

Consultation Paper  
[MM YYYY]  
*Comments due: [MM DD, YYYY]*

IPSAS®

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# Presentation of Financial Statements

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This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting and sustainability reporting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances and sustainable development.

In meeting this objective, the IPSASB sets International Public Sector Accounting Standards™ (IPSAS®), IPSASB Sustainability Reporting Standards™ (IPSASB SRS™) and Recommended Practice Guidelines™ (RPG™) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS Accounting Standards relate to the general purpose financial statements (financial statements) and are authoritative. IPSASB SRS Standards relate to sustainability disclosures and are authoritative. RPG Guidelines are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFs) that are not financial statements. Unlike IPSAS Accounting Standards and IPSASB SRS Standards, RPG Guidelines do not establish requirements. IPSASB SRS Standards and RPG Guidelines do not provide guidance on the level of assurance (if any) to which information should be subjected.

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## REQUEST FOR COMMENTS

This Consultation Paper, *Presentation of Financial Statements* was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Consultation Paper may be modified in light of comments received before being issued in final form. **Comments are requested by [MM DD, YYYY].**

Respondents are asked to submit their comments electronically through the IPSASB website, using the “**Submit a Comment**” link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: [www.ipsasb.org](http://www.ipsasb.org). The approved text is published in the English language.

### Guide for Respondents

The IPSASB welcomes comments on all the matters discussed in this Consultation Paper, including all Preliminary Views and Specific Matters for Comment. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording. Comments must be submitted in English.

The Preliminary Views and Specific Matters for Comment in this Consultation Paper are provided below. Paragraph numbers identify the location of the Preliminary View or Specific Matter for Comment in the text.

### Preliminary View [X]—Chapter 1: Development of New Presentation Standard

The IPSASB’s Preliminary View is that the development of a new IPSAS Standard to replace IPSAS 1 should use IFRS 18 *Presentation and Disclosure in Financial Statements* as its starting base, with appropriate adaptations to reflect the objectives of financial reporting by public sector entities.

Do you agree with the IPSASB’s Preliminary View?

If not, please provide your reasons, stating clearly what you consider should be changed in the development approach.

### Preliminary View [X]—Chapter 2: General Presentation Principle

[pending]

### Preliminary View [X]—Chapter 3: Statement of Financial Position

The IPSASB’s Preliminary View is that:

- (a) The current/non-current approach be retained as the general approach for classifying assets and liabilities on the face of the Statement of Financial Position;
- (b) The order of liquidity approach should be retained, with application permitted on an exception basis; and
- (c) For entities with diverse operations, a mix of these two approaches may be appropriate.<sup>1</sup> In this approach, some assets and liabilities are presented using the current/non-current classification, and others are presented in order of liquidity.

Do you agree with the IPSASB’s Preliminary View?

<sup>1</sup> In this approach, some assets and liabilities are presented using the current/non-current classification and others in order of liquidity.

If not, please provide your reasons, stating clearly what you consider should be changed regarding the classification of assets and liabilities on the Statement of Financial Position.

**Preliminary View [X]—Chapter 3: Statement of Financial Position**

The IPSASB's Preliminary View is that the specific line items required in IPSAS 1 should be carried forward, with enhancements limited to adding a new line for goodwill (to align with IFRS 18).

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what line items should be added or removed from the list provided in Table 3.

**Preliminary View [X]—Chapter 3: Statement of Financial Position**

The IPSASB's preliminary view is that IPSAS should:

- (a) Not prescribe a specific structure (i.e. order or format) for presenting the Statement of Financial Position; and
- (b) Not require the display of specific subtotals on the Statement of Financial Position.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider should be changed regarding the structure and the presentation of specific subtotals.

**Preliminary View [X]—Chapter 4: Statement of Financial Performance**

The IPSASB's preliminary view is to present revenue and expense items recognized in surplus or deficit in categories on the Statement of Financial Performance. The categorization requirements are aligned with IFRS 18 requirements, with additional public sector guidance.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider should be changed.

**Preliminary View [X]—Chapter 4: Statement of Financial Performance**

The IPSASB's preliminary view is to present totals and subtotals, and to permit entities to present additional subtotals, on the Statement of Financial Performance, as listed in paragraph 4.34. The total and subtotal requirements are aligned with IFRS 18 requirements, adapted for the public sector.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider should be changed.

**Preliminary View [X]—Chapter 4: Statement of Financial Performance**

The IPSASB's preliminary view is to maintain the minimum requirements regarding the presentation of line items on the face of the Statement of Financial Performance, with additional guidance. The minimum line items presentation requirements are aligned with IFRS 18 requirements, with additional public sector guidance.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider should be changed.

**Preliminary View [X]—Chapter 4: Statement of Financial Performance**

The IPSASB's preliminary view is to maintain requirements to present its expenses by the nature of the expenses or by their function to the entity on the face of the Statement of Financial Performance, with additional guidance. The presentation requirements are aligned with IFRS 18 requirements, with adaptations for the public sector.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider should be changed.

**Preliminary View [X]—Chapter 5: Statement of Changes in Net Assets/Equity**

[pending]

**Preliminary View [X]—Chapter 6: Disclosure of Information in the Notes**

[pending]

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## CONSULTATION PAPER, *PRESENTATION OF FINANCIAL STATEMENTS*

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## Project Overview

### Introduction

1. General Purpose Financial Statements ('financial statements') prepared by governments and other public sector entities are structured reports that provide an important source of financial information about:
  - (a) The resources it owns and controls (its assets);
  - (b) The amount it owes and other obligations (its liabilities);
  - (c) The money and other resources received in the reporting period (its revenue); and
  - (d) The money spent and resources consumed in the reporting period (its expenses).
2. The financial statements confirm the financial impact of transactions incurred and other events or conditions. Under the accrual basis of accounting, this is achieved by presenting information about an entity's financial position, financial performance, and cash flows for a specified reporting period.
3. The information provided in financial statements is used as the basis for decision-making regarding the formation of future budgets, long-term fiscal sustainability forecasts, and public policy decisions. The information is also used to hold governments and other public sector entities accountable for the efficient use and management of public resources.
4. How financial information is presented in financial statements plays a critical role in strengthening public financial management (PFM) globally, due to the importance of ensuring the information presented is faithfully representative, comparable, verifiable, and useful for accountability and decision-making purposes.<sup>2</sup>
5. Users of public sector financial statements include the recipients of public sector services and the resource providers who fund those services (and their representatives). This comprises a wide range of users, such as citizens, taxpayers, legislators, policy advisors, lenders, creditors, and donors.<sup>3</sup> Public sector entities must continually consider how best to present the information provided in financial statements in response to their users' evolving needs.
6. The IPSASB plays a vital role in this process by developing high-quality accounting standards that provide appropriate principles and requirements for the presentation of information in financial statements.

### Why is this project being undertaken?

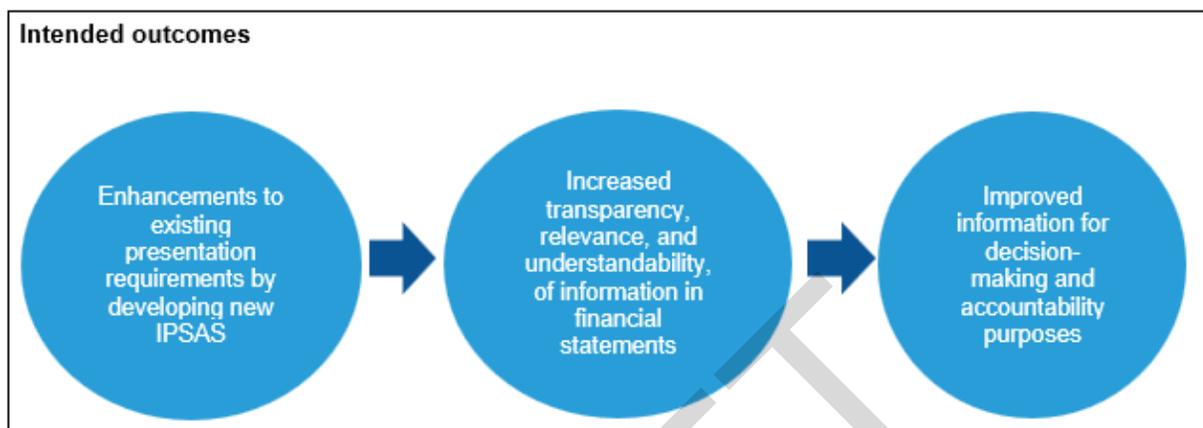
7. The objective of this project is to improve the communication effectiveness of information reported in public sector financial statements by developing a new IPSAS to replace IPSAS 1, *Presentation of Financial Statements*.
8. Financial statements are vital in the public sector as they ensure accountability, inform decision-making, promote transparency, and support efficient resource management. The IPSASB is, therefore, keen to explore enhancements to existing presentation requirements to improve the understandability and accessibility of the information presented in the financial statements.
9. Recent international developments have highlighted the opportunity to improve the existing requirements, given that IPSAS 1 has not been substantially updated since its original publication in 2000. The financial reporting

<sup>2</sup> PFM, in its broadest sense, is the system by which financial resources are planned, directed, and controlled, both externally to and internally within the public sector, to enable the efficient, effective, and sustainable delivery of public service outcomes.

<sup>3</sup> The financial information in financial statements is also used by other parties with an interest in the public sector, for example, statisticians, analysts, media, and lobby groups.

landscape has evolved significantly over this period, including the development of IFRS 18 *Presentation and Disclosure in Financial Statements* by the International Accounting Standards Board (IASB), published in April 2024.

10. The project aims to develop a modern, fit-for-purpose IPSAS Standard that responds to recent financial reporting developments and the evolving needs of users of public sector financial statements.
11. An overview of the project objective and intended outcomes is illustrated in Diagram 1 below.



#### What is the scope of this project?

12. To achieve the project objective, the scope is focused on the principles and requirements for presenting information about an entity's assets, liabilities, net asset/equity, revenue, and expenses in its financial statements. This includes information displayed on the face of the primary financial statements and other information disclosed in the notes of the financial statements.
13. The project scope is determined by reference to the existing scope of IPSAS 1. IPSAS 1 currently sets out the general requirements for the selection, location, and organization of information reported in financial statements. The Standard also provides guidance on the structure, minimum disclosures, and overarching principles for preparing financial statements in accordance with IPSAS.
14. IPSAS 1 is primarily focused on setting out the requirements for presenting the Statement of Financial Position, Statement of Financial Performance, and Statement of Changes in Net Assets/Equity. These are described in this consultation as the 'primary financial statements'
15. Other IPSAS Standards that include presentation and disclosure requirements, such as IPSAS 2, *Cash Flow Statements*, are outside this project's scope. Nonetheless, consequential amendments will be considered as part of this project to ensure other IPSAS Standards continue to work together with the new presentation standard.<sup>4</sup>

#### How will this project be developed?

16. The IPSASB decided to initiate this project with a Consultation Paper (CP) due to the critical role that the presentation of financial statements plays in strengthening global PFM. The CP offers an opportunity to explore new ideas and gather constituent feedback on the IPSASB's preliminary views before developing a final pronouncement.

<sup>4</sup> Other related standards, in addition to IPSAS 2, include IPSAS 22, *Disclosure of Information About the General Government Sector*, and IPSAS 24, *Presentation of Budget Information in Financial Statements*. The need for a comprehensive review of these other standards will be considered as part of the IPSASB's future Work Plan development.

17. The Project is being developed over three distinct phases to allow for stakeholder feedback throughout, as explained in Table 1.

**Table 1**

Phase 1 — Consultation Paper (CP) and illustrative exposure draft (ED)	This is the project's current phase, which is seeking feedback on the IPSAB's preliminary views on developing a new IPSAS to replace IPSAS 1. An illustrative ED is included to provide constituents with an understanding of what the proposed standard could look like based on the IPSASB's preliminary views as proposed in this consultation document.
Phase 2 — ED of the proposed standard to replace IPSAS 1, plus consequential amendments to other IPSAS	Considering constituent feedback from Phase 1, the IPSASB will develop the ED as a final pronouncement, including consequential amendments to other IPSAS Standards for public consultation.
Phase 3 — Final standard	Based on constituent feedback received from Phase 2, the final IPSAS and consequential amendments to other IPSAS Standards will be developed for publication.

18. The goal is to obtain feedback from the wide range of stakeholders who rely on the information presented in public sector financial statements. This feedback is essential for ensuring the development of enhancements to existing requirements are robust, practical, and widely accepted, ultimately contributing to improved transparency and accountability in public sector financial reporting.
19. Accompanying the CP is an illustrative ED of what a future pronouncement to replace IPSAS 1 could look like based on the IPSASB's preliminary views. In many jurisdictions, the existing presentation requirements in IPSAS 1 are well-established and applied broadly across the public sector. The illustrative ED, therefore, provides a helpful picture of what the changes could look like compared with the status quo, allowing constituents to consider the possible impacts and provide informed feedback in response to this consultation.

## Chapter 1: Development of New Presentation Standard

- 1.1 To achieve the project objective of improving the communication effectiveness of information reported in public sector financial statements, the IPSASB has considered the following to develop a new IPSAS Standard to replace IPSAS 1.
- (a) Financial reporting developments since IPSAS 1 was last revised in 2006; and
  - (b) Issues identified during this project's scoping and research phase.

### Financial Reporting Developments

- 1.2 IPSAS 1 was originally issued in May 2000 and was primarily drawn from IAS 1, *Presentation of Financial Statements* issued by the IASB. The Standard was last revised in December 2006.<sup>5</sup>
- 1.3 Since IPSAS 1 was last revised, the following related reporting developments have occurred, as summarised in Table 2.

**Table 2 – Project Drivers**

Financial Reporting Developments	Project Drivers <sup>6</sup>
<p><i>IFRS developments</i></p> <p>The IASB has revised IAS 1 several times, introducing the concept of other comprehensive income (OCI) and making other amendments arising from its Disclosure Initiative projects. In April 2024, the IASB issued IFRS 18 which supersedes IAS 1.<sup>7</sup></p>	<p><i>Maintaining alignment with IFRS to the extent appropriate for the public sector</i></p> <p>The IPSASB's strategic objective is to align IPSAS with the requirements, structure, and text of IFRS, where transactions and user needs are the same. Alignment with IFRS will ensure that the new proposed IPSAS reflects the latest IASB developments.</p>
<p><i>IPSASB developments</i></p> <p>The IPSASB completed its Conceptual Framework for general purpose reporting by public sector entities. This included developing:</p> <p>Definitions and recognition criteria for financial statement elements such as assets, liabilities, revenue, and expenses; and</p> <p>General principles for displaying information on the face of the primary financial statements and disclosing information in the notes.</p>	<p><i>Consistency with the IPSASB's Conceptual Framework</i></p> <p>Since the issuance of its Conceptual Framework in 2014 and updates in 2023, the IPSASB has not completed a full review of IPSAS 1 to ensure consistency of standards-level requirements and principles. Consistency with the Conceptual Framework will help ensure the public sector context is appropriately reflected in the new proposed IPSAS.</p>
<p><i>Government Finance Statistics Manual (GFSM 2014) developments</i></p> <p>The International Monetary Fund (IMF) issued an updated Government Finance Statistics (GFS) Manual in 2014.</p>	<p><i>Reducing unnecessary differences with GFSM 2014</i></p> <p>There is considerable overlap between IPSAS Standards and information prepared for GFSM 2014 reporting purposes.</p>

<sup>5</sup> IPSAS 1 has been subsequently amended for consequential amendments relating to the issuance of new IPSAS Standards.

<sup>6</sup> [Appendix A](#) provides additional information regarding the IPSASB's process for considering IASB and GFSM 2014.

<sup>7</sup> IFRS 18 was developed to improve the structure and content of the primary financial statements, with a focus on the statement(s) of financial performance.

<p>This manual provides comprehensive guidelines for compiling and presenting GFSM 2014 information, reflecting modern developments in fiscal reporting and statistical methodology.</p>	<p>Removing unnecessary differences between IPSAS and GFS, where possible, will help promote the broader acceptance and use of IPSAS-based information for PFM purposes.</p>
<p><i>Related work of National Standard-Setters</i>                  Many national standard-setters in both the for-profit and public sectors have recently conducted projects focused on improving the communication effectiveness of information presented in financial statements.</p>	<p><i>Considering alternative presentation approaches</i>                  The related projects of national standard-setters offer valuable insights into the needs of financial statement users at the jurisdictional level.                  These projects also present alternative presentation approaches that could be useful for reflecting the public sector context.</p>

### Issues Identified During Scoping and Research Phase<sup>8</sup>

- 1.4 During the scoping and research phase, the IPSASB identified the following common presentation issues raised by preparers and users of public sector financial statements.
- (a) Entities are unsure how to apply the materiality concept when a specific disclosure is required by a standard, leading to the disclosure of immaterial or non-relevant information.
  - (b) Inconsistencies in the structure of the statement of financial performance — specifically, the practice of presenting certain items of revenue and expenditure separately from an entity’s surplus or deficit for the period.<sup>9</sup>
  - (c) Increased reporting of non-GAAP measures in financial statements, such as additional sub totals in the statement of financial performance – the most common being ‘operating surplus or deficit’. The calculation of these non-GAAP measures varies extensively between different jurisdictions.<sup>10</sup>
  - (d) Diversity in practice regarding the classification of assets and liabilities on the face of the statement of financial position – for example, as an alternative to the current/non-current classification approach, some jurisdictions are using a financial/non-financial classification approach.
  - (e) Inconsistent accounting and presentation of equity reserves and reconciliation of movements for the reporting period. Also, some jurisdictions use different descriptions for categorizing equity balances, such as ‘restricted and unrestricted reserves’ or ‘usable and unusable reserves’.
- 1.5 The consideration of these issues has informed the development of the IPSASB’s preliminary views as explored in the following chapters of this CP.
- (a) General Presentation Requirements — Chapter Two
  - (b) Statement of Financial Performance — Chapter Three
  - (c) Statement of Financial Position — Chapter Four
  - (d) Statement of Changes in Net Assets/Equity — Chapter Five
  - (e) Other Information in the Notes — Chapter Six

<sup>8</sup> This includes stakeholder feedback from recent IPSASB outreach events

<sup>9</sup> Examples of line items excluded and presented separately include finance revenue, finance costs, proceeds from the sale of assets, fair movements, and actuarial gains and losses

<sup>10</sup> Non-GAAP measures refer to measures of financial performance, financial position, or cash flows that are not based on measures provided for within accounting standards. Non-GAAP measures may be reported within or outside the financial statements.

## Development of the Illustrative Exposure Draft

- 1.6 The IPSASB has reached several Preliminary Views as it has advanced the first phase of this project. An illustrative ED ([Appendix D](#)) has been developed to reflect what these views could look like in a new IPSAS Standard.
- 1.7 The illustrative ED has been developed using IFRS 18, Presentation and Disclosure in Financial Statements, as its starting point. The IPSASB considers that the presentation requirements between IPSAS and IFRS should be consistent unless there is a public sector reason to warrant a departure.<sup>11</sup> The IASB developed IFRS 18 through a rigorous due process and was tested through focus groups before being published.
- 1.8 Achieving consistency in the presentation requirements between IPSAS and IFRS, being how the financial statements are structured, minimum content requirements, and the descriptions used, provides immediate benefits from an understandability perspective. This is due to the familiarity many users of public sector financial statements have with IFRS-based financial statements.<sup>12</sup>
- 1.9 Although the development of the illustrative ED has been informed by the IASB's latest thinking on the presentation of financial statements as reflected in IFRS 18, it is essential to highlight that this is not purely an IFRS-alignment project. Modifications have been made in the illustrative ED to ensure the public sector context is appropriately reflected.<sup>13</sup>
- 1.10 Some of the key issues considered from an IFRS 18 alignment perspective, include:
- (a) The public sector approach to other comprehensive income (OCI)

IPSAS 1 does not currently include the concept of OCI, whereas IFRS permits certain income and expense items to be recognized outside of the Profit and Loss Statement and instead presented in the statement of comprehensive income. IPSAS Standards generally requires these equivalent items of revenue and expenses to be recognized directly in equity reserves and accounted for through the Statement Changes in Net Assets/Equity.
  - (b) Sectioned Statement of Financial Performance
  - (c) IFRS 18 has introduced a requirement to classify income and expenses into one of five categories presented in the statement of financial performance — operating, investing, financing, income tax, and discontinued activities. An equivalent requirement does not currently exist in IPSAS 1. This consultation explores how revenue and expense should be classified to support the objectives of public sector financial reporting — including whether to retain the requirement to present expenses by function and nature or allow a mixture of both.
  - (d) Aggregation and disaggregation of information

IFRS 18 has introduced enhanced principles for the aggregation and disaggregation of information. The consultation explores improvements to support the appropriate display of information in the primary financial statements and the disclosure of other information in the notes.
  - (e) Disclosure of management-defined performance measures

IFRS 18 has also introduced disclosure and reconciliation requirements for when management-defined performance measures (also commonly known as non-GAAP measures) are used to communicate

<sup>11</sup> Departures from IFRS may be warranted when the requirements or terminology in IFRS do not appropriately reflect the public sector context, or when additional guidance is necessary for specific or more prevalent transactions in the public sector.

<sup>12</sup> Stakeholder feedback on the IPSASB's [Mid-Period Work Program Consultation](#) supported the commencement of a project to revise IPSAS 1 based on the recent work of the IASB on improving communication effectiveness of information in financial statements.

<sup>13</sup> This has included considering the outcomes of related projects of public sector national standard-setters.

management's view of an aspect of an entity's financial performance. The IPSAB has explored the extent to which non-IPSAS measures are used in the public sector and the need for improved IPSAS requirements.

1.11 These issues have been explored further within the relevant chapters of this CP.

**Preliminary View [X]—Chapter 1**

The IPSASB's Preliminary View is that the development of a new IPSAS Standard to replace IPSAS 1 should use IFRS 18 *Presentation and Disclosure in Financial Statements* as its starting base, with appropriate adaptations to reflect the objectives of financial reporting by public sector entities.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider should be changed in the development approach.

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## Chapter 2: General Presentation Principles

2.1 [PENDING] – The IPSASB discussed the majority of the topics for this Chapter of the CP, and has reviewed related guidance in the Illustrative Exposure Draft as of September 2024. In Q3, Staff will present [draft] text for Chapter 2 of the CP based on the following:

- (a) A revised version of the December 2023 [draft] CP text regarding the *Purpose of the Financial Statements*, to reflect IPSASB member requests to substantially reduce its length and detail; and
- (b) New drafting to reflect the IPSASB's discussions and comments regarding previous Agenda Items (presented between March-September 2024) regarding the definition of financial statement elements, comparative information, fair presentation and compliance, aggregation/disaggregation, offsetting), and consistent with the IED guidance approved by the IPSASB in those meetings.

Staff will also present agenda papers regarding the remaining topics in September 2025]

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## Chapter 3: Statement of Financial Position

### Introduction

- 3.1 The Statement of Financial Position (also often known as a ‘balance sheet’) aims to provide a structured summary of an entity’s assets, liabilities, and net assets/equity at the end of a reporting period, together with comparative information – a summarized version of this Statement is illustrated in Figure 1.

**Figure 1 – Illustrative Statement of Financial Position**

<b>Statement of Financial Position As at 31 December 20X4</b>	<b>20X4 CU</b>	<b>20X3 CU</b>
Assets		
Liabilities		
<b>Net assets</b>		
Components of net assets/equity		
<b>Net assets/equity</b>		

- 3.2 The Statement of Financial Position provides financial statement users with information to help assess:
- (a) The extent to which management has discharged its responsibility for safekeeping and managing the resources of the entity;
  - (b) The extent to which resources are available to support future service delivery activities (i.e. its assets); and
  - (c) The amount and timing of future cash flows necessary to service and repay existing debts and other claims to the entity’s resources (i.e., its liabilities);
  - (d) The liquidity of assets and liabilities held — how quickly assets can be converted into cash and when liabilities are required to be settled; and
  - (e) An entity’s solvency — its ability to meet its short-term and long-term financial and service delivery obligations as they fall due (i.e. its ‘financial sustainability’).
- 3.3 This Chapter explores how this information should be presented in the Statement of Financial Position to enhance its transparency and understandability for accountability and decision-making purposes.<sup>14</sup>
- 3.4 To advance the objectives of this project, the IPSASB considered the following core aspects of presenting the Statement of Financial Position:
- (a) [Classification of Assets and Liabilities](#);
  - (b) [Display of Specific Line Items](#); and
  - (c) [Structure and Presentation of Subtotals](#).
- 3.5 When considering these core aspects, the IPSASB noted that the existing requirements in IPSAS 1 for presenting the Statement of Financial Position are currently aligned with IFRS 18. Through the development

<sup>14</sup> Individual IPSAS set out the requirements for recognizing and measuring the balances that make up an entity’s financial position, this project is focused on how these items should be presented.

of its *Primary Financial Statements* project, the IASB did not identify the need to amend the existing requirements for presenting this statement in IFRS 18.

### Classification of Assets and Liabilities

3.6 When presenting the Statement of Financial Position, an entity is required to classify its assets and liabilities into broad groups based on shared characteristics. This classification helps to enhance understandability and comparability by providing a clear and structured format for presenting the statement.

3.7 IPSAS 1 currently requires an entity to present its assets and liabilities on the Statement of Financial Position using a current/non-current classification or, on an exception basis, an order of liquidity approach.

#### Current/Non-current Classification

3.8 The current/non-current approach requires that assets and liabilities be classified based on whether they are current or non-current, as illustrated in Figure 2.

3.9 The approach distinguishes assets and liabilities continuously circulating as ‘working capital’ (classified as current) from those used to service the entity’s long-term operations (classified as non-current). The information provided by the current/non-current classification is often used for various assessments, such as an entity’s ability to continue as a going concern and compliance with debt covenants.<sup>15</sup>

3.10 The public sector manages its assets and liabilities to ensure resources are available over the short, medium, and long term to sustain service delivery. The current/non-current classification helps to explain the net resources immediately available for service delivery and those earmarked for longer-term initiatives. This supports informed decision-making regarding resource allocation and fiscal planning.

3.11 IPSAS 1 provides specific criteria and guidance for classifying assets and liabilities as current or non-current, as summarized in Table 1.

**Figure 2 — Current/Non-current Classification**

Statement of Financial Position		
As at 31 December 20X4	20X4	20X3
	CU	CU
<b>ASSETS</b>		
Current assets		
...		
<b>Total current assets</b>		
Non-current assets		
...		
<b>Total non-current assets</b>		
<b>Total assets</b>		
<b>LIABILITIES</b>		
Current liabilities		
...		
<b>Total current liabilities</b>		
Non-current liabilities		
....		
<b>Total non-current liabilities</b>		
<b>Total liabilities</b>		
<b>Net assets</b>		
<b>NET ASSETS/EQUITY</b>		
...		
<b>Total net assets/equity</b>		

<sup>15</sup> The term ‘working capital’ describes the difference between current assets and current liabilities. It is often used as a key indicator of an entity’s short-term solvency.

**Table 1 – Current/Non-current Distinction**

<p><b>Current assets</b>                  Resources expected to be converted into cash or used up within a year or the entity's operating cycle, whichever is longer.                  For example, cash and bank accounts, accounts receivable, and inventory.</p>	<p><b>Current liabilities</b>                  Obligations due within a year or the entity's operating cycle, whichever is longer.                  For example, accounts payable and short-term loans.</p>
<p><b>Non-current assets</b>                  All other assets not classified as current.                  For example, property, plant and equipment, intangibles, and long-term investments.</p>	<p><b>Non-current liabilities</b>                  All other liabilities not classified as current                  For example, long-term loans and provisions.</p>

*Current/Non-current Classification*

- 3.12 IPSAS 1 also allows an entity to present its assets and liabilities using an order of liquidity approach, as illustrated in **Figure 3**.
- 3.13 This approach involves listing asset and liability line items on the Statement of Financial Position based on their relative liquidity (i.e., how quickly they can be converted into cash or settled).
- 3.14 The approach is permitted on an exception basis when it provides a more faithfully representative and relevant summary of an entity's financial position.
- 3.15 Financial institutions, service industries, and insurance entities often use this approach because the assets and liabilities held are mainly financial. For these entities, users are more interested in when their assets and liabilities mature as it better reflects the performance of their operations.

**Figure 3 — Example of Order of Liquidity Approach**

Statement of Financial Position As at 31 December 20X2 (in thousands of currency units)		
	20X2 CU	20X1 CU
<b>ASSETS</b>		
Cash and cash equivalents		
Receivables		
Inventories		
Investments		
Property assets held for sale		
Investment property		
Property, plant, and equipment		
Other assets		
<b>Total assets</b>		
<b>LIABILITIES</b>		
Payables		
Taxes and transfers payable		
Employee entitlements		
Social benefits liabilities		
Loans and other borrowings		
Other liabilities		
<b>Total liabilities</b>		
<b>Net assets</b>		

*Alternative Classification Approach*

- 3.16 As an alternative to the traditional current/non-current approach, the IPSASB noted that several jurisdictions currently use a financial/non-financial classification when presenting the Statement of Financial Position at central government and other levels of the public sector.<sup>16</sup>
- 3.17 The financial/non-financial approach involves classifying assets and liabilities based on whether they are considered financial or non-financial, as illustrated in Figure 4.

<sup>16</sup> For example, the central government financial statements of Australia, Canada, and France broadly classify their assets and liabilities based on applying a financial/non-financial distinction.

3.18 For those jurisdictions currently using a financial/non-financial classification, they highlight that this presentation approach provides users with an understanding of:

- (a) The financial assets available to cover the immediate expenses associated with the ongoing delivery of services to the public;
- (b) The non-financial assets intended to sustain public service delivery over the long term; and
- (c) The financial liabilities and other non-financial liabilities recognized.

**Figure 4 — Financial/Non-financial Classification**

Statement of Financial Position As at 31 December 20X2		
	20X2 CU	20X1 CU
<b>ASSETS</b>		
Financial assets		
...		
<b>Total Financial assets</b>		
Non-financial assets		
...		
<b>Total non-financial assets</b>		
<b>Total assets</b>		
<b>LIABILITIES</b>		
Financial liabilities		
...		
<b>Total financial liabilities</b>		
Non-financial liabilities		
...		
<b>Total non-financial liabilities</b>		
<b>Total liabilities</b>		
<b>Net assets</b>		
<b>NET ASSETS/EQUITY</b>		
...		
<b>Total net assets/equity</b>		

3.19 Presenting financial assets and financial liabilities separately increases the focus on how effectively an entity manages its financial resources. If financial liabilities exceed financial assets, it signals to users that actions such as raising revenues, reducing services, increasing debt, or selling non-financial assets may be needed to maintain operations.

3.20 The financial/non-financial distinction is generally understood to result in the classification of assets and liabilities, as summarized in Table 2.

Table 2 – Financial/Non-financial Distinction

<p><b>Financial assets</b>                      Assets held primarily for their financial capacity to generate cash flows to fund an entity’s ongoing service delivery activities or to settle debt obligations.                      Examples include assets that can be easily converted to cash, such as money in the bank, investments, and accounts receivable.</p>	<p><b>Financial liabilities</b>                      Liabilities that represent amounts owed to external parties and are expected to be settled using existing or future financial assets.                      Examples include loans, accounts payable, and other debt instruments.</p>
<p><b>Non-financial assets</b>                      Assets held primarily for their operational capacity to support the provision of services over future periods.                      Examples include property, plant and equipment, and intangible assets.</p>	<p><b>Non-current liabilities</b>                      Liabilities that are not considered financial liabilities.                      Examples include provisions and certain obligations for the transfer of future services or goods.</p>

3.21 There is diversity in practice across the public sector in how assets and liabilities are classified as financial or non-financial for presentation purposes. In practice, decisions are often made at the jurisdictional level about what assets and liabilities are classified as ‘financial’ based on a government’s short—and long-term fiscal objectives.

- 3.22 The IPSASB noted that in addition to the financial/non-financial alternative, there are other possible approaches for classifying assets and liabilities into broad groups when presenting the Statement of Financial Position. Two different approaches could include:
- (a) Classifying assets and liabilities based on whether they are held for:
    - (i) Operational purposes — to deliver services directly to the public, such as hospital buildings held for providing healthcare to citizens;
    - (ii) Investing purposes — to generate inflows of economic benefits, such as long-term bonds, to provide investment returns; and
    - (iii) Financing purposes — to manage debt, such as loans to fund ongoing activities; or
  - (b) Classifying assets and liabilities based on the core objectives of the reporting entity. For a central government, this classification could, for example, result in grouping assets and liabilities by the service line they contribute to — such as health, education, economic management, defense, welfare, law enforcement, and environmental protection.
- 3.23 These other classification approaches provide helpful information about how an entity's assets and liabilities support its objectives. However, the Board considers this type of information better suited to management commentary-type reporting rather than in the financial statements, where a consistent approach is important for accountability and comparability purposes.
- 3.24 The IPSASB acknowledged the possible benefits of other approaches for classifying assets and liabilities. However, the IPSASB do not see a current need to develop a new classification approach in IPSAS Standards at this time. The requirements in IPSAS Standards should support the consistent classification of assets and liabilities in the Statement of Financial Position across the public sector.
- 3.25 This preliminary view is based on the understanding that:
- (a) The existing current/non-current approach is generally accepted and broadly used across both the for-profit and public sector, with no significant issues arising in practice;
  - (b) Introducing a new classification approach could disrupt the consistency and comparability of public sector financial statements, making it challenging for users to interpret and compare financial information;
  - (c) Difficulties will likely arise in reaching an international consensus on generally accepted definitions and criteria for financial and non-financial items, which could ultimately lead to a divergence in practice for those jurisdictions applying IPSAS Standards;
  - (d) The classification outcomes of the current/non-current and financial/non-financial approaches are, in many circumstances, not substantially different; and
  - (e) IPSAS 1 currently allows an entity the flexibility to disclose alternative classifications of assets and liabilities in the notes.
- 3.26 Consideration was also given to whether the order of liquidity approach should be retained in IPSAS Standards on an exception basis. It was noted that this approach is currently used by public sector entities such as central banks, as it provides a clearer view of how financial resources are being managed.
- 3.27 The IPSASB considers that this presentation approach should be retained. However, the new IPSAS Standard should emphasize that the order of liquidity approach is only permitted when it provides a more faithful and relevant representation of an entity's financial position compared to the current/non-current approach.

**Preliminary View [X]—Chapter 3**

The IPSASB’s Preliminary View is that:

- (a) The current/non-current approach be retained as the general approach for classifying assets and liabilities on the face of the Statement of Financial Position;
- (b) The order of liquidity approach should be retained, with application permitted on an exception basis; and
- (c) For entities with diverse operations, a mix of these two approaches may be appropriate.<sup>17</sup> In this approach, some assets and liabilities are presented using the current/non-current classification, and others are presented in order of liquidity.

Do you agree with the IPSASB’s Preliminary View?

If not, please provide your reasons, stating clearly what you consider should be changed regarding the classification of assets and liabilities on the Statement of Financial Position.

**Display of Specific Line Items**

- 3.28 The presentation of the Statement of Financial Position requires the preparer to consider what line items should be displayed on the face of the statement (under each broad classification, as discussed in the previous section). By including minimum display requirements, the Statement of Financial Position is comparable and understandable.
- 3.29 IPSAS 1 currently requires the following line items to be displayed on the Statement of Financial Position when relevant and material to the reporting entity, as presented in Table 3.

**Table 3 – Line Items in the Statement of Financial Position**

Assets	Liabilities
Cash and cash equivalents	Payables and other accrued expenses;
Receivables and other accrued revenue	Taxes and transfers
Financial assets	Financial liabilities
Investments accounted for using the equity method	Social benefit liabilities
Total assets classified as held for sale	Liabilities included in disposal group
Property, plant, and equipment	Provisions
Investment property	<b>Components of Net Assets/Equity<sup>18</sup></b>
Intangible assets	Share capital (when applicable)
Biological assets	Contribute capital from owners
Inventories	Accumulated surpluses or deficits
	Other equity reserves
	Non-controlling interests

<sup>17</sup> In this approach, some assets and liabilities are presented using the current/non-current classification and others in order of liquidity.

<sup>18</sup> It is proposed that the amounts of the components of make-up an entity’s net assets/equity shall be displayed in the face of the Statement of Financial Position or disclosed in the notes.

- 3.30 The following general principles are relevant when applying the requirement to display specific line items as prescribed by IPSAS 1.
- (a) The line items only require disclosure if material;
  - (b) Additional line items shall be presented when such a presentation is relevant to understanding the entity's financial position;
  - (c) Decisions about the presentation of line items should be based on their size, nature, or function and relevance; and
  - (d) The description of line items shall be amended based on the nature of the entity and its transactions
- 3.31 The IPSASB considers that the specific line items currently required by IPSAS 1 to be displayed on the Statement of Financial Position (when relevant and material) continue to be fit for purpose. A new line has been added for goodwill to distinguish this asset from other intangible assets. This new line item ensures that the new IPSAS Standard maintains appropriate alignment with equivalent requirements in IFRS 18.

### **Preliminary View [X]—Chapter 3**

The IPSASB's Preliminary View is that the specific line items required in IPSAS 1 should be carried forward, with enhancements limited to adding a new line for goodwill (to align with IFRS 18).

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what line items should be added or removed from the list provided in Table 3.

### **Structure and Presentation of Subtotals**

- 3.32 An appropriate structure for presenting the Statement of Financial Position (i.e., its order and format) helps ensure that information is presented in a logical and systematic manner. This assists the user in accessing the information needed in response to their specific needs
- 3.33 Financial statements are often structured in a particular order to allow for reporting specific subtotals. Displaying subtotals within the Statement of Financial Position can help users assess different aspects of an entity's financial position. Subtotals are often used to present specific measures or indicators based on jurisdictional or entity-level considerations.
- 3.34 IPSAS 1 does not currently prescribe a structure for presenting the Statement of Financial Position or require the display of any specific subtotals. Instead, IPSAS 1 provides the flexibility for an entity to develop its own structure and subtotals based on its nature and user needs.<sup>19</sup>

### *Presentation of Net Debt*

- 3.35 Through outreach activities, we have noted the call from some stakeholders for the IPSASB to consider developing requirements that support the presentation of 'net debt' as a specific subtotal on the face of the Statement of Financial Position. Net debt is a common indicator used by policymakers, economists, and analysts to assess an entity's overall indebtedness and ability to meet its future financial obligations.
- 3.36 Net debt is broadly understood to be the difference between an entity's financial assets and financial liabilities. Net debt is an important measure of the government's health and sustainability. If the government's

<sup>19</sup> The presentation of additional headings and subtotals is permitted (and encouraged) if such a presentation is necessary for the Statement of Financial Position to provide a useful summary of an entity's assets, liabilities, and net assets/equity

financial assets exceed its liabilities, it indicates that net financial assets are available to support the delivery of future activities and to satisfy debt repayment obligations.

3.37 To mandate net debt as a subtotal, which must be displayed on the face of the Statement of Financial Position, would necessitate the need for a specific presentation structure to be prescribed, as illustrated in Figure 5.

**Figure 5 — Illustration of Net Debt Presentation**

Statement of Financial Position As at 31 December 202X4	20X4 CU	20X3 CU
<b>Financial Assets</b>		
<b>Less Financial Liabilities</b>		
<b>Net Debt</b>		
<b>Plus Non-Financial Assets</b>		
<b>Less Non-Financial Liabilities</b>		
<b>Net Assets</b>		
<b>Components of Net Assets/Equity</b>		
<b>Total Net Assets/Equity</b>		

3.38 To introduce such a structure, the IPSASB would need to develop definitions and criteria for applying a financial/non-financial approach to classifying assets and liabilities (as discussed in paragraphs 3.16-3.23).

3.39 The reporting of net debt as a specific subtotal on the face of the Statement of Financial Position would be difficult when applying the current structure as provided in IPSAS 1 (as illustrated in Figure 3), which focuses on presenting an entity's 'total assets' and 'total liabilities'.

*Preliminary View*

3.40 The IPSASB considers that prescribing a structure for presenting the Statement of Financial Position or mandating the display of specific subtotals would not significantly enhance the transparency, understandability, and usefulness of public sector financial statements.

3.41 Structure:

- (a) The underlying principles for preparing general purpose financial statements, together with the specific requirements for classifying assets and liabilities and displaying specific line items, provide an appropriate baseline for presenting the Statement of Financial Position. Reporting entities should continue to have the flexibility to tailor the structure of the Statement of Financial Position based on its specific circumstances, user needs, and local jurisdictional considerations.
- (b) IPSAS 1 provides illustrative examples of different financial statement presentation formats. This guidance serves as a useful 'benchmark' for how the primary financial statements should be structured, supporting appropriate consistency in presentation across the public sector.

3.42 Subtotals:

- (a) The IPSASB does not consider it useful or feasible to define specific subtotals to assess different aspects of an entity's financial position (such as 'net debt') because these indicators are often measured based on local jurisdictional. It would, therefore, be difficult for the IPSASB to develop a definition of net debt that would be generally accepted and consistently applied across the public sector internationally.
- (b) The IPSASB notes that an entity may choose to present different measures of its financial position in the notes if the components of their calculation are drawn directly from line items presented in the financial statements prepared in accordance with IPSAS Standards.
- (c) Although the presentation of specific subtotals has not been proposed, new general guidance has been developed to support the appropriate use of subtotals. This guidance sets out that any subtotal presented in the Statement of Financial Position shall:

- (i) Comprise amounts recognized and measured in accordance with IPSAS Standards;
- (ii) Be compatible with the classification of assets and liabilities;
- (iii) Be consistent from period to period; and
- (iv) Be displayed no more prominently than specific totals and subtotals required by IPSAS.

**Preliminary View [X]—Chapter 3**

The IPSASB's preliminary view is that IPSAS should:

- (a) Not prescribe a specific structure (i.e. order or format) for presenting the Statement of Financial Position; and
- (b) Not require the display of specific subtotals on the Statement of Financial Position.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider should be changed regarding the structure and the presentation of specific subtotals.

- 3.43 As an outcome of the Preliminary Views in this Chapter, the proposed requirements for presenting the Statement of Financial Position (as provided in the illustrative ED) are aligned with IFRS 18 and consistent with existing requirements in IPSAS 1.

DRAFT

## Chapter 4: Statement of Financial Performance

### Introduction

- 4.1 Information about the financial performance of a reporting entity helps their financial statement users assess the following, to support accountability and decision-making purposes:
- Whether the entity has acquired resources economically, and used them efficiently, effectively, and as intended, to achieve its service delivery, other operating, and financial objectives;
  - Whether the entity has effectively managed the resources it is responsible for, and complied with the relevant budgetary, legislative, and other authority regulating the raising and use of resources;
  - Whether the range, volume, and costs of services provided during the reporting period are appropriate, and the amounts and sources of cost recovery; and
  - Whether the entity's resources are sufficient to maintain the volume and quality of services currently provided in future periods, and if they increase the entity's indebtedness level.
- 4.2 Financial performance is reflected by the entity's revenue and expense<sup>20</sup> items in the reporting period. IPSAS Standards currently require an entity to present revenue and expense items on one of two Statements:
- Statement of Financial Performance<sup>21</sup> – This Statement presents revenue and expense items recognized in the reporting period, in surplus or deficit.
  - Statement of Changes in Net Assets/Equity – This Statement presents revenue and expense items recognized in the reporting period, outside surplus or deficit, directly in net assets/equity.
- 4.3 This Chapter explores potential presentation requirements regarding financial performance information on the Statement of Financial Performance, and presents the IPSASB's considerations and conclusions on how best to enhance the presentation requirements to better support users of financial statements. Chapter 5 explores the potential presentation requirements regarding financial performance information on the Statement of Changes in Net Assets/Equity:
- 4.4 The Statement of Financial Performance aims to provide a structured overview of a reporting entity's revenue and expense items during the reporting period, together with comparative information – a summarized version of this Statement is illustrated in Figure 1.

**Figure 1 – Illustrative Statement of Financial Performance**

<b>Statement of Financial Performance</b>	<b>20X4</b>	<b>20X3</b>
For the year ended December 31, 20X4	CU	CU
Revenue		
Expenses		
<b>Surplus/(Deficit) for the period from continuing operations</b>		
(Gain)/Loss for the period from discontinued operations		
<b>Surplus/(Deficit) for the period</b>		

<sup>20</sup> 'Revenue' is a gross inflow of economic benefits or service potential during the reporting period which results in an increase in the net financial position of the entity, other than increases arising from ownership contributions. 'Expense' is a decrease in economic benefits or service potential during the reporting period which decreases the net financial position of the entity, other than decreases arising from ownership distributions.

<sup>21</sup> The Statement of Financial Performance may also be referred to as a 'statement of revenues and expenses', 'income statement', 'operating statement', or 'profit and loss statement'.

4.5 To advance the objectives of this project (Chapter 1), the IPSASB considered the following core aspects of presenting information on the Statement of Financial Performance:

- (a) [Classification of Revenue and Expense Items](#);
- (b) [Presentation of Totals and Subtotals](#); and
- (c) [Presentation of Line Items](#).

### **Classification of Revenue and Expense Items**

4.6 The Conceptual Framework provides general principles for displaying information in the financial statements, noting that displayed information should be concise, understandable, and prominently presented. The Conceptual Framework also acknowledges that the development of presentation requirements requires a balance between standardized requirements (to facilitate understandability and meet the objectives of financial reporting across all entities) and entity-specific needs (to reflect the nature and operations of specific entities).

4.7 IPSAS 1 currently requires entities to present all revenue and expense items in surplus or deficit, unless an IPSAS Standard requires otherwise. IPSAS 1 sets minimum presentation and disclosure requirements, allowing substantial flexibility for public sector entities to present and disclose additional information it deems material and relevant to its financial statement users and faithfully representative of that information.

4.8 The Statement of Financial Performance is a key source of financial information, to help financial statement users obtain an understandable overview and support their analysis and decision-making needs. However, the lack of specific guidance has resulted in diversity in practice in the presentation of revenue and expense items on the Statement of Financial Performance. This poses challenges for users of public sector financial statements to understand, analyze, and compare financial performance information.

### *Conceptual Benefits of Categorization*

4.9 The objective and role of financial statements is to provide financial information about a reporting entity that is useful for financial statement users for accountability and decision-making purposes. Structure, through the categorization of information, has previously proven useful for public sector financial statement users to better understand information in primary financial statements. The IPSASB considered whether requiring categorization on the Statement of Financial Performance could also improve how information is presented to provide more useful, relevant, and comparable information for public sector financial statement users.

4.10 Conceptually, categorization would bring a more structured presentation of revenue and expense items than what is currently achieved by IPSAS 1 requirements to support user needs. The IPSASB generally agreed that, conceptually, requiring reporting entities to present its revenue and expense items recognized in surplus or deficit in distinct categories would:

- (a) **Reduce diversity in current financial reporting**, to improve the comparability of information across similar entities (e.g., by remit or industry) within or across jurisdictions, and help users assess performance against relevant metrics and benchmarks; and
- (b) **Support financial statement users information needs and effective public financial management**, by providing a clearer picture of how a reporting entity is managing its resources, executing its roles, and conducting its activities in the current and future periods. By doing so, users can more effectively understand, analyze, and objectively compare information to hold the entity accountable to achieving its service delivery objectives and effectively serving its constituents with available resources, including the long-term sustainability of its finances and key programs, and make informed decisions.

- 4.11 Categorizing financial information on the Statement of Financial Performance would also be consistent with the IPSASB's Conceptual Framework, which notes that effective grouping of information considers the nature of and linkages between information sets, and jurisdiction-specific factors (to the extent appropriate).
- 4.12 Thus, the IPSASB concluded that conceptually, categorization would help financial statement users better understand, analyze, and compare financial performance information to support accountability and decision-making. The IPSASB then considered how categorization would be applied in practice in the public sector.

#### *Conceptual Benefits of Categorization*

[Note for reviewer – some of the text in this section may be moved to [Appendix B](#), as the discussion relate more broadly to public sector financial statement users]

- 4.13 Practically, it is necessary to identify broad standardized categories that are appropriate for a wide range of public sector entities internationally to achieve the intended benefits and effectively help financial statement users better understand, analyze, and compare the financial information.
- 4.14 While most public sector entities have the primary function of providing services to enhance and maintain the well-being of citizens and other eligible residents, the international public sector is comprised of a wide range of entities (including but not limited to national, regional, and local governments, programs, commissions, agencies, and intergovernmental organizations). These entities may differ in their nature, service delivery objective, jurisdiction-specific factors. Consequently, the primary users of financial statements will differ by entity, as entities serve potentially different groups of service recipients and resource providers.
- 4.15 These differences directly influence an entity's considerations regarding what information would meet the needs of its financial statement users. Balance is crucial, as some information may be of more interest or greater use to some users than others. The following are examples for illustration purposes:
- (a) A **federal** government serving its nation will respond to the information needs of its service recipients (e.g., citizens), resource providers (e.g., taxpayers, other government entities, lenders), and representatives of the interests of these service recipients and resource providers (e.g., parliamentarians, ministers, and members of legislative bodies);
  - (b) A **municipal** government providing local services to its community will respond to the information needs of its service recipients (e.g., citizens), its resource providers (e.g., taxpayers, other government entities, lenders), and representatives of the interests of these service recipients and resource providers (e.g., city councilors and elected officials);
  - (c) A **hospital** providing health services will respond to the information needs of its service recipients (e.g., patients, and medical students) and its resource providers (e.g., government entities, lenders, donors, educational institutions, other organizations, and patients themselves); and
  - (d) A **university** offering education will respond to the information needs of its service recipients (e.g., students, researchers, faculty staff) and its resource providers (e.g., government entities, lenders, donors, other organizations, and students themselves).
- 4.16 The different service recipients and resource providers, and their varying information needs pose several challenges in identifying appropriate standardized categories. In particular:
- (a) **Comparability:** which standardized categories would provide the appropriate level of comparability of financial information? For example, a regional development bank or government may compare similar entities (e.g., municipality 1 vs. municipality 2) to understand how they deliver similar public services to their respective services recipients, to support its funding decisions. In contrast, a lender or grantor may compare different entities (e.g., ministry of transport vs. ministry of infrastructure) to determine which entity may more effectively use the funding to meet a specific objective.

- (b) **Clear communication:** which standardized categories would effectively structure financial information to provide a clear picture of an entity's financial performance for the period? For example, a citizen receiving public services in one jurisdiction may wish to see its government's revenues and expenses presented by function (e.g., transportation or social housing). However, a taxpayer in another jurisdiction may wish to see its government's revenues and expenses presented by nature (e.g., economic resources consumed for salary or materials). Other service recipients may wish to see both function and nature of these items. The introduction of standardized categories would provide a comparable measure of financial performance, and a useful starting point for users' analysis, to support their accountability and decision-making needs.

*Potential Categorization Approaches to Support User Needs*

- 4.17 In line with its Project Drivers (Chapter 1, Table 2), the IPSASB considered whether to develop new presentation requirements for the Statement of Financial Performance that:
- (a) Better align with IFRS 18 requirements<sup>22</sup> with any necessary public sector guidance or adaptations;
  - (b) Better align with Government Finance Statistics Manual 2014 (GFSM 2014) requirements to reduce unnecessary differences as appropriate; or
  - (c) Are different and unique for public sector financial reporting.

[1] Aligning with IFRS 18 Categories

- 4.18 If presentation requirements are aligned with IFRS 18, public sector entities would be required to categorize its revenue and expense items on the Statement of Financial Performance into five specific categories (of which Operating, Investing, and Financing are new categories). Table 1 provides a summary of how each category provides financial statement users with useful information to support accountability and decision-making, and examples of public sector revenue and expense items that may be classified in each category.

<sup>22</sup> The existing requirements in IPSAS 1 for the Statement of Financial Performance, which were primarily aligned with IAS 1 *Presentation of Financial Statements*, are not aligned with IFRS 18. IFRS 18 evolved the presentation landscape in the private sector in response to the information needs of financial statement users, by introducing a more formal structure to its Statement of Profit or Loss to address similar challenges by reducing diversity, improving comparability and communications, thereby supporting user analysis.

**Table 1 – Categorization of Revenue and Expenses in Alignment with IFRS 18**

<b>Category</b>	<b>Presents financial statement users information about...</b>	<b>Examples of public sector transactions that generate revenues and expenses in this Category</b>
<b>Operating</b>	Revenues received and expenses incurred in delivering the entity's core public service delivery objectives, including whether the current levels of revenues are sufficient to maintain the volume and quality of services currently provided, to assess its performance of its core service delivery objectives.	All revenue and expenses in the reporting period that are not classified into the other four categories, such as revenues and expenses from: <ul style="list-style-type: none"> <li>• Operations and activities to achieve service delivery objectives, accounted for using a variety of standards (including but not limited to IPSAS 47, <i>Revenue</i> and IPSAS 48, <i>Transfer Expenses</i>)</li> <li>• Consumption, depreciation and amortization of assets accounted for under various IPSAS Standards</li> </ul>
<b>Investing</b>	Revenues and expenses arising from investments of resources to maintain service delivery over the medium and long term. These investment returns are generated individually and largely independently from the reporting entity's operations.	Revenues and expenses from: <ul style="list-style-type: none"> <li>• Debt and equity investments under IPSAS 41, <i>Financial Instruments</i></li> <li>• Investments in associates and joint ventures under IPSAS 36, <i>Investments in Associates and Joint Ventures</i></li> <li>• Investment properties accounted for under IPSAS 16, <i>Investment Property</i></li> <li>• Impairment based on application of IPSAS 21, <i>Impairment of Non-cash-generating Assets</i> and IPSAS 26, <i>Impairment of Cash-generating Assets</i></li> </ul>
<b>Financing</b>	Revenues and expenses arising from servicing debt obligations (the effects of financing) and other liabilities that do not only involve raising finance.	Revenues and expenses from: <ul style="list-style-type: none"> <li>• Loans and bonds under IPSAS 41</li> <li>• Lease liabilities under IPSAS 43, <i>Leases</i></li> <li>• Pension liabilities under IPSAS 39, <i>Employee Benefits</i> and IPSAS 49, <i>Retirement Benefit Plans</i></li> </ul>
<b>Discontinued Operations</b>	Revenues or expenses from the reporting entity's discontinued operations.	Revenues and expenses from: <ul style="list-style-type: none"> <li>• From discontinued operations under IPSAS 44, <i>Non-current Assets Held for Sale and Discontinued Operations</i></li> </ul>
<b>Income Taxes</b>	Revenues and expenses from any income taxes (for public sector entities subject to such taxes).	Revenues and expenses from: <ul style="list-style-type: none"> <li>• From income tax requirements, according to relevant international or national accounting standards</li> </ul>

4.19 This new presentation requirement to classify revenue and expense items in these categories provides prescriptive guidance to help reporting entities classify revenues and expenses in a consistent manner, to achieve comparability across Statements of Financial Performance. These categories, which are not required labels, also provide flexibility: if an entity does not have investment returns, then it would not need to present an Investing category. Thus, presenting financial performance information using these broad but standardized categories would also effectively meet the needs of users of public sector financial statements. This:

- (a) Would ensure that reporting entities provide more useful information to its financial statement users by presenting key measures of its operations, investment returns, and effects of financing separately; and
- (b) Sets the Operating category as the “residual” category comprised of all revenues and expenses not presented in the other categories, which reflects that a reporting entity's operations include many

different roles, responsibilities, and activities. Thus, an entity’s performance in executing these roles, responsibilities, and activities is a focus area for users of financial statements.

4.20 To effectively provide users with useful information about its financial performance, a public sector entity should also consider its main operating activities to determine whether certain revenues and expenses should be classified in the Operating category that would otherwise have been in the Investing or Financing categories. To identify its main operating activities, a public sector entity should consider whether information about the activity is used as an important indicator of its performance for assessment, monitoring, or reporting purposes. Thus, a main operating activity for one public sector entity may not be a main operating activity for another, and each entity should use judgment, considering facts and circumstances to identify its main operating activities.

4.21 **Table 2** lists two specified main operating activities that a public sector entity may engage in to achieve its service delivery objectives or policy goals, which would prompt that entity to apply additional guidance to appropriately reflect its financial performance in the Statement of Financial Performance.

**Table 2 – Specified Main Operating Activities**

Specified Main Operating Activities	Additional guidance would...	Examples of public sector entities with this main operating activity
<b>Investing in particular types of assets (“investing in assets”)</b>	Require entities with this main operating activity to classify certain revenues and expenses into the Operating category (that would otherwise have been classified into the Investing category).	<ul style="list-style-type: none"> <li>• Holding property to earn rental or for capital appreciation in accordance with IPSAS 16 (e.g., managing a government’s property portfolio on a commercial basis, or using funds generated to finance other service delivery activities)</li> <li>• Representing or supporting the interests of a wider group of investors, applying IPSAS 35, <i>Consolidated Financial Statements</i> (e.g., pension funds, government investment funds or trusts)</li> </ul>
<b>Providing financing to other parties</b>	Require entities with this main operating activity to classify certain revenues and expenses into the Operating category (that would otherwise have been classified into the Financing category).	<ul style="list-style-type: none"> <li>• Granting financing or entering into lending agreements to support government assistance programs or achieve specific objectives or policy goals in accordance with IPSAS 41 (e.g., concessionary loans to students, small businesses, or other government entities)</li> <li>• Providing financing or entering into concessionary leases to support affordable housing initiatives or achieve specific service delivery objectives, applying IPSAS 43</li> </ul>

4.22 This additional requirement for public sector entities that has a main operating activity of investing in assets or providing financing to other parties classify certain revenues and expenses into the Operating category (that would otherwise have been in other categories) to provide a better indicator of the entity’s overall performance in the reporting period, by appropriately reflecting the purpose of these underlying transactions as indicators of the entity’s activities towards achieving its service delivery objectives. This would result in the presentation of information that is more useful and relevant to financial statements users for their analysis and decision making.

4.23 To help public sector entities categorize its revenue and expense items to achieve that outcome, the IPSASB intends to provide additional public sector guidance to:

- (a) Prompt reporting entities to consider the nature and substance of the revenue or expense item and from what it arises. For example, if an entity receives revenue subject to appropriations, the entity

should consider its nature and substance to determine whether it is an investment return (to be classified in the Investing category) or from operations (to be classified in the Operating category);

- (b) Clarify whether and how other public sector accounting concepts are relevant to the categorization of revenue and expense items. For example, whether an asset is held primarily for its operational or financial capacity directly impacts asset measurement considerations under IPSAS Standards, but does not necessarily dictate the presentation of revenues or expenses from those assets in the Operating or Financing category<sup>23</sup>; and
- (c) Provide specific public sector examples, to illustrate how revenue or expense items may be classified into these categories, with reference to applicable IPSAS Standards for those related transactions. These illustrative examples can build on the examples described in **Table 1** and be complemented by broad illustrative statements in **Appendix C**; and
- (d) Provide specific public sector examples, to help entities determine whether they invest in assets or provide financing to other parties as a main operating activity to identify when they should classify certain revenue and expense items into the Operating category (that would otherwise have been in other categories). These examples can leverage those in **Table 2**.

#### [2] Aligning with GFSM 2014 Categories

4.24 To effectively consider aligning with GFSM 2014 presentation requirements to reduce unnecessary differences, it is necessary to acknowledge the fundamental differences between the two frameworks and their statements, and the implications:

- (a) The GFSM 2014 Statement of Operations is similar, but not equivalent to, IPSAS Statement of Financial Performance as they present different information, serve different objectives, and are not directly comparable due to several fundamental differences (see **Appendix A**);
- (b) What constitutes revenues and expenses differ. Thus, some revenues and expenses recognized in surplus or deficit under IPSAS Standards are considered other economic flows (and not revenue and expenses) under GFSM 2014; and
- (c) How revenues and expenses are identified and calculated differ. Thus, the application of different IPSAS Standards and GFSM 2014 requirements can yield the same presentation despite different underlying identification, recognition, measurement, and classifications.

4.25 To align with GFSM 2014's presentation of revenue and expenses on its Statement of Operations, public sector entities would be required to present revenue items and expense items as two separate subsections under a single category, "Items recognized in surplus or deficit", but with a new, specific set of classification and aggregation requirements based on the economic nature of each revenue and expense item presented within that category.

4.26 The IPSASB acknowledged that this approach can reduce differences between IPSAS Standards and GFSM 2014 by better aligning the presentation of revenue and expense items and introducing more consistency in

<sup>23</sup> Revenue and expenses from an asset held primarily for its financial capacity is not necessarily classified in the Financing category. The reporting entity would need to consider the asset itself. For example, a public sector hospital may operate one building on a commercial basis, and conclude that the building is held primarily for financial capacity. However, since the hospital is still operating that building to achieve its service delivery objective (providing healthcare services), the revenues and expenses from that building would likely be classified in the Operating category. As another example, a municipal government may hold a piece of land with the sole intention of earning rental income and capital appreciation and conclude that the land is held primarily for financial capacity. However, since this land likely meets the definition of an investment property, the revenue and expenses from that land would likely be classified in the Investing category (so long as investing in investment properties is not a main operating activity of the municipal government).

presentation across public sector Statements of Financial Performance. However, the drawbacks are significant, as a direct result of the fundamental differences between IPSAS Standards and GFSM 2014:

- (a) Revising IPSAS presentation requirements to align with GFSM 2014 creates the illusion of alignment, without achieving alignment in substance. For example, “taxes” presented under this approach in IPSAS may appear to be the same as “taxes” presented in a GFSM 2014 Statement of Operations, but the amount and the principles applied to calculate that amount are fundamentally different in IPSAS Standards vs. GFSM 2014. This could mislead users of financial statements and cause greater confusion; and
- (b) Revising IPSAS presentation requirements to align with GFSM 2014 would not effectively reflect the diversity of entities preparing financial statements based on IPSAS Standards, compared to those preparing reports based on GFSM 2014. This is because GFSM 2014 is developed for fiscal analysis for national governments, and its presentation requirements are a follow-through of that objective. In comparison, the presentation requirements in IPSAS Standards are designed to be applied by a broad set of public sector entities.

### [3] Developing Public Sector Specific Categories

4.27 The IPSASB considered whether to develop a unique set of standardized categories for use by public sector reporting entities. Requiring standardized categories unique to the public sector, that differ from or adapt IFRS 18 categories, may better reflect the overall objectives, roles, and activities of public sector entities in its current and future periods, thereby providing financial statement users with more relevant and useful information about its financial performance.

4.28 Any unique set of standardized categories for the public sector must:

- (a) Be conceptually sound and sufficiently broad, to offer comparability while balancing diverse financial statement user needs, in order to be useful. This acknowledges that public sector entities vary widely in their service delivery objectives with varying groups of users and information needs. Since entities may provide different services to different recipients, and have different resource providers, it is very likely that what may be useful for one set of users, may not be for another; and
- (b) Be clearer, more applicable, and better able to achieve the objective of financial reporting on the Statement of Financial Performance to warrant deviation from IFRS 18.

4.29 To identify a unique set of standardized public-sector-specific categories, the IPSASB considered but ultimately rejected the following due to conceptual challenges and practical feasibility:

- (a) Use “Operating” and “Non-operating” (or “Operating” and “Investing and Financing”) – Adapting IFRS 18 categories by combining or renaming categories may better emphasize the importance of financial information about an entity’s performance to assess whether it is achieving its public sector objectives. However, the IPSASB has not been able to reach a consensus to define (and thus delineate between) operating and non-operating, which poses challenges in using this delineation for categorization of revenue and expenses. Furthermore, merging the investing and financing categories would obscure information about investments and effects of financing, thereby reducing communication effectiveness.
- (b) Use “Operating”, “Investing”, and “Funding” – Adapting IFRS 18 categories by revising the composition and naming of categories may better highlight that public sector entities aim to achieve and acquire resources to support both current and future service delivery objectives. This adaptation splits the IFRS 18 Operating category into two categories (one presents information related to current operating capacity changes and current services, while the other presents information about future operating capacity changes or investments in future services that are not capitalized), and combines IFRS 18’s

Investing and Financing categories into a public sector “Funding” category (to present information about activities to provide funding for future services from investment returns and effects of financing). The IPSASB noted that this adaptation poses similar challenges as paragraph 4.29(a), and may also have wider implications, as users may be confused by different categorization of revenues and expenses in IPSAS Standards vs. IFRS despite same or similar nature or substance, and may lead to negative impacts on the ability of public sector entities to access the capital markets effectively and efficiently.

- (c) Use existing concepts developed for other IPSAS Standards, such as “Operational vs. Financial Capacity” or “Exchange vs. Non-exchange” – these concepts reflect the public sector but were developed with specific applications in mind (e.g., measurement based on primary reason for holding assets, or accounting based on economic substance of transactions). Presenting revenue and expense items using these concepts would not provide clear or useful information for financial statement users, nor be appropriate for wider application to categorizing financial performance.
- (d) Allowing individual jurisdictions to determine and require categories deemed appropriate for their entities – while this may acknowledge the diversity of public sector entities and jurisdictional differences, it would not reduce diversity of reporting in practice, nor improve comparability and usefulness of information presented for financial statement users.

4.30 Based on its research and deliberations, the IPSASB acknowledged overarching challenges in developing a conceptually sound and practical alternative to IFRS 18 categorizations that could receive international consensus, and avoid confusion caused by diverging from IFRS despite the strong alignment between IPSAS Standards and IFRS.

4.31 The IPSASB summarized the benefits and drawbacks of the potential approaches, in **Table 3**.

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**Table 3 – Benefits and Drawbacks to the Potential Categorization Approaches**

Potential Approach	Overall Analysis	Benefits	Drawbacks
<b>Aligning with IFRS 18 Categories</b> (paragraphs 4.18-4.23)	Appropriate for the public sector, with additional public sector specific guidance	<ul style="list-style-type: none"> <li>✓ Is applicable and usable for all types of public sector entities. All public sector entities receive revenue or incur expenses in at least one of the Operating (to deliver its service delivery objectives), Investing (from investments of resources to maintain its service delivery levels), and Financing (from servicing debt obligations) categories</li> <li>✓ Provides financial statement users with more useful and relevant information about the public sector entity's financial performance</li> <li>✓ Reflects that underlying accounting principles are primarily IFRS-aligned</li> <li>✓ Offers comparability across capital markets to help access capital.</li> </ul>	<ul style="list-style-type: none"> <li>○ Requires additional guidance to help public sector entities effectively categorize its revenues and expenses, to achieve greater usefulness and comparability for users of the financial statements</li> </ul>
<b>Aligning with GFSM 2014 Categories</b> (paragraphs 4.24-4.26)	Effective alignment can only be achieved through substantial and comprehensive review of IPSAS accounting principles, which is outside the scope of this project	<ul style="list-style-type: none"> <li>✓ Results in an IPSAS-based Statement of Financial Performance which appears consistent with section 1 of GFSM 2014 Statement of Operations</li> <li>✓ Standardizes presentation and increases comparability across public sector entities</li> </ul>	<ul style="list-style-type: none"> <li>○ Does not achieve alignment in substance, without also considering substantial changes to the underlying accounting principles</li> <li>○ Prescribes a specific and rigid classification structure that may not be applicable for all public sector entities</li> <li>○ May be costly or onerous for entities to implement changes its reporting systems and processes to meet the new presentation requirements</li> </ul>
<b>Developing Public Sector Specific Categories</b> (paragraphs 4.27-4.30)	A unique set of broad standardized categories could not be identified	<ul style="list-style-type: none"> <li>✓ Could provide a more meaningful representation of public sector financial performance</li> </ul>	<ul style="list-style-type: none"> <li>○ May not be able to identify a sound and practical set of broad standardized categories unique to public sector that receives international consensus and overcomes the conceptual challenges identified</li> <li>○ May cause confusion by diverging from IFRS despite strong alignment between underlying principles, which may impact the ability of public sector entities to access capital markets effectively and efficiently</li> </ul>

- 4.32 Based on this assessment, the IPSASB concluded that developing new presentation requirements for the Statement of Financial Performance, aligned with IFRS 18 with additional public sector guidance, would introduce a more formal structure to better support financial statement users in understanding, analyzing, and comparing financial performance information for accountability and decision-making purposes.

**Preliminary View [X]—Chapter 4**

The IPSASB’s preliminary view is to present revenue and expense items recognized in surplus or deficit in categories on the Statement of Financial Performance. The categorization requirements are aligned with IFRS 18 requirements, with additional public sector guidance.

Do you agree with the IPSASB’s Preliminary View?

If not, please provide your reasons, stating clearly what you consider should be changed.

**Presentation of Totals and Subtotals**

- 4.33 Users of financial statements often use the totals and subtotals presented on financial statements as a starting point for their information needs, to obtain a meaningful understanding of the reporting entity’s financial performance and more consistently and objectively analyze and compare information for accountability and decision-making purposes.

- 4.34 IPSAS 1 requires entities to present on the Statement of Financial Performance the surplus or deficit total and permits entities to present additional subtotals deemed relevant. The IPSASB noted that the presentation of totals and subtotals directly corresponds to the proposed presentation of revenue and expense items in categories. The following total and subtotal requirements would correspond with the IPSASB’s preliminary view to align with IFRS categorization requirements, with additional public sector guidance, and are illustrated in Figure 2:

- (a) Retain the IPSAS 1 requirement for public sector entities to present the ‘**surplus or deficit**’ total, as it remains a useful and fundamental metric for financial statement users to understand the entity’s overall financial performance;
- (b) Introduce a new requirement for entities to present these subtotals to provide financial statement users with comparable measures of financial performance as starting points for their analysis:
  - (i) ‘**Operating surplus or deficit**’ subtotal, which is important and useful to give users an understanding of the current level of revenues and whether it is sufficient to maintain the volume and quality of services currently provided, and to achieve future service delivery activities and objectives; and
  - (ii) ‘**Surplus or deficit before financing**’ subtotal, which is an important metric to communicate performance before financing considerations and adapts the IFRS 18 approach to reflect the limited prevalence of income taxes in the public sector.

**Figure 2 – Illustrative Example of the Statement of Financial Performance with the Proposed Totals and Subtotals**

<b>Public Sector Entity</b>		
<i>For the year ended [MM] [DD] [YYYY]</i>		
Taxes revenue	500	Operating
Other revenue	80	
Wages expenses	(200)	
Operating expenses	(300)	
Other expenses	(58)	
<b>Operating surplus or deficit</b>	<b>22</b>	
Investment income	15	Investing
Investment expenses	(13)	
<b>Surplus or deficit before financing</b>	<b>24</b>	
Interest expense on loan	(21)	Financing
<b>Surplus or deficit</b>	<b>3</b>	

- (c) Continue to permit entities to present additional subtotals, as financial information needs may vary within and across jurisdictions in the international public sector. Additional subtotals are permitted if they provide a useful summary that is comprised of amounts recognized and measured in accordance with IPSAS Standards, compatible with the structure of the Statement of Financial Performance, consistent from period to period, and displayed no more prominently than the required totals and subtotals listed above.

4.35 Requiring these total and subtotal would enhance the benefits of categorizing revenue and expenses on the Statement of Financial Performance. Together, the categorization requirements and totals and subtotals requirements based on that categorization enhance the coherence and comparability of the Statement across public sector entities. This improved structure reduces diversity in reporting, thereby providing more useful information for financial statement users to understand, analyze, and compare financial performance.

#### **Preliminary View [X]—Chapter 4**

The IPSASB's preliminary view is to present totals and subtotals, and to permit entities to present additional subtotals, on the Statement of Financial Performance, as listed in paragraph 4.34. The total and subtotal requirements are aligned with IFRS 18 requirements, adapted for the public sector.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider should be changed.

#### **Presentation of Line Items**

4.36 Individual financial statement line items, which present groupings of transactions with common or shared characteristics, provide financial statement users with information to understand the entity's material revenue and expense items, enable comparisons and analyses, and identify where they may wish to seek additional information in the notes. This financial information is crucial to support financial statement users understand and assess the costs of service delivery, and the amounts and sources of cost recovery during the reporting period, and the resources acquired and used to achieve efficiently and effectively achieve service delivery objectives.

#### *Presentation of Minimum Line Items*

4.37 IPSAS 1 provides minimum requirements regarding the presentation of line items on Statement of Financial Performance, and allowing entities to include additional line items that help users understand the entity's performance in the current period and its ability to meet service delivery obligations, and requiring separate disclosure of specific items.

4.38 The IPSASB acknowledged that these requirements continue to be fit for purpose, operate effectively in practice, and remain effective and appropriate, and thus do not require substantial change. Considering its preliminary view to introduce the requirement to categorize revenue and expense items and align with other IFRS 18 requirements, with additional public sector guidance, the IPSASB intends to:

- (a) Retain the existing IPSAS 1 presentation requirements, but in the context of the new categorization requirements; and
- (b) Add new application guidance to help entities determine whether to present additional line items to provide a more useful structured summary of its revenue and expense items.

4.39 In doing so, these presentation requirements would align with IFRS 18, which did not substantially change equivalent IAS 1 guidance, and adapts IFRS 18 guidance for the public sector.

4.40 The IPSASB also considered whether to introduce requirements aligned with GFSM 2014, noting that such an approach would require the introduction of a detailed and prescriptive set of requirements to classify and aggregate revenue and expenses into standardized line items. While this would result in a standardized

structure and presentation on the Statement of Financial Performance, some line items aligned in terminology may not be aligned in what comprises those line items under IPSAS Standards vs. GFSM 2014 because of underlying recognition and classification differences. Aligning the presentation of line items does not necessarily align the substance of those line items. Given the fundamental differences and challenges (Appendix A), and the IPSASB's preceding Preliminary Views to align with IFRS, with adaptations or additional guidance for the public sector, the IPSASB did not pursue this approach.

#### **Preliminary View [X]—Chapter 4**

The IPSASB's preliminary view is to maintain the minimum requirements regarding the presentation of line items on the face of the Statement of Financial Performance, with additional guidance. The minimum line items presentation requirements are aligned with IFRS 18 requirements, with additional public sector guidance.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider should be changed.

#### *Presentation of Expenses by Nature or Function*

- 4.41 IPSAS 1 requires entities to classify and present expenses on the Statement of Financial Performance either by the nature of the expenses (useful for predicting future cash flows) or by their function within the entity (useful to understand programs and purposes to fulfill service delivery objectives), whichever provides information that is faithfully representative and more relevant.
- 4.42 The IPSASB acknowledged that there are different but equally valuable benefits to presenting by nature or function, but current practice indicates that additional guidance may be necessary to better help entities determine which method would provide more useful and relevant information for the users of its financial statements, to support their understanding and analysis for accountability and decision-making purposes.
- 4.43 New IPSAS presentation requirements should lead public sector entities to effectively provide their financial statement users with useful and relevant information, and reflect the realities and needs of the international public sector. To achieve this, the IPSASB intends to:
- (a) Continue providing the choice between presenting by nature or by function. Retaining this existing IPSAS 1 choice acknowledges that both methods have merits and provide an indication of costs that vary with the entity's outputs and can support financial statement users in understanding the costs of service delivery, to generate outputs and outcomes at the core of its service delivery objectives. Providing this choice allows public sector entities to make their own determination about which method provides a more useful structured summary of its revenue and expenses that provide relevant and faithfully representative information to their financial statement users. This choice also serves as a baseline for national standard setters to adapt for jurisdiction-specific needs;
  - (b) Reframe these existing IPSAS 1 requirements in the context of new categorization requirements for the Statement of Financial Performance proposed above;
  - (c) Add additional guidance to help public sector entities:
    - (i) Better understand the merits of presenting expenses by nature vs. by function, and determine which of the two methods would provide more relevant and faithfully representative information for its financial statement users to understand the entity's allocation of resources to activities and programs;
    - (ii) Consider various factors in making that determination, such as the nature of the entity's services delivery objectives, roles, and activities, the entity's users, and common practices. For example, a national government or entity accountable for providing multiple services or delivering on multiple programs may conclude that presentation by function would be more

appropriate, and may present functions similar to GFSM 2014 Classification of Functions of Government (COFOG) to provide more useful and relevant information for its financial statement users. In comparison, a ministry responsible for effectively using its resources to achieve one predominant objective or outcome may conclude that presentation by nature would be more appropriate to provide more useful and relevant information for its users; and

- (iii) Apply judgment and identify when presentation by function may not be appropriate (for example, when it is not able to appropriately allocate expenses to functions without arbitrary allocations resulting in information that is not faithfully representative of resources used for that function).

#### Preliminary View

- 4.44 These presentation requirements would broadly align with IFRS 18, with one key adaptation for the public sector. IFRS 18 permits mixed presentation (some expense line items by nature, and others by function), in response to direct requests from private sector constituents. The IPSASB concluded that it would be more appropriate to prohibit mixed presentation in the IPSAS Standards to more effectively respond to initial feedback from public sector constituents to improve consistency and reduce diversity of presentation in practice.
- 4.45 The IPSASB also considered whether to introduce expense presentation requirements aligned with GFSM 2014, noting that such an approach would require the introduction of a detailed and prescriptive set of requirements to classify and aggregate expenses according to economic classification requirements for fiscal analysis. While this would result in a standardized presentation of expenses, the prescriptive classification and presentation may work well for some but not all public sector entities. Furthermore, since differing objectives have led to differing principles and presentation in IPSAS Standards vs. GFSM 2014, aligning the presentation of expenses does not necessarily achieve alignment in substance. Given the fundamental differences and challenges ([Appendix A](#)), and the IPSASB's preceding Preliminary Views to align with IFRS, with adaptations or additional guidance for the public sector, the IPSASB did not pursue this approach.

#### **Preliminary View [X]—Chapter 4**

The IPSASB's preliminary view is to maintain requirements to present its expenses by the nature of the expenses or by their function to the entity on the face of the Statement of Financial Performance, with additional guidance. The presentation requirements are aligned with IFRS 18 requirements, with adaptations for the public sector.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, stating clearly what you consider should be changed.

## **Chapter 5: Statement of Changes in Net Assets/Equity**

- 5.1 [Ongoing – the March 2025 version of Chapter 5 will be updated further based on IPSASB September discussions on the remaining presentation topics for this Statement. Staff will present a fully revised version of Chapter 5 in September 2025, similar to the approach taken in June 2025 for Chapter 4.]

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## **Chapter 6: Disclosure of Information in the Notes**

6.1 [Pending – IPSASB September discussions on these presentation topics.]

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## Appendix A

### Considering IFRS and GFSM 2014

#### Introduction

- A.1 Chapter 1 of this Consultation Paper (CP) listed two key project drivers, when considering and proposing new presentation requirements. The Appendix provides a summary of overarching considerations regarding the two project drivers that pertain to the IPSASB's discussions in the CP.
- (a) Maintain alignment with International Financial Reporting Standards (IFRS), to the extent appropriate for the public sector. This is in line with the IPSASB's [Process for Reviewing and Adapting IASB Documents](#); and
  - (b) Reduce unnecessary differences with GFSM 2014, where possible. This is in line with the IPSASB's [Process for Considering GFS Reporting Guidelines During Development of IPSAS](#).

#### Maintaining Alignment with IFRS

- A.2 [PENDING – drafting will be similar to the text regarding GFSM 2014 below]

#### Reducing Unnecessary Differences with GFSM 2014

- A.3 In developing IPSAS Standards, the IPSASB acknowledges that there are similarities and differences between the IPSAS Standards and Government Finance Statistics Manual 2014 (GFSM 2014) reporting frameworks. The IPSASB regularly maintains a IPSAS Standards-GFSM 2014 Alignment Dashboard to track the degree of alignment between the two frameworks.
- A.4 While there are benefits to fully harmonizing IPSAS accrual-based accounting with GFSM 2014 statistical accounting, there are also related challenges due to important differences between IPSAS and GFSM 2014 in how, what, and where information is reported, which limits the extent to which full alignment can be achieved. These differences arise from conceptual differences, and cannot be resolved through changes in either IPSAS Standards or GFSM 2014, because they are a direct result of the underlying objectives and separate developments of the two reporting frameworks:
- (a) The IPSAS Standards provide accounting guidance for use to prepare general purpose financial reports to enhance the quality and transparency of public sector financial reporting, providing better information for public sector financial management, for accountability and decision-making purposes. Those preparing reports based on IPSAS Standards comprise a wide range of public sector entities including national, regional, local governments, ministries, authorities, and international government and inter-government organizations with various service delivery objectives.
  - (b) The GFSM 2014 provides statistical guidance and is a comprehensive analytic framework to support fiscal analysis suitable for analyzing and evaluating fiscal policy, especially the performance of the general government sector and the broader public sector of any economy. Those preparing reports based on GFSM 2014 are typically entities and institutions in the statistical and macro-fiscal space (finance ministries, statistics offices) for national governments to evaluate its impact on the economy and influence on other sectors of the economy.
- A.5 As an integrated statistical framework drawn from the principles of the 2008 System of National Accounts (SNA), GFSM 2014 presents information based on economic flows that change stock positions (where stock positions represent economic value at a point in time, i.e., at opening and closing balance sheet) to obtain

key macroeconomic balances. As a result, GFSM 2014 statements are structured differently from IPSAS financial statements.

- A.6 Flows (defined as monetary expressions of economic action and effects of events that change the economic value in the reporting period) explain all changes in stock positions, comprised of:
- (a) **Transactions**, presented in the GFSM 2014 Statement of Operations, are economic flows that are interactions between institutional units by mutual agreement or through the operation of the law, or an action within an institutional unit that is analytically useful to treat like a transaction. This definition highlights that transactions must be between different units and must be entered into with prior knowledge and consent; and
  - (b) **Other economic flows**, presented in the GFSM 2014 Statement of Other Economic Flows, are changes in the volume or value of assets or liabilities that do not result from transactions (i.e., do not meet one or more of the characteristics of transactions). These are essentially all other flows, which are holding gains and losses and other changes in volume of assets and liabilities
- A.7 Since GFSM 2014 considers transactions and the presentation of information differently, it also sets different requirements regarding identification, recognition, and measurement (for example, revenue and expense items are distinguished by economic characteristics and recognized by their economic type, then aggregated in a prescriptive manner).
- A.8 The fundamental differences between GFSM 2014 and IPSAS result to different recognition and measurement requirements, thus leading to different presentation requirements. This emphasizes:
- (a) The different presentation requirements reflect the fundamentally different objectives the two reporting guidelines are designed to serve. This difference impairs the comparability between IPSAS and GFSM 2014 statements, which cannot be rectified by aligning presentation requirements (as aligning presentation requirements may create the illusion of alignment without achieving alignment in substance); and
  - (b) The usefulness of reconciliations in accordance with IPSAS 22, *Disclosure of Information about the General Government Sector* and the work that will be completed as part of the IPSASB's *Strengthening Linkages Between IPSAS Standards and the GFSM Project Brief* (approved in March 2025) to develop non-authoritative guidance to strengthen the link and promote IPSAS 22 adoption and implementation.

## Appendix B

### Key Public Sector Considerations

#### Introduction

- B.1 [Pending – Per IPSASB instruction from March 2025, this Appendix will provide relevant excerpts from the IPSASB Conceptual Framework Preface, to highlight key public sector considerations (e.g., nature of public sector programs, regulatory role, primary users of public sector financial statements). Some of the text in [draft] Chapter 4 regarding the challenges in identifying standardized categories for the public sector may be relocated to this Appendix given its wider applicability]

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**Appendix C**

**Illustrative Examples of Statement of Financial Performance using IFRS Categories**

**Introduction**

- C.1 Chapter 3 of this Consultation Paper considered whether to require public sector entities to categorize its revenue and expense items on the Statement of Financial Performance into five specific categories (of which Operating, Investing, and Financing are new categories), aligned with IFRS 18.
- C.2 The IPSASB considered examples of common types of public sector entities in most jurisdictions, and how their revenue and expense items recognized in surplus or deficit may be categorized in accordance with IFRS 18 categories. These examples are provided for illustrative purposes only, and include some assumptions based on publicly available information.<sup>24</sup>

**Illustrative Example 1: Municipal Government**

Current presentation		Proposed presentation		Expected Category
<b>Municipal Government Body</b> <i>for the year ended [MM] [DD] [YYYY]</i>		<b>Municipal Government Body</b> <i>for the year ended [MM] [DD] [YYYY]</i>		
Property taxes and taxation from other governments	xx	Property taxes and taxation from other governments	xx	<b>Operating</b>
Government transfers	xx	Government transfers	xx	
User charges	xx	User charges	xx	
Municipal land transfer tax	xx	Municipal land transfer tax	xx	
Rent and concessions	xx	Rent and concessions	xx	
Development charges	xx	Development charges	xx	
Investment income	xx	Other revenue sources	xx	
Government business enterprises earnings	xx	<b>Total operating revenue</b>	<b>XX</b>	
Other revenue sources	xx			
<b>Total revenues</b>	<b>XX</b>			
Transportation	xx	Transportation expenses ( <i>operating portion</i> )	(xx)	<b>Operating</b>
Social and family services	xx	Social and family services ( <i>operating portion</i> )	(xx)	
Protection to persons and property	xx	Protection to persons and property ( <i>operating portion</i> )	(xx)	
Environmental services	xx	Environmental services ( <i>operating portion</i> )	(xx)	
Recreation and cultural services	xx	Recreation and cultural services ( <i>operating portion</i> )	(xx)	
Social housing	xx	Social housing ( <i>operating portion</i> )	(xx)	
General government	xx	General government ( <i>operating portion</i> )	(xx)	
Health services	xx	Health services ( <i>operating portion</i> )	(xx)	
Planning and development	xx	Planning and development ( <i>operating portion</i> )	(xx)	
<b>Total expenses</b>	<b>XX</b>	<b>Total operating expenses</b>	<b>(XX)</b>	
		<b>Operating surplus or deficit</b>	<b>XX</b>	
<b>Annual surplus</b>	<b>XX</b>	Investment income	xx	<b>Investing</b>
		Government business enterprises earnings	xx	
		<b>Surplus or deficit before financing</b>	<b>XX</b>	
<b>Annual surplus</b>	<b>XX</b>	Interest expense on long-term debt	xx	<b>Financing</b>
		<b>Surplus or deficit</b>	<b>XX</b>	

<sup>24</sup> These assumptions were made in order to complete the illustration. The IPSASB clarifies that changes in any of the assumptions made in this illustration exercise would not substantially change the IPSASB's view on the benefits and feasibility of categorizing revenue and expenses on the Statement of Financial Performance, as presented in Chapter 4

**Illustrative Example 2: Regional Hospital**

Current presentation		Proposed presentation		Expected Category
<b>Regional Hospital</b> <i>for the year ended [MM][DD][YYYY]</i>		<b>Regional Hospital</b> <i>for the year ended [MM][DD][YYYY]</i>		
Income inpatients	xx	Income inpatients	xx	<b>Operating</b>
Income outpatients	xx	Income outpatients	xx	
External contracts and other medical income	xx	External contracts and other medical income	xx	
Income from research and teaching	xx	Income from research and teaching	xx	
<b>Net revenue from deliveries and services</b>	<b>XX</b>	Non-medical income (grants, services-in-kind)	xx	
		Transfers from Swiss States	xx	
Non-medical income (grants, services-in-kind)	xx	Income from own work capitalized	xx	
Transfers from Swiss States	xx	Change in treatments started	xx	
Income from own work capitalized	xx	<b>Total operating revenue</b>	<b>XX</b>	
<b>Other operating income</b>	<b>XX</b>			
Change in treatments started	xx	Personnel expenses	(xx)	<b>Operating surplus or deficit</b>
<b>Operating income</b>	<b>XX</b>	Medical fees	(xx)	
		Medical expenditure	(xx)	
Personnel expenses	xx	Non-Medical expenditure	(xx)	
Medical fees	xx	Rental expenses	(xx)	
Medical expenditure	xx	Depreciation of fixed assets and PPE	(xx)	
Non-Medical expenditure	xx	Amortization of intangible assets	(xx)	
<b>Operating expenses excluding rental expenses</b>	<b>XX</b>	<b>Total operating expenses</b>	<b>(XX)</b>	
		<b>Operating surplus or deficit</b>	<b>XX</b>	
Withdrawal/(contribution): funds in debt transfer funds	xx	Financial result ( <i>investing portion</i> )	(xx)	
<b>Operating result EBITDAR</b>	<b>XX</b>	Result from associated companies (dividend income)	xx	
Rental expenses	xx	<b>Surplus or deficit before financing</b>	<b>XX</b>	<b>Financing</b>
<b>Operating result EBITDA</b>	<b>XX</b>	Financial result ( <i>financing portion</i> )	(xx)	
Depreciation of fixed assets and PPE	xx	Withdrawal/(contribution): funds in debt transfer funds	xx	
Amortization of intangible assets	xx	<b>Surplus or deficit</b>	<b>XX</b>	
<b>Operating result before financial result EBIT</b>	<b>XX</b>			
Financial result (interest on borrowings, instruments)	xx			
Result from associated companies (dividend income)	xx			
<b>Profit or loss of the period</b>	<b>XX</b>			

**Illustrative Example 3: Education Institute**

Current presentation		Proposed presentation		Expected Category
<b>Education Institute</b>		<b>Education Institute</b>		
<i>for the year ended [MM][DD][YYYY]</i>		<i>for the year ended [MM][DD][YYYY]</i>		
Government grants	xx	Government grants	xx	<b>Operating</b>
Tuition fees	xx	Tuition fees	xx	
Research and contracts	xx	Research and contracts	xx	
Other revenue	xx	Other revenue ( <i>operating portion</i> )	xx	
Other gains/(losses)	xx	Transfer of funds from restricted to unrestricted	xx	
Transfer of funds from restricted to unrestricted	xx			
<b>Total operating revenue</b>	<b>XX</b>			
		People costs	(xx)	<b>Operating surplus or deficit</b>
People costs	xx	Operating costs	(xx)	
Operating costs	xx	Depreciation and amortization	(xx)	
Finance costs of borrowing	xx	<b>Operating surplus or deficit</b>	<b>XX</b>	
Depreciation and amortization	xx			
<b>Total operating expenses</b>	<b>XX</b>	Other revenue ( <i>investing portion</i> )	xx	<b>Investing</b>
		Other gains/(losses)	xx	
<b>Net surplus/(deficit) before tax</b>	<b>XX</b>	<b>Surplus or deficit before financing and income taxes</b>	<b>XX</b>	
		Finance costs of borrowing	(xx)	<b>Financing</b>
Income tax expense/(benefit)	xx	<b>Surplus or deficit before income taxes</b>	<b>XX</b>	
<b>Net surplus/(deficit) after tax</b>	<b>XX</b>	Income tax expense/(benefit)	xx	<b>Income taxes</b>
		<b>Surplus or deficit</b>	<b>XX</b>	

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**Appendix D**

**Illustrative Exposure Draft**

[Ongoing]

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