

# International Public Sector Accounting Standards (IPSASs)

November 2011



## Table of contents

---

### **A. Introduction**

- Objectives of the Seminar
- Why IPSAS
- Purpose, Structure & Objectives of IPSAS Board
- Types of Standards Issued by IPSASB
- List of Accrual Based IPSASs Issued

### **B. Accrual Basis IPSASs vs IFRSs (Similarities)**

### **C. Accrual Basis IPSASs vs IFRSs (Differences)**

### **D. Differences Between Accrual Basis IPSASs and Relevant IFRSs**

### **E. IPSASs and IFRSs Exceptions**

### **F. Cash Basis IPSAS**

- Objective, Structure and Scope of the Standard
- Cash Basis of Accounting
- Cash vs Accrual Accounting
- Information to be Presented in Statement of Cash Receipt and Payments
- Accounting Policies and Explanatory Notes
- Other Requirements

### **G. USAID**

- USAID Presentation and Disclosure Requirements
- USAID Recognition Requirements
- USAID Measurement Requirements

---


# INTRODUCTION


---



# Why IPSAS?

- Ever growing development sector and financial reporting requirements of donors.
- A uniform reporting framework is imperative for both the quality and comparability of financial information reported by public sector entities.
- Disclosure information requirements of various reports facilitates transparency in the financial dealings of public institutions.
- Improved interpretation of financial reports in the right context and better decision making process.
- IPSAS also improves consistency in preparation & reporting of financial information.
- Adoption of IPSAS improves accountability and ease of audits of public institutions.
- IPSASs result in stronger governance procedures
- Framework for the accounting practice in the public sector.

# Purpose, Structure & Objectives of IPSASB

---

Introduction

- The International Public Sector Accounting Standards Board (IPSASB) is one of four independent standard-setting boards that are supported by the International Federation of Accountants (IFAC).
- The IPSASB is an independent standard-setting board that develops high-quality International Public Sector Accounting Standards (IPSASs), guidance, and resources for use by public sector entities around the world for general purpose financial reporting.

# Purpose, Structure & Objectives of IPSASB – Contd..

## Purpose

- IFAC has established IPSASB in pursuance of its mission “serve the public interest”.
- It was established to develop high quality accounting standards for use by public sector in preparation of general purpose financial statements.
- The term public sector refers to national governments, regional government, local governments and related governmental entities (agencies, boards, commissions, enterprises).
- The term general purpose financial statement refers to financial statements issued for users that are unable to demand financial information to meet their specific information needs.

# Purpose, Structure & Objectives of IPSASB – Contd..

Membership

- The IPSASB consists of 18 volunteer members—15 members from IFAC member bodies and three public members.
- Members include representatives from ministries of finance, government audit institutions, public practice, and academia.
- All members of the IPSASB, including the chair and deputy chair, are appointed by the IFAC Board upon recommendations from the IFAC Nominating Committee.
- The IFAC strives to cultivate members who possess the knowledge, insight, and geographical footprint necessary to best serve the public interest.

# Purpose, Structure & Objectives of IPSASB – Contd..

<p><u>Objectives</u></p> <p>The IPSASB aims to enhance the quality and transparency of public sector financial reporting by:</p>	
<p>➤ <u>Establishing high-quality accounting standards</u> for use by public sector entities;</p> <p>➤ Promoting the adoption, and <u>international convergence</u> to, IPSASs;</p> <p>➤ Providing comprehensive information for public sector <u>financial management and decision</u></p>	
<p><u>making; and</u></p> <p>➤ Providing <u>guidance on issues and experiences</u> in financial reporting in the public sector.</p>	

# Purpose, Structure & Objectives of IPSASB – Contd..

## Standard Setting Procedures

- The IPSASB follows a very structured and public due process in the development of all International Public Sector Accounting Standards (IPSASs).
- This process provides the opportunity for all those interested in financial reporting in the public sector to make their views.
- Exposure drafts (ED) of all proposed IPSASs are developed, usually with the input of a task-based group of IPSASB members.
- EDs are usually preceded by a consultation paper that explores the subject in detail and provides the basis for further discussion, development, and policy formation.
- All EDs have open and finite comment periods.

# Types of Standards Issued by IPSASB

<p>IPSASB has issued two types of standards</p> <ul style="list-style-type: none"><li>• <u>Accrual basis</u> IPSASs (mainly derived from IFRSs); and</li><li>• <u>Cash basis</u> IPSAS</li></ul>						
<ul style="list-style-type: none"><li>• The IPSASB recognizes the right of governments and national standard setters to establish guidelines and accounting standards for financial reporting.</li><li>• The IPSASB <u>encourages governments to progress to the accrual basis of accounting and to harmonize national requirements with the IPSASs prepared for application by entities adopting the accrual basis of accounting.</u></li></ul>						

# List of Accrual Basis IPSAS Issued

Accrual Based IPSASs			
IPSAS 1	Presentation of Financial Statements	IPSAS 17	Property, Plant, and Equipment
IPSAS 2	Cash Flow Statements	IPSAS 18	Segment Reporting
IPSAS 3	Accounting Policies, Changes in Accounting Estimates and Errors	IPSAS 19	Provisions, Contingent Liabilities and Contingent Assets
IPSAS 4	The Effects of Changes in Foreign Exchange Rates	IPSAS 20	Related Party Disclosures
IPSAS 5	Borrowing Costs	IPSAS 21	Impairment of Non-Cash-Generating Assets
IPSAS 6	Consolidated and Separate Financial Statements	IPSAS 22	Disclosure of Information About General Government Sector
IPSAS 7	Investments in Associates	IPSAS 23	Revenue from Non-Exchange Transactions (Taxes and Transfers)
IPSAS 8	Interests in Joint Ventures	IPSAS 24	Presentation of Budget Information in Financial Statements
IPSAS 9	Revenue from Exchange Transactions	IPSAS 25	Employee Benefits
IPSAS 10	Financial Reporting in Hyperinflationary Economies	IPSAS 26	Impairment of Cash-Generating Assets
IPSAS 11	Construction Contracts	IPSAS 27	Agriculture
IPSAS 12	Inventories	IPSAS 28	Financial Instruments: Presentation
IPSAS 13	Leases	IPSAS 29	Financial Instruments: Recognition and Measurement
IPSAS 14	Events after the Reporting Date	IPSAS 30	Financial Instruments: Disclosures
IPSAS 15	Financial Instruments: Disclosure and Presentation	IPSAS 31	Intangible Assets
IPSAS 16	Investment Property	IPSAS 32	Service Concession Arrangements: Grantor

---


## ACCRUAL BASIS IPSAS VS IFRS (SIMILARITIES)


# Accrual Basis IPSASs vs IFRSs (Similarities)

IPSAS standards are largely the same as IFRS standards in four areas:

1. Accounting standards 'style';
2. Ten specific accounting standards;
3. Accounting for government business enterprises; &
4. Treatment of accounting topics for which there is no applicable IPSAS.

## Accrual Basis IPSASs vs IFRSs (Similarities) – Contd..

### Accounting standards 'style'

IPSASs 1– 21 and IPSASs 25–31 are based on IFRSs.

The two sets of standards apply the same.

- *Principle based approach;*
- *Concepts;* and
- *Format.*

# Accrual Basis IPSASs vs IFRSs (Similarities) – Contd..

Ten specific IPSASs

- Ten of the 28 IFRSs based IPSASs have no differences of accounting when compared to the IFRSs on which they were based when first issued.
- These ten IPSASs apply exactly the same definition, recognition, measurement and other requirements as those applied by IFRSs on which they are based.
- These ten standards, have not for-profit friendly commentary and terminology, but those differences do not alter the accounting requirements.

## Accrual Basis IPSASs vs IFRSs (Similarities) – Contd..

### Similar IPSASs

IPSAS 2 Cash Flow Statements

IPSAS 5 Borrowing Costs

IPSAS 6 Consolidate & Separate Financial Statements

IPSAS 7 Investment in Associates

IPSAS 8 Interests in Joint Ventures

IPSAS 9 Revenue from Exchange Transactions

IPSAS 10 Financial Reporting in Hyperinflationary Economies

IPSAS 13 Leases

IPSAS 14 Events after Reporting Date

IPSAS 15 Financial Instruments: Disclosure and Presentation (Superseded)

# Accrual Basis IPSASs vs IFRSs (Similarities) – Contd..

## Government Business Enterprises Accounting

- IPSAS 1 Presentation of Financial Statements requires that Government Business Enterprises (GBEs) apply IFRSs.
- GBEs are defined in IPSAS 1. Government Business Enterprises means an entity that has all of the following characteristics.
  - a. Is an entity with the power to contract in its own name;
  - b. Has been assigned the financial and operational authority to carry on a business;
  - c. Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;
  - d. Is not reliant on continuing governments funding to be a going concern; and
  - e. Is controlled by a public sector entity.

# Accrual Basis IPSASs vs IFRSs (Similarities) – Contd..

<u>Accounting Topics for Which no Applicable IPSAS</u>							
<ul style="list-style-type: none"> <li>• <u>IFRSs are the primary candidates</u> for applicable alternative accounting standards, where there is no applicable IPSAS.</li> </ul>							
<ul style="list-style-type: none"> <li>• This primacy arises from application of paragraph 12, 14 and 15 of <u>IPSAS 3</u> which addresses choice of accounting policies when there is no applicable IPSAS.</li> </ul>							
<ul style="list-style-type: none"> <li>• <u>Eleven accounting topics</u> already covered by IFRSs do not as yet have an IPSAS equivalent.</li> </ul>							
<ul style="list-style-type: none"> <li>• For <u>Nine of these IFRSs</u>, given that IFRSs are the primary candidate for application, IFRS accounting requirements are likely to be applied.</li> </ul>							
<ul style="list-style-type: none"> <li>• Applicability of <u>two standards</u>, i.e. IFRS 2 Share Based Payments and IAS 33 Earning per Share, is very limited in public sector.</li> </ul>							

# Mapping of IPSASs & IFRSs

IPSAS Standards & Relevant IFRS			
IPSAS	IPSAS Name	IAS	IAS Name
IPSAS 1	Presentation of Financial Statements	IAS 1	Presentation of Financial Statements
IPSAS 2	Cash Flow Statements	IAS 7	Cash Flow Statements
IPSAS 3	Accounting Policies, Changes in Accounting Estimates and Errors	IAS 8	Accounting Policies, Changes In Accounting Estimates And Errors
IPSAS 4	The Effects of Changes in Foreign Exchange Rate	IAS 21	The Effects Of Changes In Foreign Exchange Rates
IPSAS 5	Borrowing Costs	IAS 23	Borrowing Costs
IPSAS 6	Consolidated and Separate Financial Statements	IAS 27	Consolidate & Separate Financial Statements
IPSAS 7	Investments in Associates	IAS 28	Investments In Associates
IPSAS 8	Interests in Joint Ventures	IAS 31	Interests in Joint Ventures
IPSAS 9	Revenue from Exchange Transactions	IAS 18	Revenue
IPSAS 10	Financial Reporting in Hyperinflationary Economies	IAS 29	Financial Reporting in Hyperinflationary Economies
IPSAS 11	Construction Contracts	IAS 11	Construction Contracts
IPSAS 12	Inventories	IAS 2	Inventories
IPSAS 13	Leases	IAS 17	Leases
IPSAS 14	Events after the Reporting Date	IAS 10	Events After the Balance Sheet Date
IPSAS 15	Financial Instruments: Disclosure and Presentation (Superseded)	IAS 32	Financial Instruments: Disclosure and Presentation
IPSAS 16	Investment Property	IAS 40	Investment Property
IPSAS 17	Property, Plant, and Equipment	IAS 16	Property, Plant, and Equipment
IPSAS 18	Segment Reporting	IAS 14	Segment Reporting
IPSAS 19	Provisions, Contingent Liabilities and Contingent Assets	IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IPSAS 20	Related Party Disclosures	IAS 24	Related Party Disclosure
IPSAS 21	Impairment of Non-Cash-Generating Assets	IAS 36	Impairment of Assets

# Mapping of IPSASs & IFRSs – Contd..

IPSAS Standards & Relevant IFRS			
IPSAS	IPSAS Name	IAS	IAS Name
IPSAS 25	Employee Benefits	IAS 19	Employee Benefits
IPSAS 26	Impairment of Cash-Generating Assets	IAS 36	Impairment of Assets
IPSAS 27	Agriculture	IAS 41	Agriculture
IPSAS 28	Financial Instruments: Presentation	IAS 32	Financial Instruments: Presentation
IPSAS 29	Financial Instruments: Recognition and measurement	IAS 14	Financial Instruments: Recognition and measurement
IPSAS 30	Financial Instruments: Disclosures	IFRS 7	Financial Instruments: Disclosures
IPSAS 31	Intangible Assets	IAS 38	Intangible Assets

---


## ACCRUAL BASIS IPSAS VS IFRS (DIFFERENCES)


---

# Accrual Basis IPSASs vs. IFRSs (Differences)

---

Differences between IPSASs and IFRSs can be grouped broadly into							
▪ Not-for-profit-friendly							
▪ Differences of accounting substance.							

# Accrual Basis IPSASs vs. IFRSs (Differences) – Contd..

Not for Profit Friendly Differences include:

- *Extra guidance.*
- *More generous transitional provisions* for difficult issues.
- *Terminology, guidance, definitions and examples relevant and appropriate to public sector entities.*

# Accrual Basis IPSAS vs. IFRS (Differences) – Contd..

18 of the 28 IPSASs have differences when compared with IFRSs on which they are based. The majority of these differences aim to ensure that IPSASs appropriately address not-profit-issues.

These differences can be grouped into four broad categories:

- 1) Relating to non-cash generating assets;
- 2) Relating to donated items;
- 3) Relating to non-exchange revenue;
- 4) Presentation and disclosure differences.

# Accrual Basis IPSAS vs. IFRS (Differences) – Contd..

<u>Measurement Rules for Non-Cash Generating Assets</u>							
<ul style="list-style-type: none"> <li>The assets are held in order to provide services and goods at no charge or merely a nominal charge. Therefore, on a 'normal use' basis, the assets do not generate cash flows.</li> </ul>							
<ul style="list-style-type: none"> <li>Non-cash generating assets include:               <ul style="list-style-type: none"> <li>a) <u>Commodities</u> to be provided to people in need at no cost;</li> <li>b) <u>Awareness creating Booklets</u> to be provided at no cost as part of an educational program;</li> <li>c) <u>Trucks and cars used to transport staff</u> and medical equipment to people in need;</li> <li>d) <u>Communications equipment</u> to coordinate the delivery of aid in a disaster area.</li> </ul> </li> </ul>							
<ul style="list-style-type: none"> <li>IPSASs relating to assets have different requirements for non-cash generating assets.</li> </ul>							

# Accrual Basis IPSAS vs. IFRS (Differences) – Contd..

## Measurement Rules for Donated Items

- Several IFRSs require that assets initially be recognized at their cost. If an asset is donated then its cost is zero and under IFRS, the asset must be measured initially at zero value.
- By contrast IPSASs require donated assets to be recognized at their fair value. IPSASs relating to assets require that cost equal fair value, if an asset is acquired at no or nominal charge.

# Accrual Basis IPSAS vs. IFRS (Differences) – Contd..

<p><u>Measurement and Recognition Rules for Non-exchange Revenue</u></p> <ul style="list-style-type: none"> <li>For <u>profit organizations</u> receive their revenue in exchange for providing goods or services.</li> <li>Most <u>not-for-profit organizations</u> receive most of their revenue in non-exchange transactions.</li> </ul>						
<ul style="list-style-type: none"> <li><u>IPSAS 9 Revenue from Exchange Transactions</u> has no difference of accounting substance when compared to <u>IAS 18 Revenue</u>.</li> <li>However the title of <u>IPSAS 9</u> makes explicit that the standard only applies to exchange revenue. By contrast <u>IAS 18 Revenue</u> implies, consistent with the for-profit perspective of IASB, that <u>IAS 18</u> deals with all revenue situations.</li> </ul>						
<ul style="list-style-type: none"> <li><u>IPSAS 23 Revenue from Non-Exchange Transactions</u>, deals with accounting for a wide range of non-exchange revenues, including government assistance.</li> </ul>						
<ul style="list-style-type: none"> <li><u>IPSAS 23</u> requires <u>donated assets</u> to be measured at fair value. The standard does not assume that there is an earning process that can be applied to recognize non-exchange revenue.</li> </ul>						



---


**DIFFERENCE BETWEEN ACCRUAL BASIS IPSASs & RELEVANT IFRSs**


---

# Difference Between Accrual Basis IPSASs & Relevant IFRSs

IPSAS	Difference from IFRSs
IPSAS 1 presentation of financial statements	<ul style="list-style-type: none"> <li>• <b>Presentation differences</b> in the components of financial statements.</li> <li>• Presenting <b>Extraordinary items</b>.</li> </ul>
IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors	<ul style="list-style-type: none"> <li>• Does not require disclosures about adjustments to basic or diluted <b>earnings per share</b>.</li> </ul>
IPSAS 4 The Effects of Changes in Foreign Exchange Rates	<ul style="list-style-type: none"> <li>• Excludes a requirement relating to <b>foreign operation</b> that is included in IAS 21.</li> </ul>
IPSAS 11 Construction Contracts	<ul style="list-style-type: none"> <li>• Scope covers '<b>non-commercial</b>' contracts.</li> <li>• A <b>deficit</b> does not have to be recognized on a contract when contract costs will exceed total contract revenues if the intention at inception of the contract was not fully recover contract costs from the parties to that contract.</li> </ul>

# Difference Between Accrual Basis IPSASs & Relevant IFRSs – Contd..

IPSAS	Difference from IFRSs
<p>IPSAS 12 Inventories</p>	<ul style="list-style-type: none"> <li>•Where the inventories are provided at no charge or for a nominal charge, they are to be valued at the <b>lower of cost and current replacement cost</b>.</li> <li>•Scope <b>excludes work in progress</b> for services provided at no or nominal charge.</li> </ul>
<p>IPSAS 16 Investment Property</p>	<ul style="list-style-type: none"> <li>•<b>Property that delivers a social service</b> is covered by IPSAS 17.</li> <li>•Where an asset is acquired for <b>no cost</b> or for a nominal cost, its cost is its fair value.</li> </ul>
<p>IPSAS 17 Property, Plant &amp; Equipment</p>	<ul style="list-style-type: none"> <li>•Asset definition includes <b>service potential</b>.</li> <li>•Optional treatment of <b>heritage assets</b> (recognition or non-recognition).</li> <li>•<b>Cost equals fair value</b> if asset is provided at no or nominal value.</li> <li>•Revaluations to fair value provide more scope to use <b>depreciated replacement cost</b> as fair value equivalent for some assets.</li> <li>•<b>Impairment</b> apply IPSAS 21.</li> </ul>

# Difference Between Accrual Basis IPSASs & Relevant IFRSs – Contd..

IPSAS	Difference from IFRSs
IPSAS 18 Segment Reporting	<ul style="list-style-type: none"> <li>• Segment <b>definition</b> is different.</li> <li>• Segment <b>disclosure requirements</b> are different.</li> <li>• No requirements to disclose <b>secondary segments</b>.</li> <li>• <b>Quantitative thresholds</b> for segments identification not specified.</li> </ul>
IPSAS 19 Provisions, Contingent Liabilities And Contingent Assets	<ul style="list-style-type: none"> <li>• <b>Obligations arising from social benefits</b> provided by an entity are excluded from the scope.</li> <li>• Applies to <b>contingent assets</b> arising from termination benefits that result from a restructuring.</li> </ul>

# Difference Between Accrual Basis IPSASs & Relevant IFRSs – Contd..

IPSAS	Difference from IFRSs
<p>IPSAS 20 Related Party Disclosures</p>	<ul style="list-style-type: none"> <li>•Additional disclosures required in relation to (a) the <b>remuneration of key management personnel</b> and their close family members, and (b) certain other transactions between an entity and its key management personnel and their <b>close family members</b>.</li> <li>•Less disclosure with respect to <b>normal terms and conditions transactions</b>.</li> </ul>
<p>IPSAS 21 Impairment of Non-Cash-Generating Assets</p>	<ul style="list-style-type: none"> <li>•With respect to impaired non-cash-generating assets IPSAS 21 requires measurement of the present value of the asset’s remaining service potential using a <b>number of approaches</b> in order to determine value in use.</li> <li>•Impairment of revalued assets adjusted to deal with <b>non-cash-generating assets</b>.</li> <li>•Impairment indicators adjusted to deal with <b>non-cash-generating assets</b>.</li> </ul>

# Difference Between Accrual Basis IPSASs & Relevant IFRSs – Contd..

IPSAS	Difference from IFRSs
<p>IPSAS 25 Employee Benefits</p>	<ul style="list-style-type: none"> <li>• For discounting post-employment obligations IPSAS 25 requires that entities apply a rate that reflects the time value of money and IAS 19 requires a <b>discount rate</b> consistent with yield of similar high quality corporate bonds.</li> <li>• Rebuttable presumption regarding <b>long-term disability payments</b>.</li> </ul>
<p>IPSAS 26 Impairment of Cash-Generating Assets</p>	<ul style="list-style-type: none"> <li>• <b>Does not apply to cash-generating assets carried at revalued amounts</b> at the reporting date under the revaluation model in IPSAS 17, Property, Plant, and Equipment</li> <li>• <b>Does not apply to intangible assets</b> that are regularly revalued to fair value</li> <li>• <b>Goodwill is outside the scope</b> of IPSAS 26.</li> <li>• Does not include a definition of <b>corporate assets</b> or requirements relating to such assets.</li> <li>• Few changes in <b>impairment indicators</b>.</li> <li>• Includes requirements and guidance on the treatment of <b>non-cash-generating assets</b> that contribute to cash-generating units as well as to noncash- generating activities.</li> </ul>

## Difference Between Accrual Basis IPSASs & Relevant IFRSs – Contd..

IPSAS	Difference from IFRSs
IPSAS 27 Agriculture	<ul style="list-style-type: none"> <li>• The <b>definition</b> of “agricultural activity” includes transactions for the distribution of biological assets at no charge or for a nominal charge.</li> <li>• Does not include requirements and guidance for <b>government grants</b>.</li> <li>• <b>Additional disclosure requirements</b> relating to assets subject to restriction of use or sale.</li> </ul>
IPSAS 28 Financial Instruments: Presentation	<ul style="list-style-type: none"> <li>• Change in requirements for <b>insurance contracts</b>.</li> </ul>
IPSAS 29 Financial Instruments: Recognition and Measurement	<ul style="list-style-type: none"> <li>• All requirements of IAS 39 are not applicable and <b>selected extracts</b> applicable to public sector are reproduced in IPSAS 28.</li> </ul>
IPSAS 30 Financial Instruments: Disclosures	<ul style="list-style-type: none"> <li>• IPSAS 30 contains requirements related to <b>concessionary loans</b>. IFRS 7 does not require disclosures relating to concessionary loans.</li> </ul>
IPSAS 31 Intangible Assets	<ul style="list-style-type: none"> <li>• Does not require or prohibit the recognition of intangible <b>heritage assets</b>.</li> </ul>

---


# IPSASs AND IFRSs EXCEPTIONS


# IPSASs and IFRSs Exceptions

## Four IPSASs not Based on an IFRS

*IPSAS 23 Disclosure of Financial Information about the General Government Sector* (prescribes disclosure requirements for **governments which elect to present** information about the general government sector in their consolidated financial statements).

*IPSAS 24 Revenue from Non-Exchange Transactions* deals comprehensively with **all types of revenue from non-exchange** transactions.

*IPSAS 25 Presentation of Budget Information in Financial Statements* requires a **comparison of budget amounts and actual amounts** arising from execution of the budget to be included in the financial statements of entities which are required to, elect to, make publicly available their approved budget and for they are, therefore held publicly accountable. IPSAS 24 also requires **disclosure of an explanation of the reasons** for material differences between the budget and actual amounts.

*IPSAS 32 Service Concession Arrangements: Grantor* establishes the **accounting and reporting for the grantor** in a service concession arrangement. A service concession arrangement is a specific type of a “public-private partnership” that has both an asset and a service component. IPSAS 32 defines a service concession arrangement

# IPSASs and IFRSs Exceptions

## Eleven Applicable IFRSs where no equivalent IPSAS Exists

### Accounting Topics

IFRS 2 Share Based Payments

IFRS 3 Business Combination

IFRS 4 Insurance Contracts

IFRS 5 Non Current Assets Held for Sale & Discontinued Operations

IFRS 6 Exploration for and Evaluation of Mineral Resources

IFRS 8 Operating Segments

IAS 12 Income Taxes

IAS 26 Accounting and Reporting by Retirement Benefit Plans

IAS 30 Disclosure in the Financial Statements of Banks and Similar Financial Institutions

IAS 33 Earnings per Share

IAS 34 Interim Financial Reporting

---


## CASH BASIS IPSAS


---

# Objective, Structure & Scope of the Standard

<p><u>Purpose</u></p> <p>➤ The purpose of this standard is to prescribe the manner in which general purpose financial statements should be <u>presented</u> under cash basis of accounting.</p>						
<p>➤ <i>Why is Cash Basis IPSAS necessary?</i></p> <p>■ <u>Information</u> about the cash receipts, cash payments and cash balances of an entity is necessary for accountability purposes and provides useful input for assessments of the ability of the entity to generate adequate cash in the future and the likely sources and uses of cash.</p> <p>■ <u>Enhance comprehensive and transparent financial reporting</u> of the cash receipts, cash payments and cash balances of the entity.</p> <p>■ It will also <u>enhance comparability</u> with the entity's own financial statements of previous periods and with the financial statements of other entities which adopt the cash basis of accounting.</p>						

# Objective, Structure & Scope of the Standard – Contd..

<p>This standard comprises two parts (I&amp;II)</p> <p>Part 1 is mandatory</p> <ul style="list-style-type: none"> <li>• It sets out the requirements which are applicable to all entities preparing general purpose financial statements under cash basis of accounting.</li> <li>• It defines the cash basis of accounting, establishes requirements for the disclosure of information in the financial statements and supporting notes, and deals with other specific reporting issues. The following statements will be prepared mandatorily:</li> </ul>						
<ul style="list-style-type: none"> <li>➤ Consolidate Statement of Cash Receipt and Payments</li> <li>➤ Statement of Comparison of Budget and Actual Amounts</li> <li>➤ Notes to the Financial Statements</li> </ul> <p>Part 2 is not mandatory</p> <ul style="list-style-type: none"> <li>• It defines additional accounting policies and disclosures that an entity is encouraged to adopt to enhance its financial accountability and transparency of its financial statements. The following statements will be prepared voluntarily:</li> </ul>						
<ul style="list-style-type: none"> <li>➤ Statement of Cash Assets and Fund Balances</li> <li>➤ Notes</li> <li>➤ Statement of Outstanding Invoices</li> <li>➤ Statement of Unjustified Advances and Loans</li> <li>➤ Non financial Assets Disclosure Notes</li> </ul>						
<ul style="list-style-type: none"> <li>➤ Statement of Contingent Liabilities</li> </ul>						

# Objective, Structure & Scope of the Standard – Contd..

Scope of the Requirements

- An entity which prepares and presents financial statements under the cash basis of accounting, as defined in this Standard, should apply the requirements of Part 1 of this Standard in the presentation of its general purpose annual financial statements.
  - An entity whose financial statements comply with the requirements of Part 1 of this Standard should disclose that fact.
  - This Standard applies to all public sector entities other than Government Business Enterprises for preparing general purpose financial statements
- General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their specific information needs.

# Objective, Structure & Scope of the Standard – Contd..

<p>Following definitions are included under cash basis IPSAS.</p> <p><u>Cash</u> comprises cash on hand, demand deposits and cash equivalents.</p> <p><u>Cash basis</u> means a basis of accounting that recognizes transactions and other events only when the cash is received or paid.</p>						
<p><u>Cash equivalents</u> are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.</p> <p><u>Cash flows</u> are inflows and outflows of cash.</p> <p><u>Cash payments</u> are cash outflows.</p>						
<p><u>Cash receipts</u> are cash inflows.</p> <p><u>Control of cash</u> arises when the entity can use or otherwise benefit from the cash in pursuit of its objectives and can exclude or regulate the access of others to that benefit.</p>						

# Cash Basis of Accounting

---

- Financial statements prepared under the cash basis provide readers with the sources of cash raised during the period, the purposes for which the cash was used and the cash balances at the reporting date.
- The cash basis of accounting recognizes transactions and events only when cash is received or paid by the entity.
- The measurement focus in the financial statements is balances of cash and changes therein.
- Notes to the financial statements may provide additional information about liabilities, such as payables and borrowings, and some non cash assets, such as receivables, investments and property plant and equipment.

# Cash Vs Accrual Accounting

Cash Basis	Accrual Basis
<ul style="list-style-type: none"> <li>➤ Expenses and revenues are recorded when they are paid and received</li> <li>➤ Allows for transparent financial reporting of cash receipts, payments and balances, under the cash basis of accounting.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Expenses and revenues are recorded when they are incurred or earned</li> <li>➤ Focuses on revenue, cost, assets, liability and equity, instead of cash flow only.</li> </ul>
<p>The financial statement under cash basis of accounting is:</p> <ul style="list-style-type: none"> <li>➤ The statement of cash receipt and payments</li> </ul>	<p>The financial statements include Under accrual basis of accounting</p> <ul style="list-style-type: none"> <li>➤ The statement of financial position</li> <li>➤ The statement of financial performance</li> <li>➤ The cash flow statement</li> <li>➤ The statement of changes in equity/net assets</li> </ul>
<ul style="list-style-type: none"> <li>➤ Cash received is treated as revenue for the period in which it was collected</li> </ul>	<p>Requires that relevant systems be in place to allocate collections to the relevant accounts, i.e. Revenue, Accounts Receivables or Prepayments</p>
<ul style="list-style-type: none"> <li>➤ Information does not facilitate better quality of management and decision making</li> </ul>	<ul style="list-style-type: none"> <li>➤ Information available facilitates a better quality of management and decision making</li> <li>➤ Facilitates the cost of capital assets being spread over the useful life of these assets.</li> <li>➤ Allow for more effective and reliable assessment of the health of Government's finances</li> </ul>
<ul style="list-style-type: none"> <li>➤ Operational requirements are relatively simple</li> </ul>	<ul style="list-style-type: none"> <li>➤ Operational requirements are relatively complex</li> </ul>

# Cash Vs Accrual Accounting

Cash Basis	Accrual Basis
<ul style="list-style-type: none"> <li>➤ Fewer estimates are involved</li> </ul>	<ul style="list-style-type: none"> <li>➤ Accrual requires sophisticated professional judgments regarding physical assets, long term social programs</li> <li>➤ Accrual generally requires more complex IT systems than cash systems</li> <li>➤ Information available facilitates a better quality of management and decision making</li> <li>➤ Facilitates the cost of capital assets being spread over the useful life of these assets.</li> <li>➤ Allow for more effective and reliable assessment of the health of Government's finances</li> </ul>
<ul style="list-style-type: none"> <li>➤ Cash basis of accounting is relatively simple</li> </ul>	<p>The accrual basis is much more complex than traditional cash basis.</p> <ul style="list-style-type: none"> <li>➤ Revenues and expenses are allocated to the period to which they relate;</li> <li>➤ Revenues to be recorded on accrual basis and</li> <li>➤ Estimates made of revenues collectible at year end.</li> </ul>
<ul style="list-style-type: none"> <li>➤ Links to traditional budget and revenue systems are relatively strong</li> </ul>	<ul style="list-style-type: none"> <li>➤ Links to traditional budget and revenue systems are relatively weak</li> </ul>
<ul style="list-style-type: none"> <li>➤ Record only transactions that result in cash payments or receipts</li> </ul>	<ul style="list-style-type: none"> <li>➤ Record estimated non-cash transactions as well</li> </ul>
<ul style="list-style-type: none"> <li>➤ Record only transactions that occur within the accounting period</li> </ul>	<ul style="list-style-type: none"> <li>➤ Record the estimated future effects of current transactions and policy changes</li> </ul>
<ul style="list-style-type: none"> <li>➤ Audit and control is relatively simple</li> </ul>	<ul style="list-style-type: none"> <li>➤ Audit and control is relatively demanding</li> </ul>

# Information to be Presented in Statement of Cash Receipt and Payments


# Accounting Policies and Explanatory Notes

---

The notes to the financial statements of an entity should:

- Present information about the basis of preparation of financial statements
- Present specific accounting policies selected and / or applied to significant transactions and other events; and
- Provide additional information.
- Cross references.
- Narrative descriptions or more detailed schedules or analysis.

# Other Requirements

## Reporting on Non Cash Items

- Entities that report using the cash basis of accounting frequently collect information on items that are not recognized under cash accounting. Examples include:
  - (a) Receivables, payables, borrowings and other liabilities, non-cash assets and accruing revenues and expenses;
  - (b) Commitments and contingent liabilities; and
  - (c) Performance indicators and the achievement of service delivery objectives.
  
- Entities preparing general purpose financial statements on cash basis may disclose this information in the notes to the financial statements.
  
- Part 2 of this Standard encourages inclusion of information about non-cash assets and liabilities and a comparison with budget in general purpose financial statements.

# Other Requirements – Contd..

<p><b><u>Reporting Period</u></b></p> <ul style="list-style-type: none"> <li>➤ The general purpose financial statements should be presented <u>at least annually</u>.</li> <li>➤ When, in exceptional circumstances, an entity’s reporting date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity should disclose in addition to the period covered by the financial statements:</li> <li>➤ <u>Reason for the period other than one year being used.</u></li> <li>➤ The fact that comparative amounts may not be comparable.</li> </ul>						
<p><b><u>Timeliness</u></b></p> <ul style="list-style-type: none"> <li>➤ Non availability of financial statements within a reasonable period impair the financial statements. An entity should be in a position to issue its financial statements <u>within six months</u> of the reporting date, although a timeframe of no more than three months is strongly encouraged.</li> </ul> <p><b><u>Authorization Date</u></b></p> <ul style="list-style-type: none"> <li>➤ An entity should disclose the date when the financial statements were authorized for issue and who gave that authorization. If another body has the power to amend the financial statements after issuance, the entity should disclose that fact.</li> </ul>						
<p><b><u>Correction of Errors</u></b></p> <ul style="list-style-type: none"> <li>➤ When an error arises in relation to a cash balance reported in the financial statements, the amount of the error that relates to prior periods should be reported by <u>adjusting the cash at the beginning of the period</u>. Comparative information should be restated, unless it is impracticable to do so.</li> <li>➤ An entity should disclose in the notes to the financial statements the following: <ul style="list-style-type: none"> <li>➤ The nature of the error;</li> <li>➤ The amount of the correction; and</li> <li>➤ The fact that comparative information has been restated or that it is impracticable to do so.</li> </ul> </li> </ul>						

# Other Requirements – Contd..

## Comparative Information

- Comparative information should be disclosed in respect of previous period for all numerical information required by this standard.
- Comparative information should be included in narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

## Identification of Financial Statements

- The financial statements should be clearly identified and distinguished from other information in the same published document.
- Prominently displayed and repeated when it is necessary for a proper understanding of information presented:-
  - a) The **name** of the reporting entity or other means of identification;
  - b) Whether financial statements cover the **individual entity or an economic entity**;
  - c) The **reporting date** or the period covered by the financial statements;
  - d) The **reporting currency**; and
  - e) The **level of precision** used in the presentation of figures in the financial statements.

# Other Requirements – Contd..

## Budget Information in Financial Statements

An entity that makes publicly available its approved budget(s):

- Present a comparison of budget amounts for which it is held publicly accountable and actual amounts.
- Either as separate additional financial statement or as additional budget columns in the statement of cash receipts and payments currently presented in accordance with this standard.
- Complete the accountability cycle by enabling users of financial statements to identify whether resources obtained and used in accordance with the approved budget.

# Other Requirements – Contd..

Encouraged Additional Disclosures

The second part of the IPSAS on Cash Basis Financial Reporting refers to encouraged additional disclosures, as well as to a treatment of public sector entities intending to shift towards the accrual accounting.

- Going concern
- Extraordinary items
- Major classes of cash flows
- Related parties
- Assets and liabilities
- Comparison with budgets
- Consolidated financial statements
- Joint ventures
- Financial reporting in hyperinflationary economies.

# Other Requirements – Contd..

## Foreign Currency

### Definitions

- Closing rate is the spot exchange rate at the reporting date.
  - Exchange difference is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency at different exchange rates.
  - Exchange rate is the ratio for exchange of two currencies.
  - Foreign currency is a currency other than the reporting currency of an entity.
- Reporting currency is the currency used in presenting the financial statements.

# Other Requirements – Contd..

## Treatment of Foreign Currency Cash Receipts, Payments and Balances

- Cash receipts and payments arising from transactions in a foreign currency should be recorded in an entity's reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the receipts and payments.
- Cash balances held in a foreign currency should be reported using the closing rate.
- The cash receipts and cash payments of a foreign controlled entity should be translated at the exchange rates between the reporting currency and the foreign currency at the dates of the receipts and payments.
- An entity should disclose the amount of exchange differences included as reconciling items between opening and closing cash balances for the period.
- When the reporting currency is different from the currency of the country in which the entity is domiciled, the reason for using a different currency should be disclosed.
- The reason for any change in the reporting currency should also be disclosed.

# Other Requirements – Contd..

---

**Effective Date**

- This international Public Accounting Standard became effective for annual financial statements covering periods beginning on or after 1 January, 2004.
- Presentation of Budget – on or after 01 January 2009 – Earlier application is encouraged, but should be disclosed.

# Other Requirements – Contd..

<p><u>Consolidation</u></p> <p><u>Definitions</u></p> <ul style="list-style-type: none"> <li>➤ <u>Consolidated financial statements</u> are the financial statements of an economic entity presented as that of a single entity.</li> <li>➤ <u>Control of an entity</u> is the power to govern the financial and operating policies of another entity so as to benefit from its activities.</li> <li>➤ <u>Controlled entity</u> is an entity that is under the control of another entity (known as the controlling entity).</li> <li>➤ <u>Controlling entity</u> is an entity that has one or more controlled entities.</li> <li>➤ <u>Economic entity</u> means a group of entities comprising a controlling entity and one or more controlled entities.</li> </ul>						
<p><u>Scope</u></p> <ul style="list-style-type: none"> <li>➤ A <u>controlling entity</u>, should issue consolidated financial statements which consolidates all controlled entities, foreign and domestic.</li> <li>➤ A <u>controlled entity</u> should be excluded from consolidation when it operates under severe external long-term restrictions which prevent the controlling entity from benefiting from its activities.</li> <li>➤ A <u>controlling entity that is a wholly owned controlled entity need not present consolidated financial statements</u> provided users of such financial statements are unlikely to exist or their information needs are met by the controlling entity’s consolidated financial statements.</li> <li>➤ A <u>controlling entity that is virtually wholly owned need not present consolidated financial statements</u> provided the controlling entity obtains the approval of the owners of the minority interest.</li> </ul>						

# Other Requirements – Contd..

## Consolidation Procedures

- Cash balances and cash transactions between entities within the economic entity should be eliminated in full;
- Different reporting dates, adjustments should be made for the effects of significant cash transactions that have occurred between those dates and the date of the controlling entity’s financial statements. In any case, the difference between the reporting dates should be no more than three months; and
- Consolidated financial statements should be prepared using uniform accounting policies for like cash transactions.
- If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.

## Consolidation Disclosures

- A listing of significant controlled entities including the name, the jurisdiction in which the controlled entity operates (when it is different from that of the controlling entity); and
- The reasons for not consolidating a controlled entity.

---




**USAID**


---

# USAID Presentation & Disclosure Requirements

All recipients of USAID grants shall prepare:

- Fund Accountability Statement;
- Notes to the Fund Accountability Statement;
- Cost Sharing Schedules (where applicable); and
- Schedule of Computation of Indirect Cost Rate (where applicable)

# USAID Presentation & Disclosure Requirements – Contd..

		(NAME OF RECIPIENT) FUND ACCOUNTABILITY STATEMENT				
		January 1, 20XX to December 31, 20XX				
		<u>BUDGET</u>	<u>ACTUAL</u>	<u>QUESTIONED COST</u>		<u>NOTES</u>
				<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>	
	Loan No. 1	<u>xxx</u> \$xxx	<u>xxx</u> \$xxx			
	<u>Salaries</u>					
	Grant No. 1	\$xxx	\$xxx	\$xxx		Note 3
	Grant No. 2	xxx	xxx		\$xxx	Note 4
	Loan No. 1	<u>xxx</u> \$xxx	<u>xxx</u> \$xxx		<u>xxx</u> \$xxx	Note 5
	<u>Transportation</u>					
	Grant No. 1	\$xxx	\$xxx			
	Grant No. 2	<u>xxx</u>	<u>xxx</u>	\$xxx		Note 6
	<u>Equipment</u>					
	Grant No. 2	\$xxx	\$xxx		\$xxx	Note 7
	<u>Maintenance</u>					
	Grant No. 2	\$xxx	\$xxx			
	<u>Other Direct</u>					
	Grant No. 1	\$xxx	\$xxx			
	<u>Indirect</u>					
	Grant No. 1	\$xxx	\$xxx			
	Loan No. 1	<u>xxx</u> \$xxx	<u>xxx</u> \$xxx			
	Total Costs Incurred	<u>\$xxx</u>	<u>\$xxx</u>			
	Outstanding Fund Balance <sup>12</sup>		<u>\$xxx</u>	<u>\$xxx</u>	<u>\$xxx</u>	

# USAID Presentation & Disclosure Requirements – Contd..

**(NAME OF RECIPIENT)**  
**COST-SHARING SCHEDULE**  
**FROM JANUARY 1, 20XX TO DECEMBER 31, 20XX**

	<u>ACTUAL</u>	<u>QUESTIONED COSTS</u> <sup>14</sup>		<u>NOTES</u> <sup>15</sup>
		<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>	
<b><u>CASH</u></b>				
Grant No. 1	\$xxx			
Grant No. 2	xxx	\$xxx		Note 1
<b><u>IN-KIND</u></b>				
Grant No. 1	\$xxx		\$xxx	Note 2
Grant No. 2	xxx			
<b>TOTAL</b>	<b><u>\$xxx</u></b>	<b><u>\$xxx</u></b>	<b><u>\$xxx</u></b>	

# USAID Presentation & Disclosure Requirements – Contd..

**(NAME OF RECIPIENT)  
SCHEDULE OF COMPUTATION OF  
INDIRECT COST RATE**

**For the Year Ended December 20XX**

	<u>EXPENSES</u>	<u>EXCLUSIONS/ UNALLOWABLE EXPENSES<sup>21</sup></u>	<u>DIRECT COST BASE</u>	<u>INDIRECT COST POOL</u>
Salaries & Wages	\$ 1,000	\$ 100	\$ 800	\$ 100
Employee Benefits	100	10	80	10
Payroll Taxes	100	10	80	10
Professional Expenses	400	200	200	
Travel	50		50	
Representation	100	100		
Occupancy & Cleaning	50			50
Telephone	50			50
Office Supplies	50			50
Postage & Shipping	100		100	
Equipment Rental	200		200	
Repairs & Maintenance	150		100	50
Depreciation	50		50	
Printing & Duplicating	50			50
Resource Aids	100		100	
Insurance	100		100	
Bad Debt Expense	50	50		
Miscellaneous	50	10		40
Fund Raising	<u>200</u>	<u>200</u>		
<b>Total</b>	<b><u>\$ 2,950<sup>22</sup></u></b>	<b><u>\$ 680</u></b>	<b><u>\$ 1,860</u></b>	<b><u>\$ 410</u></b>
 <b>Indirect cost rate calculation:</b>				
	Indirect Costs	\$ 410	=	22%
	Direct Cost Base	\$ 1,860		

# USAID Recognition Requirements

---

An expenditure can only be recognized if it is:

- Allowable
- Reasonable
- Allocable


# USAID Recognition Requirements – Contd..

**Allowability, Allocability and Reasonableness**

A cost is **allowable** only when the cost complies with all of the following requirements:

- Reasonableness.
- Allocability.
- Applicable Standards.
- Terms of Contract.
- Any limitations.

A cost is **reasonable** if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business.

A cost is **allocable** if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a Government contract if it:

- Is incurred specifically for the contract;
- Benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received; or
- Is necessary to the overall operation of the business, although a direct relationship to any particular cost objective can not be shown.

# USAID Recognition Requirements – Contd..

<p>Accounting for Unallowable Costs</p> <ul style="list-style-type: none"><li>Costs that are expressly unallowable or mutually agreed to be unallowable, including mutually agreed to be unallowable directly associated costs, shall be identified and excluded from any billing, claim or proposal applicable to a Government contract.</li><li>The practices for accounting for and presentation of unallowable costs will be in accordance with 48 CFR 9904.405, Accounting for Unallowable Costs.</li></ul>						

# USAID Measurement Requirements

**OMB Circular No. A-122**

The Circular defines:

- **Basic Considerations i.e. Allowability, Allocability and Reasonableness;**
- **Direct Costs;**
- **Indirect Costs;**
- **Allocation of Indirect Costs;**
- **Determination of Indirect Cost Rates; and**
- **Negotiation and Approval of Indirect Cost Rates.**

---


# Q & A


---

---


**Thank You**


---

Presenter's contact details

AbdurRehman Farooq Butt, ACA

KPMG Taseer Hadi & Co.

+92 51 282 3558

afarooq@kpmg.com

www.kpmg.com.pk