~ When the accrual basis of accounting underlies the preparation of the financial statements, the financial statements will include the statement of financial position, the statement of financial performance, the cash flow statement and the statement of changes in net assets/equity. When the cash basis of accounting underlies the preparation of the financial statements, the primary financial statement is the statement of cash receipts and payments.

~~16.17.~~ In addition to preparing general purpose financial statements, an entity may prepare financial statements for other parties (such as governing bodies, the legislature and other parties who perform an oversight function) who can demand financial statements tailored to meet their specific information needs. Such statements are referred to as special purpose financial statements. The IPSASB encourages the use of IPSASs in the preparation of special purpose financial statements where appropriate.

IPSASs for the Accrual and Cash Bases

~~17.18.~~ The IPSASB develops accrual IPSASs that:

- Are converged with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) by

adapting them to a public sector context when appropriate. In undertaking that process, the IPSASB attempts, wherever possible, to maintain the accounting treatment and original text of the IFRSs unless there is a significant public sector issue which warrants a departure; and

- Deals with public sector financial reporting issues that are either not comprehensively dealt with in existing IFRSs or for which IFRSs have not been developed by the IASB.

18-19. As many accrual-based IPSASs are based on IFRSs, the IASB's "Framework for the Preparation and Presentation of Financial Statements" is a relevant reference for users of IPSASs

19-20. The IPSASB has also issued a comprehensive Cash Basis IPSAS that includes mandatory and encouraged disclosures sections.

Moving from the Cash Basis to the Accrual Basis

20-21. The Cash Basis IPSAS encourages an entity to voluntarily disclose accrual-based information, although its core financial statements will nonetheless be prepared under the cash basis of accounting. An entity in the process of moving from cash accounting to accrual accounting may wish to include particular accrual-based disclosures during this process. The status (for example, audited or unaudited) and location of additional information (for example, in the notes to the financial statements or in a separate supplementary section of the financial report) will depend on the characteristics of the information (for example, reliability and completeness) and any legislation or regulations governing financial reporting within a jurisdiction.

21-22. The IPSASB also attempts to facilitate compliance with accrual-based IPSASs through the use of transitional provisions in certain standards. Where transitional provisions exist, they may allow an entity additional time to meet the full requirements of a specific accrual-based IPSAS or provide relief from certain requirements when initially applying an IPSAS. An entity may at any time elect to adopt the accrual basis of accounting in accordance with IPSASs. At this point, the entity shall apply all the accrual-based IPSASs and could choose to apply any transitional provisions in an individual accrual-based IPSAS.

22-23. Having decided to adopt accrual accounting in accordance with IPSASs, the transitional provisions would govern the length of time available to make the transition. On the expiry of the transitional provisions, the entity shall report in full in accordance with all accrual-based IPSASs.

23-24. International Public Sector Accounting Standard (IPSAS) 1, "Presentation of Financial Statements" includes the following requirement:

“An entity whose financial statements comply with International Public Sector Accounting Standards should disclose that fact. Financial statements should not be described as complying with International Public Sector Accounting Standards unless they comply with all the requirements of each applicable International Public Sector Accounting Standards.”

24.25. IPSAS 1 also requires disclosure of the extent to which the entity has applied any transitional provisions.

Authority of International Public Sector Accounting Standards

25.26. Within each jurisdiction, regulations may govern the issue of general purpose financial statements by public sector entities. These regulations may be in the form of statutory reporting requirements, financial reporting directives and instructions, and/or accounting standards promulgated by governments, regulatory bodies and/or professional accounting bodies in the jurisdiction concerned.

26.27. The IPSASB believes that the adoption of IPSASs, together with disclosure of compliance with them will lead to a significant improvement in the quality of general purpose financial reporting by public sector entities. This, in turn, is likely to lead to better informed assessments of the resource allocation decisions made by governments, thereby increasing transparency and accountability.

27.28. The IPSASB acknowledges the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. Some sovereign governments and national standard-setters have already developed accounting standards that apply to governments and public sector entities within their jurisdiction. IPSASs may assist such standard-setters in the development of new standards or in the revision of existing standards in order to contribute to greater comparability. IPSASs are likely to be of considerable use to jurisdictions that have not yet developed accounting standards for governments and public sector entities. The IPSASB strongly encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs.

28.29. Standing alone, neither the IPSASB nor the accounting profession has the power to require compliance with IPSASs. The success of the IPSASB's efforts is dependent upon the recognition and support for its work from many different interested groups acting within the limits of their own jurisdiction.

Due Process

29.30. The IPSASB adopts a due process for the development of IPSASs that provides the opportunity for comment by interested parties including IFAC member bodies, auditors, preparers (including finance ministries), standard-

setters, and individuals. The IPSASB also consults with its Consultative Group on major projects, technical issues, and work program priorities.

30-31. The IPSASB's due process for projects normally, but not necessarily, includes the following steps:

- Study of national accounting requirements and practice and an exchange of views about the issues with national standard-setters;
- Consideration of pronouncements issued by:
 - the International Accounting Standards Board (IASB);
 - National standard-setters, regulatory authorities and other authoritative bodies;
 - Professional accounting bodies; and
 - Other organizations interested in financial reporting in the public sector;
- Formation of steering committees (SCs), project advisory panels (PAPs) or subcommittees to provide input to the IPSASB on a project;
- Publication of an exposure draft for public comment usually for at least 4 months. This provides an opportunity for those affected by the IPSASB's pronouncements to present their views before the pronouncements are finalized and approved by the IPSASB. The exposure draft will include a basis for conclusion;
- Consideration of all comments received within the comment period on discussion documents and exposure drafts, and to make modifications to proposed standards as considered appropriate in the light of IPSASB's objectives; and
- Publication of an IPSAS which includes a basis for conclusions that explains the steps in the IPSASB's due process and how the IPSASB reached its conclusions.

Steering Committees, Project Advisory Panels and Subcommittees

31-32. The IPSASB may delegate the responsibility for carrying out the necessary research and for preparing exposure drafts of proposed Standards and guidelines or drafts of studies to steering committees, subcommittees or individuals.

32-33. Steering Committees, Project Advisory Panels and subcommittees are chaired by a member of the IPSASB, but can include persons who are not members of the IPSASB or of a member body of IFAC.

Approval arrangements

Item 15.3 *Draft Preface to IPSASs*
IPSASB Paris, July 2006

- | ~~33.34.~~ The draft of a standard, duly revised after the exposure period, is submitted to the IPSASB for approval. If approved by the IPSASB, it is issued as an IPSAS and becomes effective from the date specified in the standard. On occasion, where there are significant unresolved issues associated with an exposure draft, the IPSASB may decide to re-expose a proposed standard.
- | ~~34.35.~~ For the purposes of approving an invitation to comment, exposure draft or a standard, an affirmative vote of at least two-thirds of the voting rights of the IPSASB is required. Each IPSASB member represented on the IPSASB has one vote.

Language

~~35.~~36. The approved text of a pronouncement is that published by IPSASB in the English language. Member bodies of IFAC are authorized to prepare, after obtaining IFAC approval, translations of such pronouncements at their own cost, to be issued in the language of their own countries as appropriate.

IPSAS 1—PRESENTATION OF FINANCIAL STATEMENTS

Acknowledgment

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

The approved text of the IASs is that published by IASB in the English language, and copies may be obtained directly from IASB Publications Department, 7th floor, 166 Fleet Street, London EC4A 2DY, United Kingdom.

E-mail: publications@iasb.org

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

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INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 1—PRESENTATION OF FINANCIAL STATEMENTS

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International Public Sector Accounting Standard 1, “Presentation of Financial Statements” (IPSAS 1) is set out in paragraphs 1-155 and Appendices A-B. All the paragraphs have equal authority. IPSAS 1 should be read in the context of its objective, the Basis for Conclusion, and the “Preface to International Public Sector Accounting Standards”. IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

~~The main changes proposed are:~~

Introduction

IN1. International Public Sector Accounting Standard (IPSAS) 1, “Presentation of Financial Statements”, replaces IPSAS 1, “Presentation of Financial Statements” (issued May 2000), and should be applied for annual reporting periods beginning on or after January 1, 2008. Earlier application is encouraged.

Reasons for Revising IPSAS 1

IN2. The International Public Sector Accounting Standards Board developed this revised IPSAS 1 as a response to the International Accounting Standards Board’s project on Improvement to International Accounting Standards and its own policy to converge public sector accounting standards with private sector standards to the extent appropriate.

IN3. In developing this revised IPSAS 1, the IPSASB adopted the policy of amending the IPSAS for those changes made to the former IAS 1, “Presentation of Financial Statements” made as a consequence of the IASB’s improvements project, except where the original IPSAS had varied from the provisions of IAS 1 for a public sector specific reason; such variances are retained in this IPSAS 1 and are noted in the Comparison with IAS 1. Any changes to IAS 1 made subsequent to the IASB’s improvements project have not been incorporated into IPSAS 1.

Changes from Previous Requirements

IN4. The main changes from the previous version of IPSAS 1 are described below.

Scope

~~—IN5. To—~~The Standard does not include 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. These requirements are now included in IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors”.

~~—IN6. To transfer to IPSAS 1 the~~The Standards includes presentation requirements for surplus or deficit for the period, these requirements were previously contained in IPSAS 3.

Definitions

~~—IN7. In paragraph 7~~The Standard:

~~a.o~~ ~~to define~~defines two new terms: “impracticable” and “notes”;

~~b.o~~ ~~to change~~s the name of term “materiality” to “material” and amend the definition;

~~c.o~~ ~~to remove~~Removes the following unnecessary terms: “associates”, “borrowing costs”, “cash”, “cash equivalents”, “cash flows”, “consolidated financial statements”, “control”, “controlled entity”, “controlling entity”, “equity method”, “exchange difference”, “fair value”, “financial assets”, “foreign currency”, “foreign operation”, “minority interest”, and “qualifying assets”. These terms are defined in other IPSASs and are reproduced in the “Glossary of Defined Terms IPSASs 1 – 21”; and

~~d.o~~ ~~to remove~~Removes the following terms, which no longer exist: “extraordinary items”, “fundamental errors”, “net surplus/deficit”, “ordinary activities”, “reporting currency” and “surplus/deficit from ordinary activities”. These definitions have also been eliminated in relevant International Public Sector Accounting Standards (IPSASs), e.g. IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” and IPSAS 4, “The Effects of Changes in Foreign Exchange Rates”.

~~—IN8. To~~The Standards include in paragraph 13 the interpretation of the term “materiality” and the notion of characteristics of users. Previously, IPSAS 1 did not contain this commentary.

Fair Presentation and Departure from International Public Sector Accounting Standards (IPSASs)

~~—IN9. To~~The Standard clarify~~clarifies in paragraph 27~~ that fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in IPSASs. Previously, IPSAS 1 did not contain the guidance on the meaning of “fair presentation”.

~~—IN10. To~~The Standard requires that in the extremely rare circumstances in which management concludes that compliance with a requirement in an IPSAS would be so misleading that it would conflict with the objective of financial statements set out in IPSAS 1, ~~to depart~~departure from the requirement unless departure is prohibited by the relevant regulatory framework. In either case, the entity is required to make specified

disclosures. ~~Previously, The superseded~~ IPSAS 1 did not set up the criterion for departure from IPSASs and did not distinguish the circumstances in which the regulatory framework permits or prohibits the departure from IPSASs ~~(paragraphs 31—37).~~

~~—IN11. To The IPSAS does not include requirements related to the selection and application of accounting policies. IPSAS 3 contains such requirements. The superseded IPSAS 1 included requirements related to the selection and application of accounting policies transfer previous paragraphs 37—42 in IPSAS 1, which relate to the selection and application of accounting policies, to IPSAS 3.~~

Classification of Assets and Liabilities

~~—IN12. To The Standard~~ requires ~~in paragraph 70~~ 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, The superseded~~ IPSAS 1 did not contain such limitation.

~~—IN13. To require in paragraph 80 The Standard requires~~ that a liability held primarily for the purpose of being traded be classified as current. ~~The superseded Previously,~~ IPSAS 1 did not specify this criterion for liabilities classified as current.

~~—IN14. To require in paragraphs 83 and 84 The Standard requires~~ that a financial liability that is due within twelve months after the reporting date, or for which the entity does not have an unconditional right to defer its settlement for at least twelve months after the reporting date, is classified as a current liability. This classification is required even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorized for issue. ~~The superseded Previously,~~ IPSAS 1 required such liabilities to be classified as non-current.

~~—IN15. The Standard clarifies To clarify in paragraph 84~~ 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.

~~—IN16. The Standard requires To require in paragraph 85~~ 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. ~~The previous version of~~ Previously, IPSAS 1 required such liabilities to be classified as non-current.

- ~~—IN17. To clarify~~ The Standard clarifies in paragraph 86 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.

Presentation and Disclosure

Statement of Financial Performance

- ~~—IN18. To transfer from IPSAS 3 the section that sets out the~~ The Standard sets out the presentation requirements for surplus or deficit for the period ~~(IPSAS 3 previous paragraphs 10—12) to IPSAS 1 (see paragraphs 99—101).~~ These requirements were previously included in IPSAS 3.

- ~~—IN19. To remove~~ The Standard does not require the presentation of the following line items from the face of the statement of financial performance ~~in paragraph 102 (previous paragraph 101):~~

- ~~a. o~~ surplus or deficit from operating activities;
- ~~b. o~~ surplus or deficit from ordinary activities; and
- ~~c. o~~ extraordinary items.

The superseded IPSAS 1 required the presentation of these items.

- ~~—IN20. To require in paragraph 103~~ The Standard requires the separate presentation, on the face of the statement of financial performance, of the entity's surplus or deficit for the period allocated between: “surplus or deficit attributable to owners of the controlling entity”; and “surplus or deficit attributable to minority interest”. ~~Previously, The superseded~~ IPSAS 1 did not contain these presentation requirements.

Statement of Changes in Net Assets/Equity

- ~~—IN21. To require in paragraph 118~~ The Standard requires the presentation, on the face of the statement of changes in net assets/equity, of the entity's total amount of revenue and expense for the period (including amounts recognized directly in net assets/equity), showing separately the amounts attributable to minority interest and owners of the controlling entity. ~~Previously, The superseded~~ IPSAS 1 did not require presentation of these items.

Notes

~~IN22.~~ ~~To require in paragraphs 137-139~~ The Standard requires 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 (e.g. management's judgment in determining whether assets are investment properties). ~~Previously, The superseded~~ IPSAS 1 did not contain these disclosure requirements.

~~IN23.~~ ~~To require in paragraphs 140-148~~ The Standard requires 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, The superseded~~ IPSAS 1 did not contain these disclosure requirements.

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

Objective

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

Scope

2. **This Standard shall be applied to all general purpose financial statements prepared and presented under the accrual basis of accounting in accordance with International Public Sector Accounting Standards.**
3. General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. Users of general purpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees. General purpose financial statements include those that are presented separately or within another public document such as an annual report. This Standard does not apply to condensed interim financial information.
4. This Standard applies equally to all entities and whether or not they need to prepare consolidated financial statements or separate financial statements, as defined in IPSAS 6, "Consolidated and Separate Financial Statements".
5. **This Standard applies to all public sector entities other than Government Business Enterprises.**
6. The "Preface to International Public Sector Accounting Standards" issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). GBEs are defined in paragraph 7 below.

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Definitions

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

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

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

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

- (a) Conveys entitlement both to distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or
- (b) Can be sold, exchanged, transferred or redeemed.

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

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

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

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

- (a) Is an entity with the power to contract in its own name;
- (b) Has been assigned the financial and operational authority to carry on a business;

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- (c) **Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;**
- (d) **Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and**
- (e) **Is controlled by a public sector entity.**

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

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

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

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

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

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

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

Economic Entity

8. 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.

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9. Other terms sometimes used to refer to an economic entity include “administrative entity”, “financial entity”, “consolidated entity” and “group”.
10. 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

11. 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

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

Materiality

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

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Net Assets/Equity

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

Purpose of Financial Statements

15. Financial statements are a structured representation of the financial position and financial performance of an entity. The objectives of general purpose financial statements are to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically, the objectives of general purpose financial reporting in the public sector should be to provide information useful for decision-making, and to demonstrate the accountability of the entity for the resources entrusted to it by:
- (a) Providing information about the sources, allocation and uses of financial resources;
 - (b) Providing information about how the entity financed its activities and met its cash requirements;
 - (c) Providing information that is useful in evaluating the entity’s ability to finance its activities and to meet its liabilities and commitments;
 - (d) Providing information about the financial condition of the entity and changes in it; and
 - (e) Providing aggregate information useful in evaluating the entity’s performance in terms of service costs, efficiency and accomplishments.
16. 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.
17. To meet these objectives, the financial statements provide information about an entity’s:

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- (a) Assets;
- (b) Liabilities;
- (c) Net assets/equity;
- (d) Revenue;
- (e) Expenses;
- (f) Other changes in net assets/equity; and
- (g) Cash flows.

18. Whilst the information contained in financial statements can be relevant for the purpose of meeting the objectives in paragraph 15, it is unlikely to enable all these objectives to be met. This is likely to be particularly so in respect of entities whose primary objective may not be to make a profit, as managers are likely to be accountable for the achievement of service delivery as well as financial objectives. Supplementary information, including non-financial statements, may be reported alongside the financial statements in order to provide a more comprehensive picture of the entity's activities during the period.

Responsibility for Financial Statements

19. 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).
20. The responsibility for the preparation of the consolidated financial statements of the government as a whole usually rests jointly with the head of the central finance agency (or the senior finance official, such as the controller or accountant-general) and the finance minister (or equivalent).

Components of Financial Statements

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

- (a) **A statement of financial position;**
- (b) **A statement of financial performance;**

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- (c) **A statement of changes in net assets/equity;**
 - (d) **A cash flow statement; and**
 - (e) **Notes, comprising a summary of significant accounting policies and other explanatory notes.**
22. The components listed in paragraph 21 are referred to by a variety of names both within and across jurisdictions. The statement of financial position may also be referred to as a balance sheet or statement of assets and liabilities. The statement of financial performance may also be referred to as a statement of revenues and expenses, an income statement, an operating statement, or a profit and loss statement. The notes may include items referred to as “schedules” in some jurisdictions.
23. 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.
24. 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.

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25. 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.
26. 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

27. **Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in IPSASs. The application of International Public Sector Accounting Standards, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.**
28. **An entity whose financial statements comply with International Public Sector Accounting Standards shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with International Public Sector Accounting Standards unless they comply with all the requirements of International Public Sector Accounting Standards.**
29. 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

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management considers in the absence of a Standard that specifically applies to an item.

- (b) To present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
 - (c) To provide additional disclosures when compliance with the specific requirements in International Public Sector Accounting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.
- 30. Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material.**
- 31. In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this IPSAS, the entity shall depart from that requirement in the manner set out in paragraph 32 if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.**
- 32. When an entity departs from a requirement of a Standard in accordance with paragraph 31, it shall disclose:**
- (a) That management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;
 - (b) That it has complied with applicable International Public Sector Accounting Standards, except that it has departed from a particular requirement to achieve a fair presentation;
 - (c) The title of the Standard from which the entity has departed, the nature of the departure, including the treatment that the Standard would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in this IPSAS, and the treatment adopted; and
 - (d) For each period presented, the financial impact of the departure on each item in the financial statements that would have been reported in complying with the requirement.
- 33. When an entity has departed from a requirement of a Standard in a prior period, and that departure affects the amounts recognized in the**

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financial statements for the current period, it shall make the disclosures set out in paragraph 32(c) and (d).

34. Paragraph 33 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.
35. **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.**
36. For the purpose of paragraphs 31-35, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence decisions made by users of financial statements. When assessing whether complying with a specific requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this IPSAS, management considers:
- (a) Why the objective of financial statements is not achieved in the particular circumstances; and
 - (b) How the entity's circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of the financial statements set out in this IPSAS.
37. Departures from the requirements of an International Public Sector Accounting Standard in order to comply with statutory/legislative financial

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reporting requirements in a particular jurisdiction do not constitute departures that conflict with the objective of financial statements set out in this IPSAS as outlined in paragraph 31. If such departures are material an entity cannot claim to be complying with International Public Sector Accounting Standards.

Going Concern

38. **When preparing financial statements an assessment of an entity's ability to continue as a going concern shall be made. This assessment shall be made by those responsible for the preparation of financial statements. Financial statements shall be prepared on a going concern basis unless there is an intention to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so. When those responsible for the preparation of the financial statements are aware, in making their assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.**
39. Financial statements are normally prepared on the assumption that the entity is a going concern and will continue in operation and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate, those responsible for the preparation of financial statements take into account all available information about the future, which is at least, but is not limited to, twelve months from the approval of the financial statements.
40. 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

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funding agreements, or other arrangements, in place that will ensure the continued operation of the entity.

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

Consistency of Presentation

42. **The presentation and classification of items in the financial statements shall be retained from one period to the next unless:**
- (a) **It is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in IPSAS 3; or**
 - (b) **An International Public Sector Accounting Standard requires a change in presentation.**
43. A significant acquisition or disposal, or a review of the presentation of the financial statements, might suggest that the financial statements need to be presented differently. For example, an entity may dispose of a savings bank that represents one of its most significant controlled entities and the remaining economic entity conducts mainly administrative and policy advice services. In this case, the presentation of the financial statements based on the principal activities of the economic entity as a financial institution is unlikely to be relevant for the new economic entity.
44. An entity changes the presentation of its financial statements only if the changed presentation provides information that is reliable and is more relevant to users of the financial statements and the revised structure is likely to continue, so that comparability is not impaired. When making such changes in presentation, an entity reclassifies its comparative information in accordance with paragraph 55 and 56.

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Materiality and Aggregation

45. **Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately unless they are immaterial.**
46. Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity and cash flow statement, or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of those statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of those statements may nevertheless be sufficiently material for it to be presented separately in the notes.
47. Applying the concept of materiality means that a specific disclosure requirement in an International Public Sector Accounting Standard need not be satisfied if the information is not material.

Offsetting

48. **Assets and liabilities, and revenue and expenses, shall not be offset unless required or permitted by an International Public Sector Accounting Standard.**
49. It is important that assets and liabilities, and revenue and expenses, are reported separately. Offsetting in the statement of financial performance or the statement of financial position, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity's future cash flows. Measuring assets net of valuation allowances – for example, obsolescence allowances on inventories and doubtful debts allowances on receivables - is not offsetting.
50. IPSAS 9, "Revenue from Exchange Transactions" defines revenue and requires it to be measured at the fair value of consideration received or receivable, taking into account the amount of any trade discounts and volume rebates allowed by the entity. An entity undertakes, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. The results of such transactions are presented, when this presentation reflects the substance of the transaction or other event, by netting any revenue with related expenses arising on the same transaction. For example:

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- (a) Gains and losses on the disposal of non-current assets, including investments and operating assets, are reported by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses; and
- (b) Expenses related to a provision that is recognized in accordance with IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets" and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) may be netted against the related reimbursement.

- 51. In addition, gains and losses arising from a group of similar transactions are reported on a net basis, for example, foreign exchange gains and losses and gains and losses arising on financial instruments held for trading. Such gains and losses are, however, reported separately if they are material.
- 52. The offsetting of cash flows is dealt with in International Public Sector Accounting Standard IPSAS 2, "Cash Flow Statements".

Comparative Information

- 53. **Except when an International Public Sector Accounting Standard permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.**
- 54. In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, details of a legal dispute, the outcome of which was uncertain at the last reporting date and is yet to be resolved, are disclosed in the current period. Users benefit from information that the uncertainty existed at the last reporting date, and about the steps that have been taken during the period to resolve the uncertainty.
- 55. **When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified unless the reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose:**
 - (a) **The nature of the reclassification;**
 - (b) **The amount of each item or class of items that is reclassified; and**
 - (c) **The reason for the reclassification.**
- 56. **When it is impracticable to reclassify comparative amounts, an entity shall disclose:**

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- (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.**

57. Enhancing the inter-period comparability of information assists users in making and evaluating decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior period to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows reclassification, and it may not be practicable to recreate the information.
58. IPSAS 3 deals with the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.

Structure and Content

Introduction

59. This Standard requires particular disclosures on the face of the statement of financial position, statement of financial performance and statement of changes in net assets/equity and requires disclosure of other line items either on the face of those statements or in the notes. IPSAS 2 sets out requirements for the presentation of a cash flow statement.
60. This Standard sometimes uses the term ‘disclosure’ in a broad sense, encompassing items presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity and cash flow statement, as well as in the notes. Disclosures are also required by other International Public Sector Accounting Standards. Unless specified to the contrary elsewhere in this Standard, or in another Standard, such disclosures are made either on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity or cash flow statement (whichever is relevant), or in the notes.

Identification of the Financial Statements

61. **The financial statements shall be identified clearly and distinguished from other information in the same published document.**
62. International Public Sector Accounting Standards apply only to financial statements, and not to other information presented in an annual report or other document. Therefore, it is important that users can distinguish information that is prepared using International Public Sector Accounting

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Standards from other information that may be useful to users but is not the subject of those requirements.

- 63. Each component of the financial statements shall be identified clearly. In addition, the following information shall be displayed prominently, and repeated when it is necessary for a proper understanding of the information presented:**
- (a) **The name of the reporting entity or other means of identification and any change in that information from the preceding reporting date;**
 - (b) **Whether the financial statements cover the individual entity or the economic entity;**
 - (c) **The reporting date or the period covered by the financial statements, whichever is appropriate to that component of the financial statements;**
 - (d) **The presentation currency, as defined in IPSAS 4, “The Effects of Changes in Foreign Exchange Rates”; and**
 - (e) **The level of rounding used in presenting amounts in the financial statements.**
64. The requirements in paragraph 63 are normally met by presenting page headings and abbreviated column headings on each page of the financial statements. Judgment is required in determining the best way of presenting such information. For example, when the financial statements are presented electronically, separate pages are not always used; the above items are then presented frequently enough to ensure a proper understanding of the information included in the financial statements.
65. Financial statements are often made more understandable by presenting information in thousands or millions of units of the presentation currency. This is acceptable as long as the level of rounding in presentation is disclosed and material information is not omitted.

Reporting Period

- 66. Financial statements shall be presented at least annually. When an entity’s reporting date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:**
- (a) **the reason for using a longer or shorter period; and**
 - (b) **the fact that comparative amounts for certain statements such as the statement of financial performance, statement of changes in**

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net assets/equity, cash flow statement and related notes are not entirely comparable.

67. 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.
68. Normally, financial statements are consistently prepared covering a one-year period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This Standard does not preclude this practice, because the resulting financial statements are unlikely to be materially different from those that would be presented for one year.

Timeliness

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

Statement of Financial Position

Current/Non-current Distinction

70. **An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement of financial position in accordance with paragraphs 76-87 except when a presentation based on liquidity provides information that is reliable and is more relevant. When that exception applies, all assets and liabilities shall be presented broadly in order of liquidity.**
71. **Whichever method of presentation is adopted, for each asset and liability line item that combines amounts expected to be recovered or settled (a) no more than twelve months after the reporting date and (b) more than twelve months after the reporting date, an entity shall disclose the amount expected to be recovered or settled after more than twelve months.**

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72. 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.
73. 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.
74. In applying paragraph 70, 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.
75. Information about expected dates of realization of assets and liabilities is useful in assessing the liquidity and solvency of an entity. IPSAS 15, "Financial Instruments: Disclosure and Presentation" requires disclosure of the maturity dates of financial assets and financial liabilities. -Financial assets include trade and other receivables, and financial liabilities include trade and other payables. -Information on the expected date of recovery and settlement of non-monetary assets and liabilities such as inventories and provisions is also useful, whether or not assets and liabilities are classified as current or non-current.

Current Assets

- 76. An asset shall be classified as current when it satisfies any of the following criteria:**
- (a) **it is expected to be realized in, or is held for sale or consumption in, the entity's normal operating cycle;**
 - (b) **it is held primarily for the purpose of being traded;**
 - (c) **it is expected to be realized within twelve months after the reporting date; or**
 - (d) **it is cash or a cash equivalent (as defined in IPSAS 2, "Cash Flow Statements") unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.**

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All other assets shall be classified as non-current.

77. This Standard uses the term “non-current assets” to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.
78. 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.
79. Current assets include assets (such as taxes receivable, user charges receivable, fines and regulatory fees receivable, inventories and accrued investment revenue) that are either realized, consumed or sold, as part of the normal operating cycle even when they are not expected to be realized within twelve months after the reporting date. Current assets also include assets held primarily for the purpose of being traded (guidance on classification of financial assets can be found in the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments) and the current portion of non-current financial assets.

Current Liabilities

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

- (a) **It is expected to be settled in the entity’s normal operating cycle;**
- (b) **It is held primarily for the purpose of being traded;**
- (c) **It is due to be settled within twelve months after the reporting date; or**
- (d) **The entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.**

All other liabilities shall be classified as non-current.

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

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82. Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting date or held primarily for the purpose of being traded. Examples are financial liabilities classified held for trading (guidance on classification of financial liabilities can be found in the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments), bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting date are non-current liabilities, subject to paragraphs 85 and 86.
83. An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting date, even if:
- (a) The original term was for a period longer than twelve months; and
 - (b) An agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorized for issue.
84. If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting date under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no agreement to refinance), the potential to refinance is not considered and the obligation is classified as current.
85. When an entity breaches an undertaking under a long-term loan agreement on or before the reporting date with the effect that the liability becomes payable on demand, the liability is classified as current, even if the lender has agreed, after the reporting date and before the authorization of the financial statements for issue, not to demand payment as a consequence of the breach. The liability is classified as current because, at the reporting date, the entity does not have an unconditional right to defer its settlement for at least twelve months after that date.
86. 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.
87. In respect of loans classified as current liabilities, if the following events occur between the reporting date and the date the financial statements are

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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

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

- (a) **Property, plant and equipment;**
- (b) **Investment property;**
- (c) **Intangible assets;**
- (d) **Financial assets (excluding amounts shown under (e), (g), (h) and (i));**
- (e) **Investments accounted for using the equity method;**
- (f) **Inventories;**
- (g) **Recoverables from non-exchange transactions, including taxes and transfers;**
- (h) **Receivables from exchange transactions;**
- (i) **Cash and cash equivalents;**
- (j) **Taxes and transfers payable;**
- (k) **Payables under exchange transactions;**
- (l) **Provisions;**
- (m) **Financial liabilities (excluding amounts shown under (j), (k) and (l));**
- (n) **Minority interest, presented within net assets/equity; and**
- (o) **Net assets/equity attributable to owners of the controlling entity.**

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

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90. This Standard does not prescribe the order or format in which items are to be presented. Paragraph 88 simply provides a list of items that are sufficiently different in nature or function to warrant separate presentation on the face of the statement of financial position. Illustrative formats are set out in Implementation Guidance to this Standard. In addition:
- (a) Line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and
 - (b) The descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position.
91. The judgment on whether additional items are presented separately is based on an assessment of:
- (a) The nature and liquidity of assets;
 - (b) The function of assets within the entity; and
 - (c) The amounts, nature and timing of liabilities.
92. 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

93. **An entity shall disclose, either on the face of the statement of financial position or in the notes, further subclassifications of the line items presented, classified in a manner appropriate to the entity's operations.**
94. The detail provided in subclassifications depends on the requirements of International Public Sector Accounting Standards and on the size, nature and function of the amounts involved. The factors set out in paragraph 91 also are used to decide the basis of subclassification. The disclosures vary for each item, for example:
- (a) Items of property, plant and equipment are disaggregated into classes in accordance with IPSAS 17;
 - (b) Receivables are disaggregated into amounts receivable from user charges, taxes and other non-exchange revenues, receivables from related parties, prepayments and other amounts;

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- (c) Inventories are subclassified in accordance with IPSAS 12, “Inventories”, into classifications such as merchandise, production supplies, materials, work in progress and finished goods;
 - (d) Taxes and transfers payable are disaggregated into tax refunds payable, transfers payable, and amounts payable to other members of the economic entity;
 - (e) Provisions are disaggregated into provisions for employee benefits and other items; and
 - (f) Components of net assets/equity are disaggregated into contributed capital, accumulated surpluses and deficits and reserves.
95. **When an entity has no share capital, it shall disclose net assets/equity, either on the face of the statement of financial position or in the notes, showing separately:**
- (a) **Contributed capital, being the cumulative total at the reporting date of contributions from owners, less distributions to owners;**
 - (b) **Accumulated surpluses or deficits;**
 - (c) **Reserves, including a description of the nature and purpose of each reserve within net assets/equity; and**
 - (d) **Minority interests.**
96. Many public sector entities will not have share capital but the entity will be controlled exclusively by another public sector entity. The nature of the government’s interest in the net assets/equity of the entity is likely to be a combination of contributed capital and the aggregate of the entity’s accumulated surpluses or deficits and reserves that reflect the net assets/equity attributable to the entity’s operations.
97. 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.
98. **When an entity has share capital, in addition to the disclosures in paragraph 95, it shall disclose the following, either on the face of the statement of financial position or in the notes:**
- (a) **For each class of share capital:**
 - (i) **The number of shares authorized;**
 - (ii) **The number of shares issued and fully paid, and issued but not fully paid;**

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- (iii) **Par value per share, or that the shares have no par value;**
 - (iv) **A reconciliation of the number of shares outstanding at the beginning and at the end of the year;**
 - (v) **The rights, preferences and restrictions attaching to that class, including restrictions on the distribution of dividends and the repayment of capital;**
 - (vi) **Shares in the entity held by the entity or by its controlled entities or associates; and**
 - (vii) **Shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts; and**
- (b) **A description of the nature and purpose of each reserve within net assets/equity.**

Statement of Financial Performance

Surplus or Deficit for the Period

99. **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.**
100. Normally, all items of revenue and expense recognized in a period are included in surplus or deficit. This includes the effects of changes in accounting estimates. However, circumstances may exist when particular items may be excluded from surplus or deficit for the current period. IPSAS 3 deals with two such circumstances: the correction of errors and the effect of changes in accounting policies.
101. Other Standards deal with items that may meet definitions of revenue or expense set out in this IPSAS but are usually excluded from surplus or deficit. Examples include revaluation surpluses (see IPSAS 17), particular gains and losses arising on translating the financial statements of a foreign operation (see IPSAS 4) and gains or losses on remeasuring available-for-sale financial assets (guidance on measurement of financial assets can be found in the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments).

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

102. **As a minimum, the face of the statement of financial performance shall include line items that present the following amounts for the period:**
- (a) **Revenue;**

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- (b) **Finance costs;**
 - (c) **Share of the surplus or deficit of associates and joint ventures accounted for using the equity method;**
 - (d) **Pre-tax gain or loss recognized on the disposal of assets or settlement of liabilities attributable to discontinuing operations; and**
 - (e) **Surplus or deficit.**
- 103. The following items shall be disclosed on the face of the statement of financial performance as allocations of surplus or deficit for the period:**
- (a) **Surplus or deficit attributable to minority interest; and**
 - (b) **Surplus or deficit attributable to owners of the controlling entity.**
- 104. Additional line items, headings and subtotals shall be presented on the face of the statement of financial performance when such presentation is relevant to an understanding of the entity's financial performance.**
- 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 disclosing the components of financial performance assists in an understanding of the financial performance achieved and in making projections of future results. Additional line items are included on the face of the statement of financial performance, and the descriptions used and the ordering of items are amended when this is necessary to explain the elements of performance. Factors to be considered include materiality and the nature and function of the components of revenue and expenses. Revenue and expense items are not offset unless the criteria in paragraph 48 are met.

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

- 106. When items of revenue and expense are material, their nature and amount shall be disclosed separately.**
- 107.** Circumstances that would give rise to the separate disclosure of items of revenue and expense include:
- (a) Write-downs of inventories to net realizable value or of property, plant and equipment to recoverable amount or recoverable service amount as appropriate, as well as reversals of such write-downs;
 - (b) Restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
 - (c) Disposals of items of property, plant and equipment;

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- (d) Privatizations or other disposals of investments;
- (e) Discontinuing operations;
- (f) Litigation settlements; and
- (g) Other reversals of provisions.

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

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

110. Entities are encouraged to present the analysis in paragraph 109 on the face of the statement of financial performance.

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

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

Revenue		X
Employee benefits costs	X	
Depreciation and amortization expense	X	
Other expenses	X	
Total expenses	<hr/>	(X) <hr/>
Surplus		<hr/> <hr/> X <hr/> <hr/>

113. The second form of analysis is the function of expense method and classifies expenses according to the program or purpose for which they were made. This method can provide more relevant information to users

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than the classification of expenses by nature, but allocating costs to functions may require arbitrary allocations and involves considerable judgment. An example of a classification using the function of expense method is as follows:

Revenue	X
Expenses:	
Health expenses	(X)
Education expenses	(X)
Other expenses	(X)
	<hr/>
Surplus	X
	<hr/> <hr/>

114. 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.
115. **Entities classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortization expense and employee benefits expense.**
116. The choice between the function of expense method and the nature of expense method depends on historical and regulatory factors and the nature of the entity. Both methods provide an indication of those costs that might vary, directly or indirectly, with the outputs of the entity. Because each method of presentation has its merits for different types of entities, this Standard requires management to select the most relevant and reliable presentation. Guidance on the meaning of “employee benefits” specified in paragraph 115 can be found in the relevant international or national accounting standard dealing with employee benefits.
117. **When an entity provides a dividend to its owners and has share capital, it shall disclose, either on the face of the statement of financial performance or the statement of changes in net assets/equity, or in the notes, the amount of dividends recognized as distributions to owners during the period, and the related amount per share.**

Statement of Changes in Net Assets/Equity

118. **An entity shall present a statement of changes in net assets/equity showing on the face of the statement:**
- (a) **Surplus or deficit for the period;**

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- (b) **Each item of revenue and expense for the period that, as required by other Standards, is recognized directly in net assets/equity, and the total of these items;**
 - (c) **Total revenue and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to owners of the controlling entity and to minority interest; and**
 - (d) **For each component of net assets/equity separately disclosed, the effects of changes in accounting policies and corrections of errors recognized in accordance with IPSAS 3.**
- 119. An entity shall also present, either on the face of the statement of changes in net assets/equity or in the notes:**
- (a) **The amounts of transactions with owners acting in their capacity as owners, showing separately distributions to owners;**
 - (b) **The balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date, and the changes during the period; and**
 - (c) **To the extent that components of net assets/equity are separately disclosed, a reconciliation between the carrying amount of each component of net assets/equity at the beginning and the end of the period, separately disclosing each change.**
- 120.** Changes in an entity's net assets/equity between two reporting dates reflect the increase or decrease in its net assets during the period.
- 121.** The overall change in net assets/equity during a period represents the total amount of surplus or deficit for the period, other revenues and expenses recognized directly as changes in net assets/equity, together with any contributions by, and distributions to, owners in their capacity as owners.
- 122.** 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.
- 123.** This Standard requires all items of revenue and expense recognized in a period to be included in surplus or deficit unless another International Public Sector Accounting Standard requires otherwise. Other Standards require some items (such as revaluation increases and decreases, particular foreign exchange differences) to be recognized directly as changes in net

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assets/equity. Because it is important to consider all items of revenue and expense in assessing changes in an entity's financial position between two reporting dates, this Standard requires the presentation of a statement of changes in net assets/equity that highlights an entity's total revenue and expenses, including those that are recognized directly in net assets/equity.

124. 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 118(d) requires disclosure in the statement of changes in net assets/equity of the total adjustment to each component of net assets/equity separately disclosed resulting, separately, from changes in accounting policies and from corrections of errors. These adjustments are disclosed for each prior period and the beginning of the period.
125. The requirements in paragraphs 118 and 119 may be met by using a columnar format that reconciles the opening and closing balances of each element within net assets/equity. An alternative is to present only the items set out in paragraph 118 in the statement of changes in net assets/equity. Under this approach, the items described in paragraph 119 are shown in the notes.

Cash Flow Statement

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

Notes

Structure

127. **The notes shall:**
 - (a) **Present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 132-139;**
 - (b) **Disclose the information required by International Public Sector Accounting Standards that is not presented on the face of the**

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statement of financial position, statement of financial performance, statement of changes in net assets/equity or cash flow statement; and

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

128. **Notes shall, as far as practicable, be presented in a systematic manner. Each item on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity and cash flow statement shall be cross-referenced to any related information in the notes.**
129. Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them with financial statements of other entities:
 - (a) A statement of compliance with International Public Sector Accounting Standards (see paragraph 28);
 - (b) A summary of significant accounting policies applied (see paragraph 132);
 - (c) Supporting information for items presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity or cash flow statement, in the order in which each statement and each line item is presented; and
 - (d) Other disclosures, including:
 - (i) Contingent liabilities (see IPSAS 19), and unrecognized contractual commitments; and
 - (ii) Non-financial disclosures, eg the entity's financial risk management objectives and policies (see IPSAS 15).
130. In some circumstances, it may be necessary or desirable to vary the ordering of specific items within the notes. For example, information on changes in fair value recognized in surplus or deficit may be combined with information on maturities of financial instruments, although the former disclosures relate to the statement of financial performance and the latter relate to the statement of financial position. Nevertheless, a systematic structure for the notes is retained as far as practicable.
131. Notes providing information about the basis of preparation of the financial statements and specific accounting policies may be presented as a separate component of the financial statements.

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Disclosure of Accounting Policies

- 132. An entity shall disclose in the summary of significant accounting policies:**
- (a) The measurement basis (or bases) used in preparing the financial statements;**
 - (b) The extent to which the entity has applied any transitional provisions in any International Public Sector Accounting Standard; and**
 - (c) The other accounting policies used that are relevant to an understanding of the financial statements.**
133. It is important for users to be informed of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realizable value, fair value, recoverable amount or recoverable service amount) because the basis on which the financial statements are prepared significantly affects their analysis. When more than one measurement basis is used in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.
134. In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IPSASs. An example is disclosure of whether a venturer recognizes its interest in a jointly controlled entity using proportionate consolidation or the equity method (see IPSAS 8, “Interests in Joint Ventures”). Some Standards specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, IPSAS 17 requires disclosure of the measurement bases used for classes of property, plant and equipment. IPSAS 5, “Borrowing Costs” requires disclosure of whether borrowing costs are recognized immediately as an expense or capitalized as part of the cost of qualifying assets.
135. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, public sector entities would be expected to disclose an accounting policy for recognition of taxes, donations and other forms of non-exchange revenue. When an entity has significant foreign operations or transactions in foreign currencies, disclosure of accounting policies for the recognition of foreign exchange gains and losses would be expected. When

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entity combinations have occurred, the policies used for measuring goodwill and minority interest are disclosed.

136. An accounting policy may be significant because of the nature of the entity's operation even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by International Public Sector Accounting Standards, but is selected and applied in accordance with IPSAS 3.
137. **An entity shall disclose, in the summary of significant accounting policies or other notes, the judgments, apart from those involving estimations (see paragraph 140), 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.**
138. 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.
139. Some of the disclosures made in accordance with paragraph 137 are required by other Standards. For example, IPSAS 6 requires an entity to disclose the reasons why the entity's ownership interest does not constitute control, in respect of an investee that is not a controlled entity even though more than half of its voting or potential voting power is owned directly or indirectly through controlled entities. IPSAS 16 requires disclosure of the criteria developed by the entity to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, when classification of the property is difficult.

Key Sources of Estimation Uncertainty

140. **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**

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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.**
141. Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the reporting date. For example, in the absence of recently observed market prices used to measure the following assets and liabilities, future-oriented estimates are necessary to measure the recoverable amount of certain classes of property, plant and equipment, the effect of technological obsolescence on inventories, provisions subject to the future outcome of litigation in progress. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates used and future changes in prices affecting other costs.
142. The key assumptions and other key sources of estimation uncertainty disclosed in accordance with paragraph 140 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.
143. The disclosures in paragraph 140 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).
144. The disclosures in paragraph 140 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;

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- (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.
145. It is not necessary to disclose budget information or forecasts in making the disclosures in paragraph 140.
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 137 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 140.
148. The disclosure of some of the key assumptions that would otherwise be required in accordance with paragraph 140 is required by other Standards. For example, IPSAS 19 requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. IPSAS 15 requires disclosure of significant assumptions applied in estimating fair values of financial assets and financial liabilities that are carried at fair value. IPSAS 17 requires disclosure of significant assumptions applied in estimating fair values of revalued items of property, plant and equipment.

Other Disclosures

149. An entity shall disclose in the notes:

- (a) **The amount of dividends, or similar distributions, 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, or similar distributions, not recognized.**

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

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- (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

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

153. An entity shall apply this International Public Sector Accounting Standard for annual financial statements covering periods beginning on or after ~~MM-January DD1, YYYY2008~~. Earlier application is encouraged. If an entity applies this Standard for a period beginning before ~~MM-January DD1, YYYY2008~~, it shall disclose that fact.
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.

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Withdrawal of IPSAS 1 (2000)

155. This Standard supersedes IPSAS 1, “Presentation of Financial Statements” issued in 2000.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 1
PRESENTATION OF FINANCIAL STATEMENTS**Appendix A****Amendments to Other IPSASs**

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

- A1 In International Public Sector Accounting Standards applicable at MM YYYY:
- (a) references to “net surplus or deficit” are amended to “surplus or deficit”; and
 - (b) references to “notes to the financial statements” are amended to “notes”.

Appendix B**Qualitative Characteristics of Financial Reporting**

This appendix is an integral part of the Standard.

Paragraph 29 of this Standard requires an entity to present information, including accounting policies, in a manner that meets a number of qualitative characteristics. This guidance summarizes the qualitative characteristics of financial reporting.

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

Understandability

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

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

Relevance

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

Materiality

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

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

Reliability

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

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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.

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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.

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Implementation Guidance – Illustrative Financial Statement Structure

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

- IG1. The Standard sets out the components of financial statements and minimum requirements for disclosure on the face of the statement of financial position and the statement of financial performance as well as for the presentation of changes in net assets/equity. It also describes further items that may be presented either on the face of the relevant financial statement or in the notes. This guidance provides simple examples of the ways in which the requirements of the Standard for the presentation of the statement of financial position, statement of financial performance and changes in net assets/equity might be met. The order of presentation and the descriptions used for line items should be changed when necessary in order to achieve a fair presentation in each entity's particular circumstances. For example, line items of a public sector entity such as a defense department are likely to be significantly different from those for a central bank.
- IG2. The illustrative statement of financial position shows one way in which a statement of financial position distinguishing between current and non-current items may be presented. Other formats may be equally appropriate, provided the distinction is clear.
- IG3. The financial statements have been prepared for a national government and the statement of financial performance (by function) illustrates the functions of government classifications used in the Government Finance Statistics. These functional classifications are unlikely to apply to all public sector entities. Refer to this Standard for an example of more generic functional classifications for other public sector entities.
- IG4. The examples are not intended to illustrate all aspects of IPSASs. Nor do they comprise a complete set of financial statements, which would also include a cash flow statement, a summary of significant accounting policies and other explanatory notes.

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**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.

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PUBLIC SECTOR ENTITY – STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 20X2

(in thousands of currency units)

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

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	20X2	20X1
Minority interest	<u>X</u>	<u>X</u>
Total net assets/equity	<u><u>X</u></u>	<u><u>X</u></u>

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

(ILLUSTRATING THE CLASSIFICATION OF EXPENSES BY FUNCTION)

(in thousands of currency units)

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

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

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	20X2	20X1
Minority interests	<u>X</u>	<u>X</u>
	<u>X</u>	<u>X</u>

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

(ILLUSTRATING THE CLASSIFICATION OF EXPENSES BY NATURE)

(in thousands of currency units)

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

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

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

(in thousands of currency units)

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

continued

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

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

(in thousands of currency units)

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

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 1, “Presentation of Financial Statements”..

Background

BC1. The International Public Sector Accounting Standards Board (IPSASB)’s International Financial Reporting Standards (IFRSs) Convergence Program is an important element in IPSASB’s work program. The IPSASB’s policy is to converge the accrual basis International Public Sector Accounting Standards (IPSASs) with IFRSs issued by the International Accounting Standards Board (IASB) where appropriate for public sector entities.

BC2. Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure and text of the IFRSs, unless there is a public sector specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS is not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSASs and their equivalent IFRSs are identified in the ““comparison with IFRS”” included in each IPSAS.

BC3. In May 2002, the IASB issued an exposure draft of proposed amendments to 13 International Accounting Standards (IASs)¹ as part of its General Improvements Project. The objectives of the IASB’s General Improvements project were “to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements.” The final IASs were issued in December 2003.

BC4. IPSAS 1, issued in January 2000 was based on IAS 1 (revised 1997), which was reissued in December 2003. In late 2003, the IPSASB’s predecessor, the Public Sector Committee (PSC)², actioned an IPSAS Improvements Project to converge IPSASs with the improved IASs issued in December 2003 where appropriate. In developing the IPSAS Improvements Project, the IPSASB adopted a policy of making only those changes to IPSASs

¹ The International Accounting Standards (IASs) were issued by the IASB’s predecessor – the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRSs). The IASB has defined IFRSs to consist of IFRSs, IASs and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IASs, in which case the old IAS number remains.

² The PSC became the IPSASB when the IFAC Board changed the PSC’s mandate to become an independent standard-setting board in November 2004.

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related to changes made to the equivalent IAS as part of the IASB's Improvements Project, subsequent changes to IASs have not been included. Where the original IPSAS varied from the provisions of the related IAS, to better cater for the financial reporting requirements of the public sector, the IPSASB has retained those variations and identified them in the Comparison with IAS 1.

BC5. The IPSASB reviewed the improved IAS 1 and generally concurred with the IASB's reasons for revising the IAS and with the amendments made. (The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Bases for Conclusions on the IASB's website - www.iasb.org). In some limited cases, the IPSASB disagreed with the amendments made to the IAS. Consequently, the IPSAS departs from its equivalent IAS in this respect. This Basis for Conclusions explains the public sector specific reasons for any departure.

BC6. IAS 1 has been further amended as a consequence of IFRSs issued after December 2003. IPSAS 1 does not include the consequential amendments arising from IFRSs issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRSs to public sector entities.

Income

BC7. IAS 1 uses the term "income", which is not used in IPSAS 1. IPSAS 1 uses "revenue", which is identically defined to "revenue" in the IASs/IFRSs. The term "income" is broader than revenue, encompassing gains in addition to revenue. The IPSASs do not include a definition of income and introducing such a definition was not part of the improvements project and was not included in the ED 26. The IPSASB is initiating the development of a conceptual framework that may deal with matters such as the definition of "income".

Extraordinary Items

BC8. IAS 1, "Presentation of Financial Statement" prohibits an entity from presenting any item of income or expense as extraordinary items, either on the face of the income statement or in the notes. The IASB concluded that "items treated as extraordinary result from the normal business risks faced by an entity and do not warrant presentation in a separate component of the income statement. The nature or function of a transaction or other event, rather than its frequency, should determine its presentation within the income statement."

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BC9. The definition of extraordinary items in IPSAS 1 (2000), “Presentation of Financial Statements” differed from the definition included in the previous (1993) version of IAS 8, “Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies”³. This difference reflected the public sector view of what constituted an extraordinary item for public sector entities.

BC10. The majority of the IPSASB members are of the view that IPSASs should not prohibit entities from disclosing extraordinary items in the notes to, or on the face of, the statement of financial performance. This is because they believe that the disclosure of information about extraordinary items may be consistent with the objectives and qualitative characteristics of financial reporting. However, other members are of the view that there is not a public sector specific reason to depart from the requirements of IAS 1 in respect of this matter. They also note noted that IPSAS 1 does not preclude the separate presentation of items that are distinct from the ordinary activities of a government, either on the face of the financial statements or in the notes, as long as these items are material. They are not convinced that there is a public sector specific reason to depart from the IASB’s prohibition on presenting “extraordinary items” in the financial statements.

³ IPSAS 1 (2000) ~~defines~~ defined extraordinary items as “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”. IAS 8 defined ‘extraordinary items’ as “income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and therefore are not expected to recur frequently or regularly.”

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PRESENTATION OF FINANCIAL STATEMENTS

Table of Concordance

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

Superseded IPSAS 1 paragraphs	Current IPSAS 1 paragraph	Superseded IPSAS 1 paragraphs	Current IPSAS 1 paragraph	Superseded IPSAS 1 paragraphs	Current IPSAS 1 paragraph
Objective	1	26	28	50	45
1	2	27	30	51	46
2	3	28	31	52	None
3	4	29	None	53	47
4	5	30	None	54	48
5	6	31	37	55	48
6	7	32	29	56	49
7	None	33	None	57	50
8	None	34	36	58	51
9	None	35	None	59	52
10	11	36	None	60	53
11	12	37	IPSAS 3.12	61	54
12	14	38	IPSAS 3.13	62	55
13	15	39	IPSAS 3.14	63	57,58
14	16	40	IPSAS 3.7	64	59
15	17	41	IPSAS 3.15	65	60
16	18	42	IPSAS 3.16	66	61
17	19	43	38	67	62
18	20	44	39	68	63
19	21	45	40	69	64
20	22	46	41	70	65
21	23	47	42	71	66
22	24	48	43	72	67
23	25	49	44	73	68
24	26			74	69
25	27			75	70

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 1
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Superseded IPSAS 1 paragraphs	Current IPSAS 1 paragraph	Superseded IPSAS 1 paragraphs	Current IPSAS 1 paragraph	Superseded IPSAS 1 paragraphs	Current IPSAS 1 paragraph
76	71	106	110	136	153
77	72	107	111	137	154
78	75	108	112	Appendix 1	IG
79	76	109	113	Appendix 2	Appendix B
80	77	110	114	None	33-35
81	78	111	115	None	56
82	79	112	116	None	70 74
83	80	113	117	None	87
84	81	114	118	IPSAS 3.10-12	99-101
85	82	115	119	None	103
86	83	116	120	IPSAS 3.26,28	106, 107
87	84	117	121	None	124
88	85,86	118	122	None	137-139
89	88	119	123	None	140-148
90	89	120	125	None	149
91	90	121	126	None	155
92	None	122	127	None	Appendix A
93	91	123	128		
94	92	124	None		
95	93	125	129		
96	94	126	130		
97	95	127	131		
98	96	128	132		
99	97	129	133		
100	98	130	134		
101	102,104	131	135		
102	None	132	136		
103	105	133	150		
104	108	134	151		
105	109	135	152		

Comparison with IAS 1

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

- Commentary additional to that in IAS 1 has been included in IPSAS 1 to clarify the applicability of the standards to accounting by public sector entities e.g., discussion on the application of the going concern concept has been expanded.
- IAS 1 allows the presentation of either a statement showing all changes in net assets/equity, or a statement showing changes in net assets/equity other than those arising from capital transactions with owners and distributions to owners in their capacity as owners. IPSAS 1 requires the presentation of a statement showing all changes in net assets/equity.
- IPSAS 1 uses different terminology, in certain instances, from IAS 1. The most significant examples are the use of the terms “statement of financial performance”, “statement of financial position” and “net assets/equity” in IPSAS 1. The equivalent terms in IAS 1 are “income statement”, “balance sheet” and “equity”.
- IPSAS 1 does not use the term “income”, which in IAS 1 has a broader meaning than the term “revenue”.
- IAS 1 defines “International Financial Reporting Standards (IFRSs)” to include IFRSs, IASs and SIC/IFRIC Interpretations. IPSAS 1 does not define “International Public Sector Accounting Standards”.
- IPSAS 1 contains a different set of definitions of technical terms from IAS 1 (paragraph 7).
- IPSAS 1 contains commentary on the responsibility for the preparation of financial statements. IAS 1 does not include the same commentary (paragraphs 19-20).
- IPSAS 1 uses the phrase “the objective of financial statements set out in this IPSAS” to replace the equivalent phrase “the objective of financial statement set out in the Framework” in IAS 1. This is because an equivalent Framework in IPSASs does not exist.
- IPSAS 1 contains commentary on timeliness of financial statements because of the lack of an equivalent Framework in IPSASs (paragraph 69).

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PRESENTATION OF FINANCIAL STATEMENTS

- IPSAS 1 does not ~~explicitly~~explicitly preclude the presentation of items of revenue and expense as extraordinary items either on the face of the statement of financial performance or in the notes. IAS 1 prohibits any items of income and expense to be presented as extraordinary items either on the face of the income statement or in the notes.
- IPSAS 1 contains a transitional provision allowing the non-disclosure of items which have been excluded from the financial statements due to the application of a transitional provision in another IPSAS (paragraph 151).
- IPSAS 1 contains an authoritative summary of qualitative characteristics (based on the IASB framework) in Appendix B.

IPSAS 3—ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

Acknowledgment

This International Public Sector Accounting Standard is drawn primarily from International Accounting Standard (IAS) 8 (Revised December 2003), “Accounting Policies, Changes in Accounting Estimates and Errors” published by the International Accounting Standards Board (IASB). Extracts from IAS 8 are reproduced in this publication of the International Public Sector Accounting Standards of the International Federation of Accountants with the permission of International Accounting Standards Committee Foundation (IASCF).

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

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

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

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

~~The main changes proposed are:~~

Introduction

IN1. International Public Sector Accounting Standard (IPSAS) 3, “Accounting Policies, Changes in Estimates and Errors”, replaces IPSAS 3, “Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies” (issued May 2000), and should be applied for annual reporting periods beginning on or after January 1, 2008. Earlier application is encouraged.

Reasons for Revising IPSAS 3

IN2. The International Public Sector Accounting Standards Board developed this revised IPSAS 3 as a response to the International Accounting Standards Board’s project on Improvement to International Accounting Standards and its own policy to converge public sector accounting standards with private sector standards to the extent appropriate.

IN3. In developing this revised IPSAS 3, the IPSASB adopted the policy of amending the IPSAS for those changes made to the former IAS 8, “Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies” made as a consequence of the IASB’s improvements project, except where the original IPSAS had varied from the provisions of IAS 8 for a public sector specific reason; such variances are retained in this IPSAS 3 and are noted in the Comparison with IAS 8. Any changes to IAS 8, “Accounting Policies, Changes in Accounting Estimates and Errors” made subsequent to the IASB’s improvements project have not been incorporated into IPSAS 3.

Changes from Previous Requirements

IN4. The main changes from the previous version of IPSAS 3 are described below.

Name of Standard

•IN5. ~~to change to~~ The Standard is called “Accounting Policies, Changes in Accounting Estimates and Errors”.

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

Scope

- ▲IN6. ~~to transfer into this~~ The Standard ~~the includes~~ criteria for the selection of accounting policies ~~that~~ previously contained in IPSAS 1, “Presentation of Financial Statements”; and
- ▲IN7. ~~to transfer from this~~ The Standard ~~to IPSAS 1 the~~ does not contain requirements on the presentation of items in the statement of financial performance, which are now included in IPSAS 1.

Definitions

- ▲IN8. ~~to The Standard defines~~ ~~define in paragraph 7~~ new terms: “change in accounting estimate”, “prior period errors”, “prospective application”, “retrospective application” and “retrospective restatement”, “impracticable”, “material” and “notes”.
- ▲IN9. ~~to The Standard does not include definitions of~~ ~~delete in paragraph 7 the terms~~ the terms: “extraordinary items”, “ordinary activities”, “net surplus/deficit”, and “surplus/deficit from ordinary activities”, which are no longer required.

Materiality

- ▲IN10. ~~to The Standard~~ stipulates ~~in paragraph 10~~ that:
 - the accounting policies in IPSASs need not be applied when the effect of applying them is immaterial; and
 - financial statements do not comply with IPSASs if they contain material errors.

Net Surplus or Deficit for the Period

- ▲IN11. ~~to transfer this section (paragraphs 10 — 28 of the old IPSAS 3) to IPSAS 1.~~ The Standard does not include the requirements for the presentation of surplus or deficit for the period that were included in the superseded IPSAS 3, these requirements are now included in IPSAS 1.

Accounting Policies

- ▲IN12. ~~to The Standard specify~~ ~~specifies~~ the hierarchy of IPSASB’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 established as a principle and printed in bold italic type ~~(paragraphs 15-16).~~
- ▲IN13. ~~to The Standard does not include~~ ~~remove the~~ allowed alternative treatments for changes in accounting policies (including voluntary changes) that were

~~included in the superseded IPSAS 3.~~ An entity is now required (where practicable) to account for changes in accounting policies retrospectively ~~(paragraph 25).~~

Errors

~~IN14. to remove the distinction The Standard does not distinguish~~ between fundamental errors and other material errors.

~~IN15. to remove The Standard does not include the~~ allowed alternative treatments for the correction of errors ~~that were included in the superseded IPSAS 3.~~ An entity is now required to correct (where practicable) material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery ~~(paragraph 48).~~

Criteria for exemptions from requirements (Impracticability)

~~IN16. to The Standard~~ requires 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~~The entity changes the comparative information as if the new accounting policy had always been applied ~~(paragraphs 29-33); or the error had been corrected (paragraphs 49-53), prospectively from the earliest date practicable.~~

~~IN17. to The Standard~~ includes guidance on the interpretation of “impracticable” ~~in paragraphs 56-59.~~

Disclosures

~~IN18. to The Standard~~ requires more detailed and additional disclosure of the amounts of adjustments as a consequence of changing accounting policies or correcting prior period errors ~~(paragraphs 34 and 35) than was required by the superseded IPSAS 3.~~

~~IN19. to The Standard~~ requires, rather than encourages 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.

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Amendments to Other Pronouncements

2.IN20. ~~to~~The Standard includes an authoritative appendix of amendments to other IPSASs that are not part of the IPSASs Improvements project and will be impacted as a result of the proposals in this IPSAS.

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

Objective

1. The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and the corrections of errors. This Standard is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.
2. Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in International Public Sector Accounting Standards IPSAS 1, "Presentation of Financial Statements".

Scope

3. **This Standard shall be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.**
4. The tax effects of corrections of prior period errors and of retrospective adjustments made to apply changes in accounting policies are not considered in this Standard as they are not relevant for many public sector entities. International or national accounting standards dealing with income taxes contain guidance on the treatment of tax effects.
5. **This Standard applies to all public sector entities other than Government Business Enterprises.**
6. The "Preface to International Public Sector Accounting Standards" issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board (IASB). GBEs are defined in IPSAS 1, "Presentation of Financial Statements".

Definitions

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

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

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

A **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.

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.

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

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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 statements for those periods were authorized for issue; and
- (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

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

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.

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.

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

Materiality

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

Accounting Policies

Selection and Application of Accounting Policies

9. **When an International Public Sector Accounting Standard specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Standard and considering any relevant Implementation Guidance issued by the IPSASB for the Standard.**
10. International Public Sector Accounting Standards (IPSASs) set out accounting policies that the IPSASB has concluded result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from IPSASs to achieve a particular presentation of an entity's financial position, financial performance or cash flows.
11. Implementation Guidance for Standards issued by the IPSASB does not form part of those Standards, and therefore does not contain requirements for financial statements.
12. **In the absence of an International Public Sector Accounting Standard that specifically applies to a transaction, other event or condition, management shall use its judgment in developing and applying an accounting policy that results in information that is:**
 - (a) **relevant to the decision-making needs of users; and**
 - (b) **reliable, in that the financial statements:**
 - (i) **represent faithfully the financial position, financial performance and cash flows of the entity;**
 - (ii) **reflect the economic substance of transactions, other events and conditions and not merely the legal form;**
 - (iii) **are neutral, i.e., free from bias;**
 - (iv) **are prudent; and**
 - (v) **are complete in all material respects.**
13. Paragraph 12 requires the development of accounting policies to ensure that the financial statements provide information that meets a number of qualitative characteristics. Appendix B in IPSAS 1 summarizes the qualitative characteristics of financial reporting.

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14. **In making the judgment, described in paragraph 12, management shall refer to, and consider the applicability of, the following sources in descending order:**
 - (a) **the requirements and guidance in International Public Sector Accounting Standards dealing with similar and related issues; and**
 - (b) **the definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described in other International Public Sector Accounting Standards.**
15. **In making the judgment described in paragraph 12, management may also consider the most recent pronouncements of other standard-setting bodies and accepted public or private sector practices to the extent, but only to the extent, that these do not conflict with the sources in paragraph 14. For example, pronouncements of the International Accounting Standards Board (IASB), including the Framework for the Preparation and Presentation of Financial Statements, International Financial Reporting Standards and Interpretations issued by the IASB's International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).**

Consistency of Accounting Policies

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

Changes in Accounting Policies

17. **An entity shall change an accounting policy only if the change:**
 - (a) **is required by an International Public Sector Accounting Standard; or**
 - (b) **results in the financial statements providing reliable and more relevant information about the effects of transactions, other events and conditions on the entity's financial position, financial performance or cash flows.**
18. **Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, performance and cash flows. Therefore, the same accounting policies are**

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 ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS
 applied within each period and from one period to the next unless a change in accounting policy meets one of the criteria in paragraph 17.

19. **A change from one basis of accounting to another basis of accounting is a change in accounting policy.**
20. **A change in the accounting treatment, recognition or measurement of a transaction, event or condition within a basis of accounting is regarded as a change in accounting policy.**
21. **The following are not changes in accounting policies:**
 - (a) **the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and**
 - (b) **the application of a new accounting policy for transactions, other events or conditions that did not occur previously or that were immaterial.**
22. **The initial application of a policy to revalue assets in accordance with IPSAS 17, “Property, Plant and Equipment” or the relevant international or national accounting standard dealing with intangible assets is a change in accounting policy to be dealt with as a revaluation in accordance with IPSAS 17 or that relevant Standard, rather than in accordance with this Standard.**
23. Paragraphs 24-36 do not apply to the change in accounting policy described in paragraph 22.

Applying Changes in Accounting Policies

24. Subject to paragraph 28:
 - (a) **an entity shall account for a change in accounting policy resulting from the initial application of an International Public Sector Accounting Standard in accordance with the specific transitional provisions, if any, in that Standard; and**
 - (b) **when an entity changes an accounting policy upon initial application of an International Public Sector Accounting Standard that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively.**
25. For the purpose of this International Public Sector Accounting Standard, early application of a Standard is not a voluntary change in accounting policy.
26. In the absence of an International Public Sector Accounting Standard that specifically applies to a transaction, other event or condition, management

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may, in accordance with paragraph 15, apply an accounting policy from the most recent pronouncements of other standard setting bodies and accepted public or private sector practices to the extent, but only to the extent, that these are consistent with paragraph 14. For example, pronouncements of the International Accounting Standards Board (IASB), including the “Framework for the Preparation and Presentation of Financial Statements”, International Financial Reporting Standards and Interpretations issued by the IASB’s International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC). If, following an amendment of such a pronouncement, the entity chooses to change an accounting policy, that change is accounted for and disclosed as a voluntary change in accounting policy.

Retrospective application

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

Limitations on retrospective application

28. **When retrospective application is required by paragraph 24(a) or (b), a change in accounting policy shall be applied retrospectively except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.**
29. **When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of net assets/equity for that period.**
30. **When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.**
31. **When an entity applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information for prior periods as far back as is practicable. Retrospective application to a prior period is not practicable unless it is practicable to determine the cumulative effect on the**

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

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

Disclosure

33. **When initial application of an International Public Sector Accounting Standard has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:**
 - (a) **the title of the Standard;**
 - (b) **when applicable, that the change in accounting policy is made in accordance with its transitional provisions;**
 - (c) **the nature of the change in accounting policy;**
 - (d) **when applicable, a description of the transitional provisions;**
 - (e) **when applicable, the transitional provisions that might have an effect on future periods;**
 - (f) **for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;**
 - (g) **the amount of the adjustment relating to periods before those presented, to the extent practicable; and**

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

Financial statements of subsequent periods need not repeat these disclosures.

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

- (a) **the nature of the change in accounting policy;**
- (b) **the reasons why applying the new accounting policy provides reliable and more relevant information;**
- (c) **for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;**
- (d) **the amount of the adjustment relating to periods before those presented, to the extent practicable; and**
- (e) **if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.**

Financial statements of subsequent periods need not repeat these disclosures.

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

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

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

- (a) **the title of the new International Public Sector Accounting Standard;**
- (b) **the nature of the impending change or changes in accounting policy;**

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- (c) the date by which application of the Standard is required;
- (d) the date as at which it plans to apply the Standard initially; and
- (e) either:
 - (i) a discussion of the impact that initial application of the Standard is expected to have on the entity's financial statements; or
 - (ii) if that impact is not known or reasonably estimable, a statement to that effect.

Changes in Accounting Estimates

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

- (a) tax revenue due to government;~~;~~
- ~~(b)~~ bad debts arising from uncollected taxes;
- ~~(bc)~~ inventory obsolescence;
- ~~(ed)~~ the fair value of financial assets or financial liabilities;
- ~~(de)~~ the useful lives of, or expected pattern of consumption of future economic benefits or service potential embodied in depreciable assets, or the percentage completion of road construction; and
- ~~(ef)~~ warranty obligations.

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

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

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

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

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

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- (b) **the period of the change and future periods, if the change affects both.**
42. **To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets/equity, it shall be recognized by adjusting the carrying amount of the related asset, liability or net assets/equity item in the period of change.**
43. Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events and conditions from the date of the change in estimate. A change in an accounting estimate may affect only the current period's surplus or deficit, or the surplus or deficit of both the current period and future periods. For example, a change in the estimate of the amount of bad debts affects only the current period's surplus or deficit and therefore is recognized in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of economic benefits or service potential embodied in, a depreciable asset affects the depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognized as revenue or expense in the current period. The effect, if any, on future periods is recognized in future periods.

Disclosure

44. **An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect on future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.**
45. **If the amount of the effect in future periods is not disclosed because estimating it is impracticable, the entity shall disclose that fact.**

Errors

46. Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with IPSASs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorized for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs 47-51).

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47. **Subject to paragraph 48, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:**
- (a) **restating the comparative amounts for prior period(s) presented in which the error occurred; or**
 - (b) **if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.**

Limitations of Retrospective Restatement

48. **A prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.**
49. **When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and net assets/equity for the earliest period for which retrospective restatement is practicable (which may be the current period).**
50. **When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.**
51. The correction of a prior period error is excluded from surplus or deficit for the period in which the error is discovered. Any information presented about prior periods, including historical summaries of financial data, is also restated as far back as is practicable.
52. When it is impracticable to determine the amount of an error (e.g. a mistake in applying an accounting policy) for all prior periods, the entity, in accordance with paragraph 50, restates the comparative information prospectively from the earliest date practicable. It therefore disregards the portion of the cumulative restatement of assets, liabilities and net assets/equity arising before that date. Paragraphs 55-58 provide guidance on when it is impracticable to correct an error for one or more prior periods.
53. Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, the gain or loss recognized on the outcome of a contingency is not ~~ethe~~the correction of an error.

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Disclosure of Prior Period Errors

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

- (a) **the nature of the prior period error;**
- (b) **for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;**
- (c) **the amount of the correction at the beginning of the earliest prior period presented; and**
- (d) **if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.**

Financial statements of subsequent periods need not repeat these disclosures.

Impracticability in Respect of Retrospective Application and Retrospective Restatement

55. In some circumstances, it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows either retrospective application of a new accounting policy (including, for the purpose of paragraphs 56-58, its prospective application to prior periods) or retrospective restatement to correct a prior period error, and it may be impracticable to recreate the information.
56. It is frequently necessary to make estimates in applying an accounting policy to elements of financial statements recognized or disclosed in respect of transactions, other events or conditions. Estimation is inherently subjective, and estimates may be developed after the reporting date. Developing estimates is potentially more difficult when retrospectively applying an accounting policy or making a retrospective restatement to correct a prior period error, because of the longer period of time that might have passed since the affected transaction, other event or condition occurred. However, the objective of estimates related to prior periods remains the same as for estimates made in the current period, namely, for the estimate to reflect the circumstances that existed when the transaction, other event or condition occurred.
57. Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that

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- (a) provides evidence of circumstances that existed on the date(s) as at which the transaction, other event or condition occurred, and
- (b) would have been available when the financial statements for that prior period were authorized for issue

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

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

Effective Date

59. **An entity shall apply this International Public Sector Accounting Standard for annual periods beginning on or after DD-MM-YYYY-January 1, 2008. Earlier application is encouraged. If an entity applies this Standard for a period beginning before DD-MM-YYYY-January 1, 2008, it shall disclose that fact.**
60. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

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Withdrawal of IPSAS 3 (issued 2000)

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

Appendix**Amendments to Other Pronouncements**

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

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

Paragraphs 40 and 41 on extraordinary items are deleted.

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

Direct Method Cash Flow Statement (paragraph 27(a))**Notes to the Cash Flow Statement**

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

(in thousands of currency units)

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

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

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

PUBLIC SECTOR ENTITY – CONSOLIDATED CASH FLOW STATEMENT

FOR YEAR ENDED 31 DECEMBER 20X2

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

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

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

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

Paragraph 57 is amended to read as follows:

57. IPSAS ~~31~~ requires that when items of revenue or expense are material~~within net surplus (deficit) from ordinary activities are of such size, nature, or incidence that their disclosure is relevant to explain the performance of the entity for the period,~~ the~~ir~~ nature and amount of such items ~~should~~shall be disclosed separately. IPSAS ~~13~~ identifies a number of examples of such items, including write-downs of inventories and property, plant, and equipment; provisions for

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

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

Paragraphs 69 and 70 are amended to read as follows:

69. Changes in accounting policies adopted by the entity are dealt with in IPSAS 3. IPSAS 3 requires that changes in accounting policy ~~should~~ shall be made ~~only if required by statute, or~~ by an International Public Sector Accounting Standard ~~accounting standard-setting body~~, or if the change will result in reliable and a more appropriate presentation ~~relevant information about events or~~ transactions, other events or conditions in the financial statements of the entity.
70. Changes in accounting policies ~~adopted~~ applied at the entity level that affect segment information are dealt with in accordance with IPSAS 3. Unless a new International Public Sector Accounting Standard specifies otherwise, IPSAS 3 requires that:
 - (a) a change in accounting policy ~~should~~ shall be applied retrospectively and that prior period information ~~be restated unless it is impracticable to determine either do so (benchmark treatment) or that~~ the cumulative effect or the adjustment resulting from the change be included in determining the entity's net surplus (deficit) for the current period-specific effects of the change (allowed alternative treatment).
 - (b) If retrospective application is not practicable for all the benchmark treatment is followed, prior periods presented, the new accounting policy shall be applied retrospectively from the earliest practicable date segment information will be restated; and
 - (c) If it is impracticable to determine the allowed alternative is followed, the cumulative effect of applying the new accounting policy at the start of the current period, the policy shall be applied prospectively from the earliest date practicable, adjustment that is included in determining the entity's net surplus (deficit) is included as an item of segment revenue or

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

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

- (a) in paragraph 27, in the definition of segment revenue, subparagraph (a) is deleted;
 - (b) in paragraph 27, in the definition of segment expense, subparagraph (a) is deleted; and
 - (c) in Appendix 1, the second last paragraph is deleted.
- A3. In IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets”, paragraph 111 is deleted.
- A4. The rubrics of all other International Public Sector Accounting Standards that are not within this Exposure Draft will have the following form:

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

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

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

- A5. In International Public Sector Accounting Standards, applicable at DD MM YYYY, references to the current version of IPSAS 3, “Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies” are amended to IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors”.

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Guidance on Implementing IPSAS 3

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

Example 1 – Retrospective Restatement of Errors

- 1.1. During 20X2, the entity discovered that revenue from income taxes was incorrect. Income taxes of CU¹6,500 that should have been recognized in 20X1 were incorrectly omitted from 20X1 and recognized as revenue in 20X2.
- 1.2. The entity's accounting records for 20X2 show revenue from taxation of CU60,000 (including the CU6,500 taxation which should have been recognized in opening balances), and expenses of CU86,500.
- 1.3. In 20X1, the entity reported:

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

- 1.4. 20X1 opening accumulated surplus was CU20,000 and closing accumulated surplus was CU27,000.
- 1.5. The entity had no other revenue or expenses.
- 1.6. The entity had CU5,000 of contributed capital throughout, and no other components of net assets/equity except for accumulated surplus.

Public Sector Entity – Statement of Financial Performance

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

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

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Net-s Surplus

11,000

13,500

Public Sector Entity X Statement of Changes in Equity

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

Extracts from Notes to the Financial Statements

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

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

Example 2 - Change in Accounting Policy with Retrospective Application

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

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- 2.2. The entity capitalized borrowing costs incurred of CU2,600 during 20X1 and CU5,200 in periods prior to 20X1. All borrowing costs incurred in previous years with respect to the acquisition of the power station were capitalized.
- 2.3. The accounting records for 20X2 show surplus before interest of CU30,000; and interest expense of CU3,000 (which relates only to 20X2).
- 2.4. The entity has not recognized any depreciation on the power station because it is not yet in use.
- 2.5. In 20X1, the entity reported:

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

- 2.6. 20X1 opening accumulated surpluses was CU20,000 and closing accumulated surpluses was CU38,000.
- 2.7. The entity had CU10,000 of contributed capital throughout, and no other components of net assets/equity except for accumulated surplus.

Public Sector Entity – Statement of Financial Performance

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

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

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

IPSAS 3

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

Extracts from the Notes

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

<i>Effect on 20-1</i>	CU
(Increase) in interest expense	(2,600)
(Decrease) in surplus	(2,600)
<i>Effect on periods prior to 20-1</i>	
(Decrease) in surplus	(5,200)
(Decrease) in assets in the course of construction and in retained earnings <u>accumulated surplus</u>	(7,800)

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

- During 20X2, the entity changed its accounting policy for depreciating property, plant and equipment, so as to apply much more fully a components approach, whilst at the same time adopting the revaluation model.
- In years before 20X2, the entity's asset records were not sufficiently detailed to apply a components approach fully. At the end of year 20X1, management commissioned an engineering survey, which provided information on the components held and their fair values, useful lives, estimated residual values and depreciable amounts at the beginning of 20X2. However, the survey did not provide a sufficient basis for reliably estimating the cost of those components that had not previously been accounted for separately, and the

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existing records before the survey did not permit this information to be reconstructed.

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

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

Extract from the Notes

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

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

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors”.

Background

- BC1.** The International Public Sector Accounting Standards Board (IPSASB)’s International Financial Reporting Standards (IFRSs) Convergence Program is an important element in IPSASB’s work program. The IPSASB’s policy is to converge the accrual basis International Public Sector Accounting Standards (IPSASs) with IFRSs issued by the International Accounting Standards Board (IASB) where appropriate for public sector entities.
- BC2.** Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure and text of the IFRSs, unless there is a public sector specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS is not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSASs and their equivalent IFRSs are identified in the ‘comparison with IFRS’ included in each IPSAS. The Comparison with IAS 8 references the December 2003 version of IAS 8 and not any other.
- BC3.** In May 2002, the IASB issued an exposure draft of proposed amendments to 13 International Accounting Standards (IASs)² as part of its General Improvements Project. The objectives of the IASB’s General Improvements project were “to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements.” The final IASs were issued in December 2003.
- BC4.** IPSAS 3, issued in January 2000 was based on IAS 8 (Revised 1993), “Net Profit or Loss of the Period, Fundamental Errors and Changes in Accounting Policies” which was reissued in December 2003, as IAS 8, “Accounting Policies, Changes in Accounting Estimates and Errors”. In late 2003, the IPSASB’s predecessor, the Public Sector Committee (PSC)³,

² The International Accounting Standards (IASs) were issued by the IASB’s predecessor – the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRSs). The IASB has defined IFRSs to consist of IFRSs, IASs and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IASs, in which case the old IAS number remains.

³ The PSC became the IPSASB when the IFAC Board changed the PSC’s mandate to become an independent standard-setting board in November 2004.

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actioned an IPSAS Improvements Project to converge IPSASs with the improved IASs issued in December 2003 where appropriate.

BC5. The IPSASB reviewed the improved IAS 8 and generally concurred with the IASB's reasons for revising the IAS and with the amendments made. (The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Bases for Conclusions on the IASB's website - www.iasb.org).

BC6. IPSAS 3 does not include the consequential amendments arising from IFRSs issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRSs to public sector entities.

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

Table of Concordance

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

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

Comparison with IAS 8

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

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

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 4
THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

**IPSAS 4—THE EFFECTS OF CHANGES IN FOREIGN
EXCHANGE RATES**

Acknowledgment

This International Public Sector Accounting Standard is drawn primarily from International Accounting Standard (IAS) 21 (Revised December 2003), “The Effects of Changes in Foreign Exchange Rates” published by the International Accounting Standards Board (IASB). Extracts from IAS 21 are reproduced in this publication of the International Public Sector Accounting Standards Board of the International Federation of Accountants with the permission of International Accounting Standards Committee Foundation (IASCF).

The approved text of the IASs is that published by IASB in the English language, and copies may be obtained directly from IASB Publications Department, 7th floor, 166 Fleet Street, London EC4A 2DY, United Kingdom.

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International Public Sector Accounting Standard IPSAS 4

(revised 200X)

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

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 4
THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

Specific Matters for Comment

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

Question 1

~~Do you agree with the main changes made to IPSAS 4 to converge with the equivalent IAS 21 (December 2003)?~~

Question 2

~~Currently, IPSAS 4 does not deal with hedge accounting for foreign currency items other than the classification of certain exchange differences accounted for as a hedge of net investment in a foreign entity. It also notes that guidance on such types of transactions can be found in IAS 39, "Financial Instruments: Recognition and Measurement".~~

~~Do you agree that the proposed IPSAS 4 should not apply to derivative transactions and balances that are within the scope of the relevant international and national accounting standards that deal with the recognition and measurement of financial instruments (see paragraph 3(a))?~~

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**INTERNATIONAL PUBLIC SECTOR ACCOUNTING
STANDARD 4—THE EFFECTS OF CHANGES IN FOREIGN
EXCHANGE RATES**

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Comparison with IAS 21

International Public Sector Accounting Standard 4, “The Effects of Changes in Foreign Exchange Rates” (IPSAS 4) is set out in paragraphs 1-74 and the Appendix. All the paragraphs have equal authority. IPSAS 4 should be read in the context of its objective, the Basis for Conclusion (if any), and the “Preface to the International Public Sector Accounting Standards”. IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

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SUMMARY OF MAIN CHANGES IPSAS 4

THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

The main changes proposed are:

Introduction

IN1. International Public Sector Accounting Standard (IPSAS) 4, “The Effects of Changes in Foreign Exchange Rates”, replaces IPSAS 4, “The Effects of Changes in Foreign Exchange Rates” (issued May 2000), and should be applied for annual reporting periods beginning on or after January 1, 2008. Earlier application is encouraged.

Reasons for Revising IPSAS 4

IN2. The International Public Sector Accounting Standards Board developed this revised IPSAS 4 as a response to the International Accounting Standards Board’s project on Improvement to International Accounting Standards and its own policy to converge public sector accounting standards with private sector standards to the extent appropriate.

IN3. In developing this revised IPSAS 4, the IPSASB adopted the policy of amending the IPSAS for those changes made to the former IAS 21, “The Effects of Changes in Foreign Exchange Rates” made as a consequence of the IASB’s improvements project, except where the original IPSAS had varied from the provisions of IAS 21 for a public sector specific reason; such variances are retained in this IPSAS 4 and are noted in the Comparison with IAS 21. Any changes to IAS 21 made subsequent to the IASB’s improvements project have not been incorporated into IPSAS 4.

Changes from Previous Requirements

IN4. The main changes from the previous version of IPSAS 4 are described below.

Scope

•IN5. ~~to The Standard~~ now excludes ~~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.)

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Definitions

IN6. ~~to—The notion of replace the term~~ ‘reporting currency’ has been replaced with two notions ~~(in paragraph 10):~~

- functional currency—currency of the primary economic environment in which the entity operates
- presentation currency—currency in which the financial statements are presented

IN7. ~~to modify the—The definitions in paragraph 10 the terms of:~~ “exchange difference”, “foreign currency”, and “net investment in a foreign operation” have been modified.

Functional Currency

IN8. ~~to—When a reporting entity prepares financial statements, the Standard requires each individual entity included in the reporting entity – whether it is a stand-alone entity, an entity with foreign operations (such as a controlling entity) or a foreign operation (such as a controlled entity) – to determine its functional currency and measure its financial performance and financial position in that currency.~~

IN9. ~~As a result of these changes require each reporting entity to determine its functional currency and measure its results and financial position in that currency in paragraphs 24 and 26. Consequently, the entity:~~

- An entity (whether a stand-alone entity or a foreign operation) does not have a free choice of functional currency ~~(paragraphs 11–16); and~~
- An entity cannot avoid restatement in accordance with IPSAS 10, “Financial Reporting in Hyperinflationary Economies” by, for example, adopting a stable currency (such as the functional currency of its controlling entity) as its functional currency when reporting in a hyperinflationary economy (paragraphs 16, 47–48).

IN10. ~~to—The Standard requires an entity to disclose:~~

- ~~→ the—Its~~ functional currency ~~of the entity~~ when the functional currency is different from its presentation currency and to clarify why ~~in paragraph 61 a different presentation currency has been adopted.~~
- ~~→ to disclose w~~When there has been a change in functional currency, and the reasons for the change ~~in paragraph 62.~~

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•~~IN11.~~ ~~to The Standard~~ replaces 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 39.~~

Integral Foreign Operations vs. Foreign Entities

•~~IN12.~~ ~~to The Standard~~ eliminates 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 only one translation method is used.

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

•~~IN13.~~ ~~to The Standard~~ removes the previous allowed alternative treatment where an entity can could capitalize exchange differences resulting from a severe devaluation or depreciation of a currency against which there is no means of hedging. ~~Now, the~~ This Standard requires that such exchange differences, where applicable, be reflected in the surplus or deficit ~~in paragraph 31.~~

Use of a Presentation Currency other than the Functional Currency

•~~IN14.~~ ~~to The Standard~~ ~~clarify clarifies in paragraph 42 that this Standard permits~~ an entity is permitted to present its financial statements in any currency (or currencies).

•~~IN15.~~ ~~to The Standard~~ requires 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 55.~~ 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 type from a commentary paragraph.~~

Disclosure

•~~IN16.~~ ~~to The Standard~~ requires ~~in paragraph 65~~ that when the entity discloses financial information where the presentation currency is not its functional currency and the translation method does not comply with each applicable IPSAS, the entity shall:

- clearly identify the information as supplementary information to distinguish it from other information that complies with IPSASs;

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- 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

• IN17. ~~to The Standard~~ allows first-time adopters of IPSASs ~~in paragraph 67~~ to deem the cumulative translation differences that existed at the date they first adopt IPSASs as zero.

• IN18. ~~to The Standard~~ provides a new transitional provision ~~in paragraph 68~~ 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 of 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.)

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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 to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency.
2. The principal issues are which exchange rate(s) to use and how to report the effects of changes in exchange rates in the financial statements.

Scope

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard:**
 - (a) **in accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of the relevant international or national accounting standards dealing with the recognition and measurement of financial instruments;**
 - (b) **in translating the results and financial 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 results and financial position into a presentation currency.**
4. International or national accounting standards dealing with the recognition and measurement of financial instruments apply to many foreign currency derivatives and, these are excluded from the scope of this Standard. However, those foreign currency derivatives that are not within the scope of these international or national accounting standards (e.g. 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

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relating to derivatives from its functional currency to its presentation currency.

5. This Standard does not apply to hedge accounting for foreign currency items including the hedging of a net investment in a foreign operation. Accordingly, entities may apply the relevant international or national accounting standards dealing with hedge accounting.
6. **This Standard applies to all public sector entities other than Government Business Enterprises.**
7. The “Preface to International Public Sector Accounting Standards” issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). GBEs are defined in IPSAS 1, “Presentation of Financial Statements”.
8. This Standard applies to the presentation of an entity’s 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 Standards. For translations of financial information into a foreign currency that do not meet these requirements, this Standard specifies information to be disclosed.
9. This Standard applies to 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 apply to the presentation in a cash flow statement of cash flows arising from transactions in a foreign currency, or to the translation of cash flows of a foreign operation (see International Public Sector Accounting Standard IPSAS 2, “Cash Flow Statements”).

Definitions

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

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

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

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

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Exchange rate is the ratio of exchange for two currencies.

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.

Foreign currency is a currency other than the functional currency of the entity.

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

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

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

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

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

Spot exchange rate is the exchange rate for immediate delivery.

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.

Elaboration on the Definitions

Functional Currency

11. 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 revenue is raised from, such as taxes, grants, and fines;
 - (ii) that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and

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- (ii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.
 - (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).
12. The following factors may also provide evidence of an entity's functional currency:
- (a) the currency in which funds from financing activities (ie issuing debt and equity instruments) are generated.
 - (b) the currency in which receipts from operating activities are usually retained.
13. 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):
- (a) whether the activities of the foreign operation are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy. An example of the former is when a department of defense has a number of overseas bases which conduct activities on behalf of a national government. The defense bases might conduct their activities substantially in the functional currency of the reporting entity. For example, military personnel may be paid in the 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 contrast, a foreign operation with a significant degree of autonomy may accumulate cash and other monetary items, incurs expenses, generates revenue and perhaps arranges borrowings, all substantially in its local currency. Some examples of government-owned foreign operations 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.

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- (b) whether transactions with the reporting entity are a high or a low proportion of the foreign operation's activities.
 - (c) whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting entity and are readily available for remittance to it.
 - (d) 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 the reporting entity.
14. 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 11 before considering the indicators in paragraphs 12 and 13, which are designed to provide additional supporting evidence to determine an entity's functional currency.
15. 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.
16. 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 in 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).

Monetary Items

17. 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: social policy obligations and other employee benefits to be paid in cash; provisions that are to be settled in cash; and cash dividends that are recognized as a liability. 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 (e.g. prepaid rent); goodwill; intangible assets; inventories; property, plant and equipment; and provisions that are to be settled by the delivery of a non-monetary asset.

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Net Investment in a Foreign Operation

18. An entity may have a monetary item that is receivable from or payable to a foreign operation. An item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation, and is accounted for in accordance with paragraphs 36 and 37. Such monetary items may include long-term receivables or loans. They do not include trade receivables ~~and-or~~ trade payables.

Summary of the Approach Required by this Standard

19. 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 11-16. The entity translates foreign currency items into its functional currency and reports the effects of such translation in accordance with paragraphs 22 –41 and 58.
20. Many reporting entities comprise a number of individual entities (e.g. an economic entity is made up of a controlling entity and one or more controlled entities). Various types of entities, whether members of an economic entity 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 42-58.
21. 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 42-58.

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Reporting Foreign Currency Transactions in the Functional Currency

Initial Recognition

22. A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when an entity:
- (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) otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.
23. **A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.**
24. The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with International Public Sector Accounting Standards. 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 inappropriate.
25. 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 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

26. **At each reporting date:**

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- (a) **foreign currency monetary items shall be translated using the closing rate;**
- (b) **non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and**
- (c) **non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.**

27. The carrying amount of an item is determined in conjunction with other relevant International Public Sector Accounting Standards. For example, property, plant and equipment may be measured in terms of fair value or historical cost in accordance with IPSAS 17, “Property, Plant and Equipment”. Whether the carrying amount is determined on the basis of historical cost or on the basis of fair value, if the amount is determined in a foreign currency it is then translated into the functional currency in accordance with this Standard.

28. The carrying amount of some items is determined by comparing two or more amounts. For example, the carrying amount of inventories held for sale is the lower of cost and net realizable value in accordance with IPSAS 12, “Inventories”. Similarly, in accordance with IPSAS 21, “Impairment of Non-Cash-Generating Assets”, the carrying amount of a non-cash generating 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 recoverable service amount, as appropriate, translated at the exchange rate at the date when that value was determined (e.g. 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.

29. 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

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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

30. As noted in paragraph 3, this Standard does not deal with hedge accounting for foreign currency items. Guidance in relation to other aspects of hedge accounting, including the criteria to use hedge accounting, can be found in the relevant international or national accounting standards dealing with the measurement and recognition of financial instruments.
31. **Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognized in surplus or deficit in the period in which they arise, except as described in paragraph 36.**
32. When monetary items arise from a foreign currency transaction and there is a change in the exchange rate between the transaction date and the date of settlement, an exchange difference results. 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 period up to the date of settlement is determined by the change in exchange rates during each period.
33. The treatment of foreign currency exchange rate changes in a cash flow statement is described in paragraph 25~~24~~.
34. **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.**
35. Other Standards require some gains and losses to be recognized directly in net assets/equity. For example, IPSAS 17 requires some gains and losses arising on a revaluation of property, plant and equipment to be recognized directly in net assets/equity. When such an asset is measured in a foreign currency, paragraph 26(c) of this Standard requires the revalued amount to be translated using the rate at the date the value is determined, resulting in an exchange difference that is also recognized in net assets/equity.
36. **Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation (see**

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paragraph 18) 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 (e.g. consolidated financial statements when the foreign operation is a controlled entity), such exchange differences shall be recognized initially in a separate component of net assets/equity and recognized in surplus or deficit on disposal of the net investment in accordance with paragraph 56.

37. 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 31~~30~~. 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 31~~30~~. Such exchange differences are reclassified to the separate component of net assets/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 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 net assets/equity in the financial statements that include the foreign operation and the reporting entity (ie they remain recognized in surplus or deficit).
38. 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 22-29. 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.

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Change in Functional Currency

39. **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.**
40. As noted in paragraph 15, 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 or the provision of goods and services may lead to a change in an entity's functional currency.
41. 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 cost. Exchange differences arising from the translation of a foreign operation previously classified in net assets/equity in accordance with paragraphs 36~~35~~ and 43~~42~~(c) are not recognized in surplus or deficit until the disposal of the operation.

Use of a Presentation Currency other than the Functional Currency

Translation to the Presentation Currency

42. 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 an economic entity 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.
43. **The results and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:**
 - (a) **assets and liabilities for each statement of financial position presented (ie including comparatives) shall be translated at the closing rate at the date of that statement of financial position;**

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- (b) **revenue and expenses for each statement of financial performance (ie including comparatives) shall be translated at exchange rates at the dates of the transactions; and**
- (c) **all resulting exchange differences shall be recognized as a separate component of net assets/equity.**

44. In translating the cash flows, that is the cash receipts and cash payments, of a foreign operation for incorporation in its cash flow statement, the reporting entity shall comply with the procedures in IPSAS 2. IPSAS 2 requires that the cash flows of a controlled entity which satisfies the definition of a foreign operation shall 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.

45. For practical reasons, a rate that approximates the 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. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

46. The exchange differences referred to in paragraph 43⁴²(c) result from:

- (a) translating revenue and expenses at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate. Such exchange differences arise both on revenue and expense items recognized in surplus or deficit and on those recognized directly in net assets/equity.
- (b) translating the opening net assets/equity at a closing rate that differs from the previous closing rate.

These exchange differences are not recognized in surplus or deficit because the changes in exchange rates have little or no direct effect on the present and future cash flows from operations. When the exchange differences relate to a foreign operation that is consolidated but is not wholly-owned, accumulated exchange differences arising from translation and attributable to minority interests are allocated to, and recognized as part of, minority interest in the consolidated statement of financial position.

47. **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:**

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- (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).**
48. **When an entity's functional currency is the currency of a hyperinflationary economy, the entity shall restate its financial statements in accordance with IPSAS 10, "Financial Reporting in Hyperinflationary Economies" before applying the translation method set out in paragraph 47, except for comparative amounts that are translated into a currency of a non-hyperinflationary economy (see paragraph 47(b). When the economy ceases to be hyperinflationary and the entity no longer restates its financial statements in accordance with IPSAS 10, it shall use as the historical costs for translation into the presentation currency the amounts restated to the price level at the date the entity ceased restating its financial statements.**

Translation of a Foreign Operation

49. Paragraphs 50-55, in addition to paragraphs 42-48, apply when the results 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 consolidation, proportional consolidation or the equity method.
50. The incorporation of the results and financial position of a foreign operation 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").
51. However, a monetary asset (or liability) within an economic entity, whether short-term or long-term, cannot be eliminated against the corresponding liability (or asset) within an economic entity without showing the results of currency fluctuations in the consolidated financial statements. This is because the monetary item represents a commitment to convert one currency into another and exposes the reporting entity to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements of the

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reporting entity, such an exchange difference continues to be recognized in surplus or deficit or, if it arises from the circumstances described in paragraph 36, it is classified as net assets/equity until the disposal of the foreign operation.

52. When the financial statements of a foreign operation are as of a date different from that of the reporting entity, the foreign operation often prepares additional statements as of the same date as the reporting entity's financial statements. When this is not done, IPSAS 6 allows the use of 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.
53. When there is a difference between the reporting date of the reporting entity and the foreign operation, the assets and liabilities of the foreign operation are translated at the exchange rate at the reporting date of the foreign operation.
54. Adjustments are made for significant changes 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 proportionate consolidation in joint ventures in accordance with IPSAS 7, "Accounting for Investments in Associates" and IPSAS 8.
55. **Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operation. Thus they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraphs 43 and 47.**

Disposal of a Foreign Operation

56. **On the disposal of a foreign operation, the cumulative amount of the exchange differences deferred in the separate component of net assets/equity relating to that foreign operation shall be recognized in surplus or deficit when the gain or loss on disposal is recognized.**
57. An entity may dispose of its interest in a foreign operation through sale, liquidation, repayment of contributed capital or abandonment of all, or part of, that entity. The payment of a dividend is part of a disposal only when it constitutes a return of the investment, for example when the dividend or similar distribution is paid out of pre-acquisition surplus. In the case of a partial disposal, only the proportionate share of the related accumulated exchange difference is included in the gain or loss. A write-down of the

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carrying amount of a foreign 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.

Tax Effects of Exchange Differences

58. 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 translating the results and financial position of an entity (including a foreign operation) into a different currency can be found in the relevant international or national accounting standards dealing with income taxes.

Disclosure

59. **In paragraphs 61 and 63-65 references to ‘functional currency’ apply, in the case of an economic entity, to the functional currency of the controlling entity.**
60. **The entity shall disclose:**
- (a) **the amount of exchange differences recognized in surplus or deficit except for those arising on financial instruments measured at fair value through surplus or deficit in accordance with the relevant international or national accounting standards dealing with the recognition and measurement of financial instruments; and**
 - (b) **net exchange differences classified in 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.**
61. **When the presentation currency is different from the functional currency, that fact shall be stated, together with disclosure of the functional currency and the reason for using a different presentation currency.**
62. **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 the change in functional currency shall be disclosed.**
63. **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**

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applicable Standard including the translation method set out in paragraphs 43 and 47.

64. An entity sometimes presents its financial statements or other financial information in a currency that is not its functional currency without meeting the requirements of paragraph 63. 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 65 are required.
65. **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 63 are not met, it shall:**
- (a) **clearly identify the information as supplementary information to distinguish it from the information that complies with International Public Sector Accounting Standards;**
 - (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

Initial Adoption of Accrual Accounting

66. **A reporting entity need not comply with the requirements for cumulative translation differences that existed at the date of first adoption of accrual accounting in accordance with International Public Sector Accounting Standards. If a first-time adopter uses this exemption:**
- (a) **the cumulative translation differences for all foreign operations are deemed to be zero at the date of first adoption to International Public Sector Accounting Standards; and**
 - (b) **the gain and loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of first adoption to International Public Sector Accounting Standards, and shall include later translation differences.**

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67. This Standard requires entities to:
- (a) classify some translation differences as a separate component of net assets/equity; and
 - (b) on disposal of a foreign operation, to transfer the cumulative translation difference for that foreign operation to the statement of financial performance as part of the gain or loss on disposal.

The transitional provisions provide first-time adopters of IPSASs with relief from this requirement.

Transitional Provisions for All Entities

68. **An entity shall apply paragraph 55 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 55 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.**
69. **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

70. **An entity shall apply this International Public Sector Accounting Standard for annual periods beginning on or after ~~DD-MM-YYYY~~January 1, 2008. Earlier application is encouraged. If an entity applies this Standard for a period beginning before ~~DD-MM-YYYY~~January 1, 2008, it shall disclose that fact.**
71. 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

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entity's annual financial statements covering periods beginning on or after the date of adoption.

Withdrawal of IPSAS 4 (issued 2000)

72. This Standard supersedes IPSAS 4, "The Effects of Changes in Foreign Exchange Rates" issued in 2000.

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Appendix

Amendments to Other Pronouncements

The amendments in this appendix shall be applied for annual financial statements covering 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 ~~reporting functional~~ currency by applying to the foreign currency amount the exchange rate between the ~~reporting functional~~ 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 ~~reporting functional~~ 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 ~~primary individual~~ financial statements, including the consolidated financial statements, of any entity ~~that reports whose functional currency is~~ the the currency of a hyperinflationary economy.

Paragraph 11 is amended to read as follows:

11. The financial statements of an entity ~~that reports whose functional currency is~~ the 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

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the purpose of presenting comparative amounts in a different presentation currency, paragraphs 47(b) and 48 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, paragraphs 47(b) and 48 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 ~~reporting functional~~ currency and, as a result, are stated in terms of the measuring unit current at the reporting date; and...**

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 4, “The Effects of Changes in Foreign Exchange Rates”..

Background

BC1. The International Public Sector Accounting Standards Board (IPSASB)’s International Financial Reporting Standards (IFRSs) Convergence Program is an important element in IPSASB’s work program. The IPSASB’s policy is to converge the accrual basis International Public Sector Accounting Standards (IPSASs) with IFRSs issued by the International Accounting Standards Board (IASB) where appropriate for public sector entities.

BC2. Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure and text of the IFRSs, unless there is a public sector specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS is not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSASs and their equivalent IFRSs are identified in the ‘comparison with IFRS’ included in each IPSAS. The Comparison with IAS 21 references the December 2003 version of IAS 21 and not any other.

BC3. In May 2002, the IASB issued an exposure draft of proposed amendments to 13 International Accounting Standards (IASs)¹ as part of its General Improvements Project. The objectives of the IASB’s General Improvements project were “to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements.” The final IASs were issued in December 2003.

BC4. IPSAS 4, issued in January 2000 was based on IAS 21 (Revised 1993), “The Effects of Changes in Foreign Exchange Rates” which was reissued in December 2003. In late 2003, the IPSASB’s predecessor, the Public Sector

¹ The International Accounting Standards (IASs) were issued by the IASB’s predecessor – the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRSs). The IASB has defined IFRSs to consist of IFRSs, IASs and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IASs, in which case the old IAS number remains.

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Committee (PSC)², actioned an IPSAS Improvements Project to converge IPSASs with the improved IASs issued in December 2003 where appropriate.

BC5. The IPSASB reviewed the improved IAS 21 and generally concurred with the IASB's reasons for revising the IAS and with the amendments made. (The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Bases for Conclusions on the IASB's website - www.iasb.org).

BC6. IAS 21 has been further amended as a consequence of IFRSs issued after December 2003. IPSAS 4 does not include the consequential amendments arising from IFRSs issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRSs to public sector entities.

² The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

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Table of Concordance

This table shows how the contents of the ~~current-superseded~~ version of IPSAS 4 and the ~~proposed-current~~ version of IPSAS 4 correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

Current Superseded IPSAS 4 paragraphs	Proposed Current IPSAS 4 paragraph
Objective	1, 2
1	3
2	4, 5
3	None
4	6
5	7
6	8
7	None
8	9
9	10
10	None
11	None
12	None
13	None
14	None
15	None
16	22
17	23
18	24
19	25
20	26
21	27
22	None
23	30

Current Superseded IPSAS 4 paragraphs	Proposed Current IPSAS 4 paragraph
24	31
25	32
26	33
27	36
28	18
29	None
30	None
31	None
32	None
33	None
34	13
35	13
36	13
37	None
38	None
39	None
40	None
41	43
42	None
43	44
44	45
45	46
46	55
47	50

Current Superseded IPSAS 4 paragraphs	Proposed Current IPSAS 4 paragraph
48	51
49	52
50	53
51	54
52	48
53	None
54	None
55	56
56	57
57	None
58	None
59	None
60	58
61	60
62	61, 62
63	None
64	None
65	None
66	68, 69
67	70
68	71
None	11-12
None	14-16
None	17

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<u>Current Superseded</u> IPSAS 4 paragraphs	<u>Proposed Current</u> IPSAS 4 paragraph
None	19-21
None	28, 29
None	34, 35
None	37-41
None	42
None	47
None	49
None	59
None	63-65
None	66-67
None	72

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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” (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 “revenue”, “statement of financial performance”, “statement of financial position” and “net assets/equity” in IPSAS 4. The equivalent terms in IAS 21 are “income”, “income statement”, “balance sheet” and “equity”.
- IPSAS 4 contains a different set of definitions of technical terms from IAS 21 (paragraph 10).
- IPSAS 4 contains an additional transitional provision allowing an entity, when first adopting IPSASs to deem cumulative translation differences existing at the date of first adoption of accrual IPSASs as zero (paragraph 66). This transitional provision is adapted from IFRS 1, “First-time Adoption of International Financial Reporting Standards”.



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DATE: JUNE 7, 2006
MEMO TO: MEMBERS OF IFAC IPSASB
FROM: MATTHEW BOHUN
SUBJECT: IMPROVEMENTS PROJECT – EQUITY ACCOUNTING

ACTION REQUIRED

The IPSASB is asked to:

- **note** the information provided on Equity Accounting; and
- **provide** staff with directions for drafting IPSAS 6 – 8.

BACKGROUND

At the March 2006 meeting in Tokyo, the IPSASB undertook an initial review of the responses to exposure draft ED 26, “Improvements to International Public Sector Accounting Standards”. During that review, the IPSASB noted that several respondents had requested the retention of the “equity method” of accounting for controlled entities, associates and jointly controlled entities in the separate financial statements of investors, as currently allowed by IPSAS 6. In its revision of IAS 27, “Consolidated and Separate Financial Statements”, the IASB decided that controlled entities, associates and jointly controlled entities should be accounted for at cost or as financial instruments in accordance with IAS 39, “Financial Instruments: Recognition and Measurement”.

The IPSASB decided that it would further consider the withdrawal of the equity method for accounting for investments in controlled entities in the separate financial statements of controlling entities, including whether such items could be measured using the principles established for measuring property, plant and equipment acquired in a non-exchange transaction, as in IPSAS 17, “Property, Plant and Equipment” and whether the rationale of the IASB for withdrawal of the equity method is equally applicable in the public sector or whether there is a public sector specific reason for a departure from the IAS such as where the cost is not known.

The Equity Method

Under the equity method, the investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor’s share of surplus or deficit of the investee after the date of acquisition. The investor’s share of the surplus or deficit of the investee is recognized in the investor’s surplus or deficit. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor’s proportionate interest in the investee arising from changes in the investee’s equity that have not been recognized in the investee’s surplus or deficit. Such changes include those arising from the revaluation of

property, plant and equipment, from foreign exchange translation differences. The investor's share of those changes is recognized directly in net assets/equity of the investor.¹

IASB Rationale

The IASB decided that investments in controlled entities, associates and joint ventures that are presented in the separate financial statements of a controlling entity shall be presented either at cost, or in accordance with IAS 39, "Financial Instruments: Recognition and Measurement". The Basis for Conclusions for IAS 27 states:

Although the equity method would provide users with some profit and loss information similar to that obtained from consolidation, the Board noted that such information is reflected in the investor's economic entity financial statements and does not need to be provided to the users of its separate financial statements. For separate financial statements, the focus is upon the performance of the assets as investments. The Board concluded that separate financial statements prepared using either the fair value method in accordance with IAS 39 or the cost method would be relevant. Using the fair value method in accordance with IAS 39 would provide a measure of the economic value of the investments. Using the cost method can result in relevant information, depending on the purpose of preparing the separate financial statements. For example, they may be needed only by particular parties to determine the dividend income from subsidiaries.²

The IASB's Basis for Conclusions' focus on controlled entities', associates' and joint ventures' performance as investments is unlikely to be the major concern for many users of public sector entities' separate financial statements, where the objective of the controlling party's interest in controlled entities, associates and jointly controlled entities is for service delivery purposes rather than the generation of cash flows. Consequently there may be scope for the IPSASB to depart from the requirements of IAS 27 in such circumstances and explain such a departure in the Basis for Conclusions.

Whilst performance as an investment may not be a critical issue, the change in the controlling entity/investor's share of the net assets of a controlled entity, associate or joint venture will be of concern to users of separate financial statements, and should be appropriately reflected in the separate financial statements.

Current IPSAS Provisions

IPSAS 6 currently requires that a controlled entity be accounted for in the controlling entity's separate financial statements using either the equity method, or as an investment. Controlled entities are fully consolidated in the economic entity's consolidated financial statements.

IPSAS 7 requires that associates be accounted for using the equity method unless they are acquired and held exclusively, with a view to disposal in the near future, in which case they are accounted for at cost. In the separate financial statements of the investor, associates are accounted for using the equity method, the cost method or as an investment.

¹ ED 26, "Improvements to IPSASs" - IPSAS 7, "Investments in Associates", paragraph 17.

² IAS 27, BC29.

IPSAS 8 requires that joint ventures either be proportionately consolidated, or accounted for using the equity method in the consolidated financial statements of the economic entity. IPSAS 8 does not currently specify a method of accounting for joint ventures in the separate financial statements of the investor.

Proposals in ED 26

ED 26 proposes that IPSAS 6 require that investments in controlled entities, jointly controlled entities and associates be accounted for at cost or as financial instruments in the separate financial statements of an investor.

Measurement in IPSAS 17

IPSAS 17, "Property, Plant and Equipment" establishes requirements for both initial and subsequent measurement of items of property, plant and equipment. IPSAS 17 requires items of property, plant and equipment to be measured initially at cost, where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition. ED 29 proposes changing the latter to "where an item of property, plant or equipment is acquired by means of a non-exchange transaction, its cost is its fair value as at the date of acquisition."

Subsequent to initial recognition, IPSAS 17 requires items of property, plant and equipment to be measured at either cost, less any accumulated depreciation and any accumulated impairment losses; or at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

IPSAS 17 also contains a transitional provision that permits entities to initially measure items of property plant and equipment at cost or fair value when they adopt accrual accounting for the first time in accordance with IPSASs.

IPSAS 17 also provides guidance on determining fair value. The guidance refers to market values, independent valuations, reproduction cost and depreciated replacement cost.

Staff are of the view that these measurement techniques could be applied to controlled entities, associates and joint venture.

Measurement of Investments in Controlled Entities, Associates and Joint Ventures in Separate Financial Statements of Investors

Concerns about the withdrawal of the equity method were expressed strongly by the French Ministry of Finance and the Zurich University of Applied Sciences. In summary these respondents argued that restricting the measurement options of these investments to cost and fair value may inhibit fair presentation for public sector entities because:

- (a) cost may not be known or may be a very old attribute; and
- (b) fair value as a financial instrument may not be

- a. identifiable if an entity is not traded;
- b. appropriate for an entity, which has service delivery as its primary objective rather than generation of cash flows.

Whilst not knowing the cost of a controlled entity, associate or joint venture was raised as issue at the last meeting, it should be noted that the equity method cannot be applied under either IPSASs or IFRSs without knowing cost.

Determining fair value is often by reference to a market price in an active, liquid market, or by discounting future cash flows. With a service oriented investment in a non-exchange environment may mean that there is no market for that type of investment, or that discounted cash flows equal zero or are negative, even though the investee has assets with a positive value – the present value of current service obligation may be greater than the value of the assets. In these situations, rather than using a market value obtained from an inactive or illiquid market, or using discounted cash flows, the equity method may give a better estimate of the fair value of the investment. The IPSASB may wish to consider only permitting the use of the equity method where there is no active or liquid market for an investment, or where the investment has negative cash flows and material service obligations that the investor entity will fund out of its own resources.

The IASB's focus on performance of controlled entities, associates and joint ventures as investments is not likely to be as relevant in the public sector as in the private sector. Consequently, fair presentation may be better achieved by permitting investor entities to use the equity method in their separate financial statements, as this gives a better indication of performance of the investment in the public sector. The IASB has also been evolving its treatment of investments in controlled entities, associates and joint ventures from the notion of equity to the holding of financial instruments which are recognized and measure under IAS 39. The IPSASB has yet to consider in depth the provisions of IAS 39, and that may be sufficient reason to differ from the IASB's decision, at least until the IPSASB develops its own comprehensive IPSAS on financial instruments.

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