GFS AND IPSAS – DIFFERENCES IN CASH-BASED FINANCIAL STATEMENTS

1. Both IPSAS and GFS suggest formats for the presentation of cash-based results:

- For GFS, a statement of sources and uses of cash (SSUC)
- For IPSAS, a statement of cash receipts and payments (SCRP).

2. In both cases these statements are based on cash-based accounting and reporting. But in both GFS and IPSAS, these cash-based statements have a place in the transition from cash to accrual-based accounting – providing a foundation for accruals-based statements of financial performance (IPSAS) or government operations (GFS), and accompanying statements of cash flow, as part of similar sets of integrated financial statements (which also include a balance sheet, a statement of other changes in equity or other economic flows, and under IPSAS a statement of performance against budget). So there are considerable similarities between the two reporting frameworks, although it must be remembered that GFS is for statistical reporting whereas IPSAS is for financial reporting.

3. The GFS reporting system is supported by a full coding system, and defines precisely how transactions should be coded and presented. In contrast, IPSAS does not have a "standard" chart of accounts, and provides options for detailed classification and presentation within broad reporting guidelines.

4. For countries developing their financial systems and procedures, their accounting systems should ideally support IPSAS and GFS reporting. But the two reporting standards must not be confused, or considered identical, because they are different in important respects. This note does not deal with all these differences, but draws attention to important differences in the format and classification within the two statements mentioned in paragraph 1. The differences are demonstrated in some specimen statements included at Appendix 1 to this note.

Overall format

5. Whilst the format of the SSUC is well defined, the cash-based IPSAS does not specify a single format that must be followed. The cash-based IPSAS provides illustrative examples, brigading all receipts together and all payments together; receipts classified by economic type (taxes etc), with payments classified by economic type (personnel, transfers etc) or by function (health, defence etc). But in section 2 of the cash-based IPSAS, the standard recommends that "an entity which intends to migrate to the accrual basis of accounting is encouraged to present a statement of cash receipts and payments in the same format as that required by IPSAS 2 "Cash Flow Statements." So for many countries the IPSAS 2 format provides the most suitable basis for the SCRP.

6. At first glance the SSUC and the SCRP following the IPSAS 2 format look very similar, broadly categorising receipts and payments into operating, investing and financing classifications. But there is an important difference.

- The SSUC includes a section devoted to "cash flows from investments in nonfinancial assets" – ie physical investments

- The "equivalent" section in the SCRP captures "cash flows from investing activities"

This difference is not just one of wording - the SCRP does not restrict investment to physical or non-financial assets, whereas the SSUC does.

7. The SSUC and SCRP also differ in the internal organisation of the section relating to financing activities. They also differ in the wording used to describe results. The following table shows the terminology suggested in each standard; and third terminology which reflects a suggested hybrid, and which anticipates the eventual switch to accruals-based statements and which gives a more "common sense" interpretation for the users of the accounts:

	SSUC	**SCRP (IPSAS 2)**	**Hybrid/suggested**
Balance after operating and investing activities	Cash surplus/deficit	(none suggested)	(Cash) surplus or deficit before financing
Balance from all 3 types of activity	Net change in the stock of cash	net increase (or decrease) in cash and cash equivalents	(Cash) surplus or deficit after financing

Acquisition and sale of financial assets

8. The different treatment of the "investing" section of the two statements has a direct consequence.

- GFS treats the acquisition and sale of financial assets (loans and equity investments in state enterprises, for example) as financing rather than investing activity. That's because GFS is interested in mapping the flows between the different sectors of the economy and with the outside world. So from this perspective, such flows are financing flows between different sectors.

- From the financial reporting and IPSAS perspective, interested in reporting the financial results of an entity (in this case, the government or government body), these flows are very definitely investments – ie the discretionary use of resources in the hope or expectation of long-term return (" the acquisition and disposal of long-term assets and other investments not included in cash equivalents", as per

IPSAS2). Likewise, it is easy to see that such flows do not belong to financing as defined by IPSAS 2 (“activities that result in changes in the size and composition of the contributed capital and borrowings of the entity”). Under IPSAS they would be “financing” as reported in the accounts of the state enterprise, but remain “investing” in the government’s accounts.

Treatment of grants (external assistance) received

9. A second major area of difference between GFS and IPSAS 2 is in the treatment of grants received by the government. In developing countries such external assistance is often an important element of their financial performance. Differences in treatment can make a significant impact on reported results.

10. GFS treats grants received as operating revenue, because they are a direct receipt (increase in cash or equity) without the creation of a financial liability. This distinguishes them from loans, which create a financial liability and therefore (unlike a grant) have a place in the “financing” section of the SSUC.

11. Under IPSAS, in contrast, the classification of grants received (as operating, investing, or financing) is not clearly specified – neither IPSAS 2 nor the cash-based IPSAS provide direct guidance on this question. External grants could be divided into current and capital, and brought to account in the respective operating and investing segments of the SCRP. One argument for this treatment is that the related expenditures would not have occurred, except in the expectation of receiving the grant. But the counter-argument is that treating grants received as operating and investing revenues provides a false impression that these are somehow automatic or earned entitlements resulting from the government’s own operations. In addition, for developing countries there is often a direct and understandable interest in the total amount and types of external assistance. Indeed the cash-based IPSAS (para 1.3.18) requires that “The entity should disclose separately on the face of the Statement of Cash Receipts and Payments, total external assistance received in cash during the period”. This is best done by bringing together such flows in the financing section of the SCRP – and this treatment probably accords with most users’ understanding of “financing” (or “external financing”) even if no liability has been incurred.

In conclusion

12. Whilst there is an understandable desire to integrate and align GFS and IPSAS reporting standards, the above differences in treatment and presentation may be unavoidable. It would be useful if the eventual IPSASB report highlighted these differences so that governments do not mistakenly or unknowingly seek to apply GFS treatments in their cash-based statements or en route to accruals. In addition, IPSASB could usefully provide a definitive view on how best to treat external assistance received as grants.

Appendix 1: Options for the statement of cash receipts and payments

Option 1: IPSAS simple

RECEIPTS

Taxes
Fines and penalties
Sales of goods and service
Grants
Net internal borrowings
Net external borrowings
Sale of fixed assets
Sale of financial instruments and equity

TOTAL RECEIPTS

PAYMENTS

Compensation of employees
Purchases of goods and services
Interest
Subsidies
Grants
Social benefits
Other payments
Purchase of fixed assets
Purchase of equity and other financial instruments
Loans to third parties

TOTAL PAYMENTS

NET CHANGE IN THE STOCK OF CASH

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD

CASH AND CASH EQUIVALENTS AT END OF PERIOD

Option 2: GFS (= GFS Statement of Sources and Uses of Cash)

CASH FLOWS FROM OPERATING ACTIVITIES:

- A. CASH RECEIPTS FROM OPERATING ACTIVITIES
  - Taxes
  - Social contributions
  - External assistance - grants
  - Other receipts
- B. CASH PAYMENTS FOR OPERATING ACTIVITIES
  - Compensation of employees
  - Purchases of goods and services
  - Interest
  - Subsidies
  - Grants
  - Social benefits
  - Other payments

NET CASH INFLOW FROM OPERATING ACTIVITIES (A-B)

CASH FLOWS FROM INVESTMENTS IN NONFINANCIAL ASSETS:

- C. PURCHASES OF NONFINANCIAL ASSETS
  - Fixed assets
  - Inventories
  - Valuables
  - Non-produced assets
- D. SALES OF NONFINANCIAL ASSETS
  - Fixed assets
  - Inventories
  - Valuables
  - Non-produced assets

NET CASH OUTFLOW FROM INVESTMENTS IN NONFINANCIAL ASSETS (C-D)

CASH SURPLUS/DEFICIT (A-B) - (C-D)

CASH FLOWS FROM FINANCING ACTIVITIES:

- E. NET ACQUISITION OF FINANCIAL ASSETS OTHER THAN CASH
  - Domestic
  - External
- F. NET INCURRENCE OF LIABILITIES
  - Domestic
  - External

NET CASH INFLOW FROM FINANCING ACTIVITIES (F-E)

NET CHANGE IN THE STOCK OF CASH (A-B) - (C-D) + (F-E)

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD

CASH AND CASH EQUIVALENTS AT END OF PERIOD

Option 3: IPSAS (based on IPSAS 2)

CASH FLOWS FROM OPERATING ACTIVITIES:

- A. CASH RECEIPTS FROM OPERATING ACTIVITIES
  - Taxes
  - Sales of goods and service
  - Grants
  - Other receipts
- B. CASH PAYMENTS FOR OPERATING ACTIVITIES
  - Compensation of employees
  - Purchases of goods and services
  - Interest
  - Subsidies
  - Grants
  - Social benefits
  - Other payments

SURPLUS/DEFICIT FROM OPERATING ACTIVITIES (A-B)

CASH FLOWS FROM INVESTING ACTIVITIES:

- C. PURCHASES OF ASSETS
  - Fixed assets
  - Inventories
  - Valuables
  - Investments and loans to 3rd parties
- D. SALES OF ASSETS
  - Fixed assets
  - Inventories
  - Valuables
  - Sales of equity, loan repayment

NET CASH OUTFLOW FROM INVESTING ACTIVITIES (C-D)

CASH SURPLUS/DEFICIT BEFORE FINANCING (A-B) - (C-D)

CASH FLOWS FROM FINANCING ACTIVITIES:

- E. EXTERNAL ASSISTANCE - GRANTS
- F. NET INTERNAL BORROWING
  - Drawdown
  - less repayments
- G. NET EXTERNAL BORROWING
  - Drawdown
  - less repayments

NET CASH INFLOW FROM FINANCING ACTIVITIES (E+F+G)

CASH SURPLUS/DEFICIT AFTER FINANCING (A-B) - (C-D) + (E+F+G)

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD

CASH AND CASH EQUIVALENTS AT END OF PERIOD

Notes

1) sub-classifications in IPSAS are not prescribed - whilst there are some fairly standard items, others can be included if they give a better picture of the entity's finances
2) items that differ between the GFS and IPSAS 2 formats are highlighted in red