

PRESENTATION OF FINANCIAL STATEMENTS

IPSASB CAG Meeting – 24 June 2024

Toronto, Canada

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AGENDA

1. Project Update

2. CAG Discussion topic:
**Statement of Financial Position –
Classification of Assets and
Liabilities**

Project Update

Project overview

The project's **objective** is to improve the communication effectiveness of information reported in public sector financial statements

Presentation is focused on the selection, location, and organization of the information reported in general purpose financial statements.

Desired Outcomes



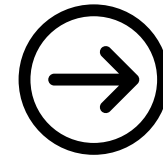
Project Update

Key decisions to date

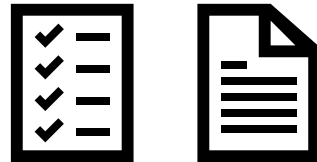
To develop a new IPSAS to replace IPSAS 1, *Presentation of Financial Statements*



To use IFRS 18 as the starting base and adapt it to reflect the public sector context



To issue a consultation paper accompanied by a 'full' illustrative exposure draft in Phase 1



To explore the concept of allowing for different presentation approaches



To focus on the statement of financial position, statement of financial performance, and statement of changes in net assets/equity

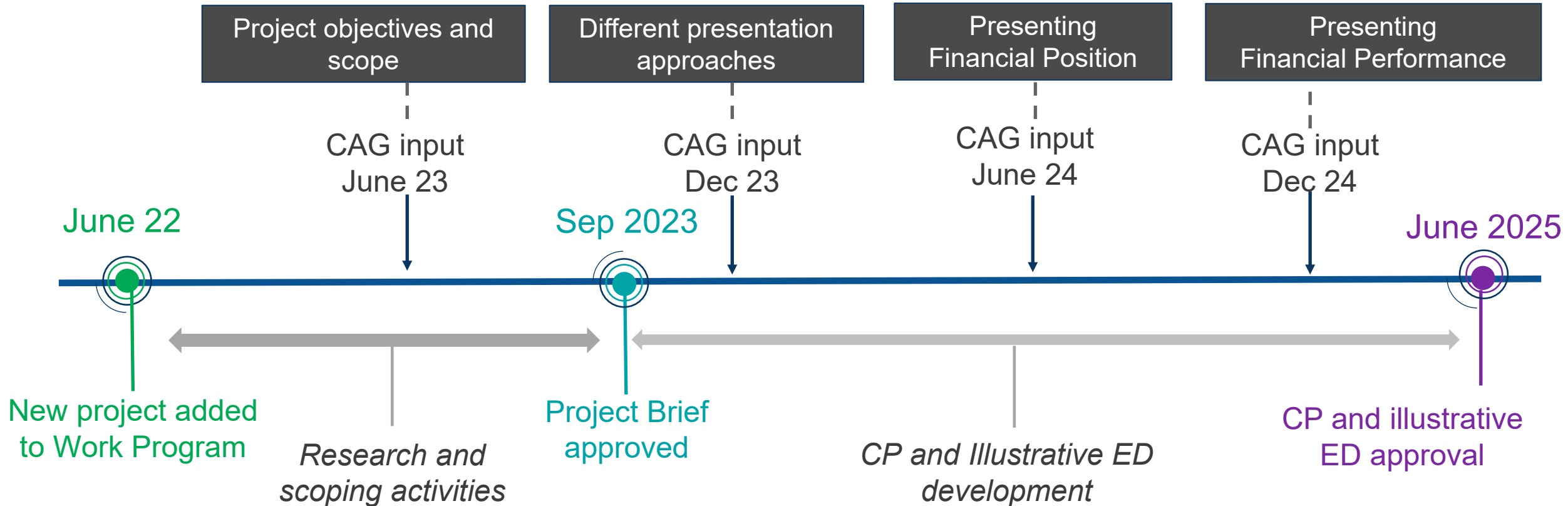


To define the elements of financial statements (assets, liabilities, revenue, and expenses) based on the IPSASB Conceptual Framework



Project Update

Project Timeline – Consultation Paper Development



Classification of Assets and Liabilities

Statement Financial Position	20X1	20X2
Assets		
...		
...		
...		
Liabilities		
...		
...		
...		
Net assets/equity		
Components of net assets/equity		
...		
...		
Total net assets/equity		

How should assets and liabilities be classified in the Statement of Financial Position?

Two approaches are commonly used across the public sector:

- Current/non-current classification
- Financial/non-financial classification

Order of Liquidity approach on an exception basis.

Current/Non-Current Classification Approach

Supports assessments of solvency and liquidity.

- **Current assets** – those expected to be converted into cash or used up within the next reporting period
- **Non-current assets** – all other assets not classified as current
- **Current liabilities** – due for settlement within the next reporting period
- **Non-current liabilities** – all other liabilities not classified as current

Statement Financial Position	20X1	20X2
ASSETS		
Current assets		
Cash and cash equivalents		
Accounts receivables		
Inventories		
Total current assets		
Non-current assets		
Property, plant, and equipment		
Investments		
Total non-current assets		
Total assets		
LIABILITIES		
Current liabilities		
Trade creditors		
Employee entitlements		
Other payables		
Total current liabilities		
Non-current liabilities		
Borrowings		
Total non-current liabilities		
Total liabilities		
Net assets/equity		

Financial/Non-Financial Classification Approach



Statement of Financial Position

as at March 31

	20X3	20X2
Financial assets	XX	XX
Non-financial assets	XX	XX
Total assets	XX	XX
Financial liabilities	XX	XX
Non-financial liabilities	XX	XX
Total liabilities	XX	XX
Net assets (net liabilities)	XX	XX
Net assets (net liabilities) components:		
accumulated surplus/deficit	XX	XX
accumulated remeasurements	XX	XX
accumulated other	XX	XX

Financial and Non-Financial Assets

How will the asset be used?

A financial asset is an asset that could be used to discharge existing financial liabilities or spend on future operations and is not for consumption in the normal course of operations.

A non-financial asset is an asset that does not meet the definition of a financial asset.

Examples

cash and cash equivalents, accounts receivable, inventories for sale and investments

Examples

Property, plant and equipment, inventories held for use, prepaid expenses and intangibles

Financial and Non-Financial Liabilities

How is the liability expected to be settled?

A financial liability is a liability that is expected to be settled using existing or future financial assets.

A non-financial liability is a liability that does not meet the definition of a financial liability.

Examples

accounts payable, liabilities for employee future benefits and borrowings

Example

Obligation to use tangible capital asset constructed with a transfer to provide services over a specified number of years

Differences in Approaches – Asset Classification

Current/non-current

Financial/non-financial

Current assets	Financial assets
Cash	Cash
Accounts receivable	Accounts receivable
Short term investments	Investments
Inventory	Inventory held for sale
Prepaid expenses	-
Non-current assets	Non-financial assets
Property, plant, and equipment	Property, plant, and equipment
Intangibles	Intangibles
-	Inventory held for use
Long-term investments	-
-	Prepaid expenses

The diagram illustrates the differences in asset classification between two approaches. It features two columns: 'Current/non-current' and 'Financial/non-financial'. The 'Current/non-current' column is divided into 'Current assets' and 'Non-current assets'. The 'Financial/non-financial' column is divided into 'Financial assets' and 'Non-financial assets'. Arrows indicate the mapping of specific asset types between the two approaches: a blue arrow points from 'Long-term investments' (Non-current assets) to 'Investments' (Financial assets); a green arrow points from 'Inventory' (Current assets) to 'Inventory held for sale' (Financial assets); a red arrow points from 'Prepaid expenses' (Current assets) to 'Prepaid expenses' (Non-financial assets); and another green arrow points from 'Inventory held for use' (Non-financial assets) to 'Inventory' (Current assets).

Differences in Approaches – Liability Classification

Current/non-current

Financial/non-financial

Current liabilities	Financial liabilities
Trade creditors	Trade creditors
Loans (current)	Loans
Employee benefits (current)	Employee entitlements
Revenue in advance (current)	Revenue in advance (financial)
Non-current liabilities	Non-financial liabilities
Loans (non-current)	-
Employee benefits (non-current)	-
Revenue in advance (non-current)	Liabilities to be settled by using tangible capital assets to provide services

Financial/Non-Financial Classification Approach

The approach allows for the separate reporting of the balances that make up an entity's *net debt balance* = financial assets – financial liabilities.

Statement Financial Position	20X4	20X3
ASSETS		
Financial assets	xxx	xxx
Non-financial assets	xxx	xxx
Total assets	xxx	xxx
LIABILITIES		
Financial liabilities	xxx	xxx
Non-financial liabilities	xxx	xxx
Total liabilities	xxx	xxx
Net assets/net liabilities	xxx	xxx
Net assets (net liabilities) components		
Accumulated surplus/(deficit)	xxx	xxx
Accumulated remeasurements	xxx	xxx
Accumulated other	xxx	xxx
Total net assets/net liabilities	xxx	xxx

Statement of Net Financial Assets (Net Financial Liabilities)	20X4	20X3
Financial assets	xxx	xxx
Non-financial assets	xxx	xxx
Net financial assets/net liabilities	xxx	xxx

Key affordability indicator (formally 'net debt')

Financial assets > financial liabilities	Financial assets available to provide services or settle financial liabilities
Financial assets < financial liabilities	There is a need for future financial assets to settle financial liabilities.

Financial/Non-Financial Classification Approach

Benefits of approach

Increased transparency by distinguishing between:

- Financial assets available to settle financial liabilities and provide services
- Non-financial assets available to provide future services
- Financial obligations that need to be settled with financial resources
- Non-financial obligations

Improved information for accountability and decision-making purposes

If financial assets < financial liabilities

Increase taxes, reduce services, sell non-financial assets



FINANCIAL
ACCOUNTABILITY



RESOURCE
MANAGEMENT



SERVICE
DELIVERY

Classification of Assets and Liabilities

Question for CAG members

Favored classification approach

Q1. What classification approach most appropriately meets the objectives of public sector financial reporting?

- (a) Current/non-current approach;
- (b) Financial/non-financial approach;
- (c) Order of liquidity approach; or
- (d) Another approach.

What are the reasons for your preferred approach?

Classification of Assets and Liabilities

Question for CAG members

Extent of flexibility

Q2. Should the new IPSAS to replace IPSAS 1:

- (a) Require all public sector entities to apply a single standardized classification approach; or
- (b) Provide different classification approaches from which an entity may choose from?