

PART 2: FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING—ENCOURAGED ADDITIONAL DISCLOSURES

This part of the Standard is not mandatory. It sets out encouraged additional disclosures for reporting under the cash basis. It should be read together with Part 1 of this Standard, which sets out the requirements for reporting under the cash basis of accounting. The encouraged disclosures, which have been set in italic, should be read in the context of the commentary paragraphs in this part of the Standard, which are in plain type.

FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING PART 2: ENCOURAGED ADDITIONAL DISCLOSURES

2.1 Encouraged Additional Disclosures

Definitions

2.1.1 *The following terms are used in this part of the Standard with the meanings specified:*

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

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

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

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

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

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

Extraordinary items are (for the purposes of this Standard) cash flows that arise from events or transactions that are clearly distinct from the ordinary activities of the entity, are not expected to recur frequently or regularly and are outside the control or influence of the entity.

A financial asset is any asset that is:

- (a) Cash;
- (b) A contractual right to receive cash or another financial asset from another entity;
- (c) A contractual right to exchange financial instruments with another entity under conditions that are potentially favorable; or
- (d) An equity instrument of another entity.

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

Ordinary activities are any activities which are undertaken by an entity as part of its service delivery or trading activities. Ordinary activities include such related activities in which the entity engages in furtherance of, incidental to, or arising from these activities.

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

Terms defined in Part 1 of this Standard are used in this part of the Standard with their defined meaning.

Future Economic Benefits or Service Potential

- 2.1.2 Assets, including cash and other resources, provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives but which do not directly generate net cash inflows are often described as embodying "service potential." Assets that are used to generate net cash inflows are often described as embodying future economic benefits. To encompass all the purposes to which assets may be put, this Standard uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.

Going Concern

- 2.1.3 *When preparing the financial statements of an entity, those responsible for the preparation of the financial statements are encouraged to make an assessment of the entity's ability to continue as a going concern. When those responsible for the preparation of the financial statements are aware, in making their assessment, of material uncertainties related to events or conditions which may cast significant doubt upon the entity's ability to continue as a going concern, the disclosure of those uncertainties is encouraged.*
- 2.1.4 The determination of whether an entity is a going concern is primarily relevant for individual entities rather than for the government as a whole. For individual entities, in assessing whether the entity is a going concern, those responsible for the preparation of the financial statements:
- (a) Will need to take into account all available information for the foreseeable future which will include, but will not necessarily be limited to, twelve months from the approval of the financial statements; and
 - (b) May need to consider a wide range of factors surrounding current and expected performance, potential and announced restructurings of organizational units, estimates of receipts or the likelihood of continued

government funding, and potential sources of replacement financing before it is appropriate to conclude that the entity is a going concern.

- 2.1.5 There may be circumstances where the usual going concern tests of liquidity and solvency as applied to business enterprises appear unfavorable, but other factors suggest that the entity is nonetheless a going concern. For example:
- (a) In assessing whether the government is a going concern, the power to levy rates or taxes may enable some entities to be considered as a going concern even though their cash payments may exceed their cash receipts for extended periods; and
 - (b) For an individual entity, an assessment of its cash flows for a reporting period may suggest that the entity is not a going concern. However, there may be multi-year funding agreements in place with the government that will ensure the continued operation of the entity.

Extraordinary Items

- 2.1.6 *An entity is encouraged to separately disclose the nature and amount of each extraordinary item. The disclosure may be made on the face of the statement of cash receipts and payments, or in other financial statements or in the notes to the financial statements.*
- 2.1.7 Extraordinary items are characterized by the fact that they arise from events or transactions that are distinct from an entity's ordinary activities, are not expected to recur frequently or regularly and are outside the control or influence of the entity. Accordingly, extraordinary items are rare, unusual and material.

Distinct from Ordinary Activities

- 2.1.8 Whether an event or transaction is clearly distinct from the ordinary activities of the entity is determined by the nature of the event or transaction in relation to the activities ordinarily carried on by the entity rather than by the frequency with which such events are expected to occur. An event or transaction may be extraordinary for one entity or level of government, but not extraordinary for another entity or level of government, because of the differences between their respective ordinary activities. In the context of whole-of-government reporting, extraordinary items will be extremely rare.

Not Expected to Recur in the Foreseeable Future

- 2.1.9 The event or transaction will be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates. The nature of extraordinary items is such that they would not normally be anticipated at the beginning of a reporting period and therefore would not be included in a budget. Inclusion of an item in a budget suggests that the occurrence of the specific item is foreseen and therefore not extraordinary.

Outside the Control or Influence of the Entity

- 2.1.10 The event or transaction will be outside the control or influence of the entity. A transaction or event is presumed to be outside the control or influence of an entity if the decisions or determinations of the entity do not normally influence the occurrence of that transaction or event.

Identifying Extraordinary Items

- 2.1.11 Whether or not an item is extraordinary will be considered in the context of the entity's operating environment and the level of government within which it operates. Judgment will be exercised in each case.
- 2.1.12 Examples of cash flows associated with events or transactions that may, although not necessarily, give rise to extraordinary items for some public sector entities or levels of government are:
- (a) Short-term cash flows associated with the provision of services to refugees where the need for such services was unforeseen at the beginning of the period, outside the ordinary scope of activities for the entity and outside the control of the entity. If such services were predictable or occurring in more than one reporting period they would not generally be classified as extraordinary; and
 - (b) The cash flows associated with the provision of services following a natural or man-made disaster, for example, the provision of shelter to homeless people following an earthquake. In order for a particular earthquake to qualify as an extraordinary event it would need to be of a magnitude that would not normally be expected in either the geographic area in which it occurred or the geographic area associated with the entity, and the provision of emergency services or the restoration of essential services would need to be outside the scope of ordinary activities of the entity concerned. Where an entity has responsibility for providing assistance to those affected by natural disasters, the costs associated with this activity would not generally meet the definition of an extraordinary item.
- 2.1.13 The restructuring of activities is an example of an event which would normally not be extraordinary for either an individual public sector entity or the whole-of-government entity which incorporates that government body. All three criteria within the definition of an extraordinary item must be satisfied before an item can be classified as extraordinary. A restructuring may clearly be distinct from the ordinary activities of the entity. However, at the whole-of-government level, restructuring may occur frequently. More importantly, restructuring is usually within the control or influence of a whole-of-government entity. It is only in circumstances where the restructuring is imposed by another level of government or by an external regulator or other external authority that it could

be classified as outside the control or influence of the whole-of-government entity.

- 2.1.14 The disclosure of the nature and amount of each extraordinary item may be made on the face of the statement of cash receipts and payments or other financial statements that might be prepared or in the notes to those financial statements. An entity may also decide to disclose only the total amount of extraordinary items on the face of the statement of cash receipts and payments and the details in the notes.

Administered Transactions

- 2.1.15 *An entity is encouraged to disclose in the notes to the financial statements, the amount and nature of cash flows and cash balances resulting from transactions administered by the entity as an agent on behalf of others where those amounts are outside the control of the entity.*
- 2.1.16 The cash flows associated with transactions administered by an entity acting as an agent on behalf of others may not pass through a bank account controlled by the reporting entity. In these cases, the entity cannot use, or otherwise benefit from, the cash it administers in the pursuit of its own objectives. These cash flows are not controlled by the entity and therefore are not included in the totals shown on the face of the statement of cash receipts and payments or other financial statements that might be prepared. However, disclosure of the amount and nature of these transactions by major type is encouraged because it provides useful information on the scope of the entity's activities and it is relevant for an assessment of an entity's performance.
- 2.1.17 Where such cash receipts and payments pass through a bank account controlled by the entity, they are treated as cash flows and balances of the entity itself and included in the totals shown on the face of the statement of cash receipts and payments. Paragraph 1.3.13(a) of Part 1 of this Standard permits such cash receipts and payments to be reported on a net basis. Paragraphs 2.1.18 to 2.1.22 below provide guidance on the cash receipts, payments and balances that:
- (a) May be controlled by a government or government entity and will be reported in the statement of cash receipts and payments in accordance with Part 1 of this Standard; and
 - (b) Are administered transactions which will not be included on the face of the statement of cash receipts and payments or other financial statements that might be prepared but for which disclosure is encouraged.

Revenue Collection

- 2.1.18 Public sector entities may control cash or administer cash receipts or payments on behalf of the government or other governments or government entities. For example, a government Department of Taxation (or revenue collection agency) may be established with its own bank account and provided with an

appropriation to fund its operations. The operations of the Department will include administering certain aspects of the Taxation Act and may encompass the collection of taxes on behalf of the government.

- 2.1.19 A Department of Taxation can use cash appropriated to it and deposited in a bank account which it controls to achieve its operating objectives as mandated, and can exclude others from using or benefiting from that cash. In these cases, the Department will control the cash appropriated for its own use. However, the cash the Department collects on behalf of the government through its tax collection activities is usually deposited in a specified government trust fund or transferred to a government bank account administered by the Treasury or similar department. In these circumstances, the cash collected cannot be used to support achievement of the objectives of the Department of Taxation, or otherwise deployed at the discretion of the Department's management without specific appropriation or other authorization by the government or relevant body. Therefore, the cash collected is not controlled by the Department of Taxation and would not form part of the cash receipts or cash balances of the Department. As a consequence of a government decision, some of the amounts collected may be appropriated or otherwise allocated for use by the Department. However, it is the government's decision to authorize the expenditure of the funds by the Department of Taxation, rather than the collection of the cash, that gives rise to the control.
- 2.1.20 Similar circumstances may arise when one government, for example a state or local government, collects cash on behalf of another government (such as a national government). In these cases, the government is acting as an agent for others in the collection of cash. The cash that arises as a result of managing transactions as an agent for others would not usually be deposited in a bank account of the collection agency and therefore would not form part of the cash receipts, cash payments or cash balances of the reporting entity.

“Pass-through” Cash Flows

- 2.1.21 In some cases, the administrative arrangements in place in respect of the revenue collection activities a government or government entity undertakes as an agent of another party may provide for the cash collected to be initially deposited in the entity's own bank account before it is transferred to the ultimate recipient. Cash flows arising as a consequence of these transactions are sometimes termed “pass-through” cash flows. In these cases, the entity will:
- (a) Control the cash it collects in its capacity as an agent for the, usually short, period the cash is deposited in the entity's bank account prior to transfer to third parties;
 - (b) Usually benefit from any interest arising from amounts deposited in interest bearing accounts prior to its transfer to the other entity; and

- (c) Have an obligation to transfer the cash collected to third parties in accordance with legislative requirements or administrative arrangements.

When cash inflows from administered transactions pass through a bank account controlled by the reporting entity, the cash receipts, cash transfers and cash balances arising from the collection activity will be included in the entity's statement of cash receipts and payments in accordance with paragraph 1.3.4(a)(i) of Part 1 of this Standard. Paragraph 1.3.13(a) of Part 1 of this Standard specifies that cash receipts and payments which arise from transactions the entity administers on behalf of other parties and which are recognized in the financial statements may be reported on a net basis.

Transfer Payments

- 2.1.22 Consistent with a government's objectives and with legislation or other authority, amounts appropriated to a government entity (a department, agency or similar) may include amounts to be transferred to third parties in respect of, for example, unemployment benefits, age or invalid pensions, family allowances and other social security and community benefit payments. In some cases, these amounts will pass through a bank account controlled by the entity. Where this occurs, the entity will recognize the cash appropriated for transfer during the reporting period as a cash receipt, the amounts transferred during that reporting period as a cash payment and any amounts held at the end of the reporting period for transfer in the future as part of closing balance of cash.

Disclosure of Major Classes of Cash Flows

- 2.1.23 *An entity is encouraged to disclose, either on the face of the statement of cash receipts and payments or other financial statements or in the notes to those statements:*
 - (a) *An analysis of total cash payments and payments by third parties using a classification based on either the nature of the payments or their function within the entity, as appropriate; and*
 - (b) *Proceeds from borrowings. In addition, the amount of borrowings may be further classified into type and source.*
- 2.1.24 The sub-classifications encouraged in paragraph 2.1.23(a) may be presented on the face of the statement of cash receipts and payments in accordance with the requirements of paragraphs 1.3.12 and 1.3.24 of Part 1 of this Standard. Where a different classification basis is adopted in the statement of cash receipts and payments, additional disaggregated disclosures reflecting the encouragement in paragraph 2.1.23(a) above is encouraged either as a separate statement or by way of note.
- 2.1.25 Cash payment items and payments by third parties may be further sub-classified in order to enhance accountability by identifying the major purposes for which

the payments are made. They may also be sub-classified in order to highlight the costs and cost recoveries of particular programs, activities or other relevant segments of the reporting entity. An entity is encouraged to present this information in at least one of the following two ways.

- 2.1.26 The first method is referred to as the nature of payments method. Payments are aggregated in the statement of cash receipts and payments according to their nature (for example, purchases of materials, transport costs, wages and salaries), and are not reallocated amongst various functions within the entity. An example of a classification using the nature of payments method is as follows:

	Cash payments	Payments by third parties
Wages and salaries	(X)	(X)
Transport costs	(X)	(X)
Capital acquisitions	(X)	(X)
Borrowing costs	(X)	(X)
Other	(X)	(X)
Total payments	(X)	(X)

- 2.1.27 The second method, referred to as the functional method of classification, classifies payments according to the program or purpose for which they were made. This presentation often provides more relevant information to users, although the allocation of payments to functions can be arbitrary and may involve considerable judgment. An example of a functional classification of cash payments is as follows:

	Cash payments	Payments by third parties
Health services	(X)	(X)
Education services	(X)	(X)
Capital acquisitions	(X)	(X)
Borrowing costs	(X)	(X)
Other	(X)	(X)
Total payments	(X)	(X)

- 2.1.28 Under this method, the cash payments associated with the main functions undertaken by the entity are shown separately. In this example, the entity has functions related to the provision of health services and education services. The entity would present cash payment line items for each of these functions.
- 2.1.29 Entities classifying cash payments by function are encouraged to disclose additional information on the nature of payments, including payments made for salaries and other employee benefits.

- 2.1.30 Paragraph 1.3.12 of Part 1 of this Standard requires the disclosure of total cash receipts of the entity showing separately a sub-classification of total cash receipts using a classification basis appropriate to the entity's operations. The sub-classification of cash receipts into appropriate classes will depend upon the size, nature and function of the amounts involved. In addition to disclosure of the amount of receipts from external assistance and borrowings, the following sub-classifications may be appropriate:
- (a) Receipts from taxation (these may be further sub-classified into types of taxes);
 - (b) Receipts from fees, fines, penalties and licenses;
 - (c) Receipts from exchange transactions including receipts from the sale of goods and services and user charges (where these are classified as exchange transactions);
 - (d) The purposes for which external assistance grants and loans are provided, the providers of that assistance and the amount provided;
 - (e) Receipts from other grants, transfers, or budget appropriations (possibly classified by source and purpose);
 - (f) Receipts from interest and dividends; and
 - (g) Receipts from gifts and donations.

Related Party Disclosures

- 2.1.31 *An entity is encouraged to disclose in the notes to the financial statements information required by International Public Sector Accounting Standard IPSAS 20, "Related Party Disclosures."*
- 2.1.32 IPSAS 20, in the accrual based series of IPSASs, defines related parties and other relevant terms, requires the disclosure of related party relationships where control exists and requires the disclosure of certain information about related party transactions, including information about aggregate remuneration of key management personnel.

Disclosure of Assets, Liabilities and Comparison with Budgets

- 2.1.33 *An entity is encouraged to disclose in the notes to the financial statements:*
- (a) *Information about the assets and liabilities of the entity; and*
 - (b) *If the entity does not make publicly available its approved budget, a comparison with budgets*
- 2.1.34 Governments and government entities control significant resources in addition to cash and deploy those resources in the achievement of service delivery objectives. They also borrow to fund their activities, incur other debts and liabilities in the course of their operations and make commitments to expend

money in the future on the acquisition of capital assets. Non-cash assets and liabilities will not be reported on the face of the statement of cash receipts and payments or other financial statements that might be prepared under the cash basis of accounting. However, governments maintain records of, and monitor and manage, their debt and other liabilities and their non-cash assets. The disclosure of information about assets and liabilities and the costs of particular programs and activities will enhance accountability and is encouraged by this Standard.

- 2.1.35 Entities that make such disclosures are encouraged to identify assets and liabilities by type, for example, by classifying:

- (a) Assets as receivables, investments or property plant and equipment; and
- (b) Liabilities as payables, borrowings by type or source and other liabilities.

While such disclosures may not be comprehensive in the first instance, entities are encouraged to progressively develop and build on them. In order to comply with the requirements of paragraphs 1.3.5 and 1.3.37 of Part 1 of this Standard, these disclosures will need to comply with qualitative characteristics of financial information and should be clearly described and readily understood. Accrual basis IPSASs including IPSAS 13, “Leases,” IPSAS 17, “Property, Plant and Equipment” and IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets” can provide useful guidance to entities disclosing additional information about assets and liabilities.

Comparison with Budgets

- 2.1.36 Public sector entities are typically subject to budgetary limits in the form of appropriations or other budgetary authority which may be given effect through authorizing legislation. One of the objectives of financial reporting by public sector entities is to report on whether cash was obtained and used in accordance with the legally adopted budget. In some jurisdictions, this requirement is reflected in legislation. Entities which make publicly available their approved budgets are required to comply with the requirements of paragraphs 1.9.1 to 1.9.48 of Part 1 of this Standard. This Standard encourages other entities (that is, entities which do not make publicly available their approved budgets) to include in their financial statements the disclosure of a comparison of actual with the budgeted amounts for the reporting period where the financial statements and the budget are on the same basis of accounting. Reporting against budgets for these other entities may be presented in different ways, including:

- (a) The preparation of a note with separate columns for budgeted amounts and actual amounts. A column showing any variances from the budget or appropriation may also be presented for completeness; and

- (b) Disclosure that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or payments made without appropriation or other form of authority, then details may be disclosed by way of note to the relevant item in the financial statements.
- 2.1.37 *Entities which disclose in their financial statements a comparison of actual with budgeted amounts are encouraged to include in the financial statements a cross reference to reports which include information about service achievements.*
- 2.1.38 *Entities which adopt multi-period budgets are encouraged to provide additional note disclosures about the relationship between budget and actual amounts during the budget period.*
- 2.1.39 Additional budget information, including information about service achievements, may be presented in documents other than financial statements. Entities which disclose in their financial statements a comparison of actual with budgeted amounts are encouraged to include in their financial statements a cross reference to such documents, particularly to link budget and actual data to non-financial budget data and service achievements.
- 2.1.40 As noted in paragraph 1.9.32 of this Standard, entities may take different approaches to determining the annual budget within the multi-period budget. Where multi-period budgets are adopted, entities are encouraged to provide additional disclosures about such matters as the relationship between the multi period budget and component annual budgets and actual amounts during the budget period.

Consolidated Financial Statements

- 2.1.41 *An entity is encouraged to disclose in the notes to the financial statements:*
 - (a) *The proportion of ownership interest in controlled entities and, where that interest is in the form of shares, the proportion of voting power held (only where this is different from the proportionate ownership interest);*
 - (b) *Where applicable:*
 - (i) *The name of any controlled entity in which the controlling entity holds an ownership interest and/or voting rights of 50% or less, together with an explanation of how control exists; and*
 - (ii) *The name of any entity in which an ownership interest of more than 50% is held but which is not a controlled entity, together with an explanation of why control does not exist; and*
 - (c) *In the controlling entity's separate financial statements, a description of the method used to account for controlled entities.*

- 2.1.42 *A controlling entity which does not present a consolidated statement of cash receipts and payments is encouraged to disclose the reasons why the consolidated financial statements have not been presented together with the bases on which controlled entities are accounted for in its separate financial statements. It is also encouraged to disclose the name and the principal address of its controlling entity that publishes consolidated financial statements.*
- 2.1.43 Paragraph 1.6.20(b) of Part 1 of this Standard requires that the reasons for non-consolidation of a controlled entity should be disclosed. Paragraphs 1.6.7 and 1.6.8 of Part 1 of the Standard also provide that a controlling entity that is itself a wholly owned entity or a controlling entity that is virtually wholly owned, need not present a consolidated financial statement. When this occurs, the disclosure of the information in paragraph 2.1.42 above is encouraged.

Acquisitions and Disposals of Controlled Entities and Other Operating Units

- 2.1.44 *An entity is encouraged to disclose and present separately the aggregate cash flows arising from acquisitions and from disposals of controlled entities or other operating units.*
- 2.1.45 *An entity is encouraged to disclose in the notes to the financial statements, in aggregate in respect of both acquisitions and disposals of controlled entities or other operating units during the period, each of the following:*
- (a) *The total purchase or disposal consideration (including cash or other assets);*
 - (b) *The portion of the purchase or disposal consideration discharged by means of cash; and*
 - (c) *The amount of cash in the controlled entity or operating unit acquired or disposed of.*
- 2.1.46 The separate presentation of the cash flow effects of acquisitions and disposals of controlled entities and other operations, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from cash receipts and payments arising from the other activities of the entity. To enable users to identify the effects of both acquisitions and disposals, the cash flow effects of disposals would not be deducted from those acquisitions.
- 2.1.47 The aggregate amount of the cash paid or received as purchase or sale consideration is reported in the statement of cash receipts and payments net of cash acquired or disposed of.
- 2.1.48 Paragraph 2.1.33 encourages the disclosure of assets and liabilities of the entity. Assets and liabilities other than cash of a controlled entity or operating unit acquired or disposed of may also be separately disclosed, summarized by each major category. Consistent with the requirement of

paragraph 1.3.37 of Part 1 of this Standard, where such disclosure is made, the assets and liabilities should be clearly identified and the basis on which they are recognized and measured explained.

Joint Ventures

- 2.1.49 *An entity is encouraged to make disclosures about joint ventures which are necessary for a fair presentation of the cash receipts and payments of the entity during the period and the balances of cash as at reporting date.*
- 2.1.50 Many public sector entities establish joint ventures to undertake a variety of activities. The nature of these activities range from commercial undertakings to provision of community services at no charge. The terms of a joint venture are set out in a contract or other binding arrangement and usually specify the initial contribution from each joint venturer and the share of revenues or other benefits (if any) and expenses of each of the joint venturers. Entities which report on a cash basis will generally report:
- (a) As cash payments, the cash expended in the acquisition of an interest in a joint venture and in the ongoing operations of the joint venture; and
 - (b) As cash receipts, the cash received from the joint venture.

Disclosures about joint ventures may include a listing and description of interests in significant joint ventures. International Public Sector Accounting Standard IPSAS 8, “Financial Reporting of Interests in Joint Ventures” in the accrual based series of IPSASs provides guidance on the different forms and structures that joint ventures may take and potential additional disclosures that might be made.

Financial Reporting in Hyperinflationary Economies

- 2.1.51 In a hyperinflationary economy, the presentation of the financial statements in the local currency without restatement is not useful. Money loses purchasing power at such a rate that comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.
- 2.1.52 This Standard does not identify an absolute rate at which hyperinflation is deemed to arise. It is a matter of judgment when restatement of financial statements in accordance with the encouragements in this Standard would become necessary. Hyperinflation is indicated by characteristics of the economic environment of a country which include, but are not limited to, the following:
- (a) The general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power;

- (b) The general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency;
- (c) Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;
- (d) Interest rates, wages and prices are linked to a price index; and
- (e) The cumulative inflation rate over three years is approaching, or exceeds, 100%.

The Restatement of Financial Statements

2.1.53 *An entity that reports in the currency of a hyperinflationary economy is encouraged to:*

- (a) *Restate its statement of cash receipts and payments and other financial statements in terms of the measuring unit current at the reporting date;*
- (b) *Restate the comparative information for the previous period, and any information in respect of earlier periods in terms of the measuring unit current at the reporting date; and*
- (c) *Use a general price index that reflects changes in general purchasing power. It is preferable that all entities that report in the currency of the same economy use the same index.*

2.1.54 *The entity is encouraged to make the following disclosures:*

- (a) *The fact that the statement of cash receipts and payments and other financial statements, and the corresponding figures for previous periods, have been restated for the changes in the general purchasing power of the reporting currency and, as a result, are stated in terms of the measuring unit current at the reporting date; and*
- (b) *The identity and level of the price index at the reporting date and the movement in the index during the current and the previous reporting period.*

2.1.55 Prices change over time as the result of various political, economic and social forces. Specific forces such as changes in supply and demand, and technological changes may cause individual prices to increase or decrease significantly and independently of each other. In addition, general economic forces may result in changes in the general level of prices and therefore in the general purchasing power of money.

2.1.56 In a hyperinflationary economy, the usefulness of financial statements is substantially increased if they are expressed in terms of the measuring unit current at the reporting date. As a result, the treatments and disclosures in

paragraphs 2.1.53 and 2.1.54 above are encouraged. Presentation of this information as the primary presentation rather than as a supplement to financial statements which have not been restated is encouraged. Separate presentation of the statement of cash receipts and payments and other financial statements before restatement is discouraged.

- 2.1.57 All items in the statement of cash receipts and payments will be expressed in terms of the measuring unit current at the reporting date. Therefore, all amounts, including any payments by third parties disclosed on the face of the statement of cash receipts and payments or in other financial statements, would be restated by applying the change in the general price index from the dates when the payments and receipts were initially recorded.
- 2.1.58 Many entities in the public sector include in their financial statements the related budgetary information, to facilitate comparisons with the budget. Where this occurs, this Standard encourages restatement of the budgetary information in accordance with this Standard.

Comparative Information

- 2.1.59 If comparisons with previous periods are to be meaningful, comparative information for the previous reporting period will be restated by applying a general price index so that the comparative financial statements are presented in terms of the measurement unit current at the end of the reporting period. Information that is disclosed in respect of earlier periods is also expressed in terms of the measurement unit current at the end of the reporting period.

Consolidated Financial Statements

- 2.1.60 A controlling entity that reports in the currency of a hyperinflationary economy may have controlled entities that also report in the currencies of hyperinflationary economies. If the statement of cash receipts and payments and other financial statements are to be prepared on a consistent basis, the financial statements of any such controlled entity will be restated by applying a general price index of the country in whose currency it reports before they are included in the consolidated financial statements issued by its controlling entity. Where such a controlled entity is a foreign controlled entity, its restated financial statements are translated at closing rates.
- 2.1.61 If financial statements with different reporting dates are consolidated, all items, whether non-monetary or monetary, need to be restated into the measuring unit current at the date of the consolidated financial statement.

Selection and Use of the General Price Index

- 2.1.62 The restatement of financial statements in accordance with the approach encouraged by this Standard requires the use of a general price index that

reflects changes in general purchasing power. It is preferable that all entities that report in the currency of the same economy use the same index.

- 2.1.63 The disclosures encouraged by this Standard are intended to make clear the basis of dealing with the effects of hyperinflation in the financial statements. They are also intended to provide other information necessary to understand that basis and the resulting amounts.

Assistance Received From Non-Governmental Organizations (NGOs)

- 2.1.64 *Where practicable, an entity is encouraged to apply to assistance received from non-governmental organizations (NGOs), the required disclosures identified in paragraphs 1.10.1 to 1.10.27 of Part 1 of this Standard and the encouraged disclosures identified in paragraphs 2.1.66 to 2.1.93 below.*
- 2.1.65 Reporting entities are not required to make the disclosures identified in paragraphs 1.10.1 to 1.10.27 in respect of assistance received from non-governmental organizations (NGOs). This is because the costs of collecting and aggregating the information necessary to comply with those requirements may be greater than its benefits. However, making the disclosures about assistance received from NGOs which are identified in paragraphs 1.10.1 to 1.10.27, together with the disclosures encouraged in paragraphs 2.1.66 to 2.1.93 below, can provide additional input to assessments of the extent to which the reporting entity is dependent on assistance from these organizations to support its activities. Accordingly, reporting entities are encouraged to apply the disclosures identified in this Standard to assistance received from NGOs, where it is practicable to do so.

Recipients of External Assistance

- 2.1.66 *An entity is encouraged to disclose by significant class in notes to the financial statements:*
- (a) *The purposes for which external assistance was received during the reporting period, showing separately amounts provided by way of loans and grants; and*
 - (b) *The purposes for which external assistance payments were made during the reporting period.*
- 2.1.67 An entity may receive external assistance for many purposes including assistance to support its:
- (a) Economic development or welfare objectives, often termed development assistance;
 - (b) Emergency relief objectives, often termed emergency assistance;

- (c) Balance of payments position or to defend its currency exchange rate, often termed balance of payments assistance;
 - (d) Military and/or defense objectives, often termed military assistance; and
 - (e) Trading activities, including export credits or loans offered by export/import banks or other government agencies, often termed trade finance.
- 2.1.68 Part 1 of this Standard requires disclosure of the total amount of external assistance received during the reporting period showing separately the total amount received by way of grants and loans. Disclosure of the significant classes of external assistance received by way of loan or grant will enable users to determine the purposes for which assistance was provided during the period, the amounts thereof and whether the entity has an obligation to repay the assistance provided at some time in the future.
- 2.1.69 Disclosure by significant class of the purposes for which external assistance payments were made during the reporting period will further enhance the entity's accountability for its use of external assistance received.
- 2.1.70 *An entity is encouraged to identify in notes to the financial statements each provider of external assistance during the reporting period and the amount provided, excluding any undrawn amounts, showing separately amounts provided by way of loans and grants in the currency provided.*
- 2.1.71 Disclosure of each provider of external assistance and the amount provided by way of loan and grant will indicate the extent of diversification of sources of assistance. This will assist readers of the financial statements to determine, for example, whether the entity is dependent on particular agencies for assistance, the extent of that dependency and the currency in which it was provided, and whether the assistance is provided by way of a grant or a loan which will need to be repaid in the future. The disclosure encouraged by this paragraph excludes amounts that have not been drawn down during the period. Paragraph 2.1.72 encourages disclosure of information about undrawn amounts of external assistance in certain circumstances.
- 2.1.72 *In respect of external assistance that is undrawn at reporting date and is disclosed in accordance with paragraph 1.10.18 of Part 1 of this Standard, an entity is encouraged to disclose in notes to the financial statements:*
- (a) *Each provider of loan assistance and grant assistance and the amount provided by each;*
 - (b) *The purposes for which the undrawn loan assistance and undrawn grant assistance may be used;*
 - (c) *The currency in which the undrawn assistance is held or will be made available; and*

- (d) *Changes in the amount of undrawn loan assistance and undrawn grant assistance during the period.*
- 2.1.73 Undrawn external assistance balances are required to be disclosed in certain circumstances by paragraph 1.10.18 of Part 1 of this Standard. The disclosures encouraged by paragraph 2.1.72 will enable readers of the financial statements to determine the purposes for which such undrawn assistance may be used in the future, the currency in which that undrawn assistance is held or will be made available, and whether the amount of undrawn loan and grant assistance declined or increased during the period.
- 2.1.74 As is appropriate for the reporting entity, the disclosures could usefully identify such matters as the opening balance of undrawn loans and grants, the amount of new loans and new grants approved or otherwise made available during the period, the total amount of loans and grants drawn or utilized during the period, the total amounts of loans and grants cancelled or expired during the period, and the closing balance of undrawn loans and grants. Such disclosures will assist users in identifying not only the amount of the change in undrawn balances, but also the components of that change.
- 2.1.75 Where disclosures of changes in the amount of undrawn assistance are made in the entity's reporting currency, external assistance denominated in a foreign currency will be reported in the entity's reporting currency by applying to the foreign currency amount the exchange rate on the date of each applicable transaction, consistent with the requirements of Part 1 of this Standard.
- 2.1.76 *An entity is encouraged to disclose in notes to the financial statements the terms and conditions of external assistance agreements that determine or affect access to, or limit the use of, external assistance.*
- 2.1.77 Some external assistance agreements limit or specifically define the use or purpose for which the external assistance may be used, or limit the sources from which goods or services may be purchased. This type of external assistance term or condition may specify that the funds are available only to purchase specific inputs for the construction of specified facilities at a specified location, or that the goods or services purchased under the external assistance agreement must originate from a specified country or countries.
- 2.1.78 Some external assistance may be released on specific dates, or may be released upon the entity:
- (a) Undertaking actions specified in an external assistance agreement, such as implementing specific policy changes; or
 - (b) Achieving ongoing performance targets, such as budget deficit targets or other broad economic objectives, or establishing a financial sector asset recovery or management agency.

- 2.1.79 Disclosure of terms and conditions that determine or affect access to external assistance will indicate the extent to which external assistance is time bound and/or is dependent upon the entity taking certain actions and achieving certain performance objectives, and what those actions and performance objectives are.
- 2.1.80 *An entity is encouraged to disclose in notes to the financial statements:*
- (a) *The outstanding balance of any external assistance loans for which principal and/or interest payments have been guaranteed by third parties, any terms and conditions related to those loans, and any additional terms and conditions arising from the guarantee; and*
 - (b) *The amount and terms and conditions of external assistance loans and grants for which performance of related terms and conditions have been guaranteed by third parties, and any additional terms and conditions arising from the guarantee.*
- 2.1.81 The balance of external assistance loans borrowed by an entity and payment of interest thereon may be guaranteed, in total or up to a specified amount. Terms and conditions associated with the loans may also require the recipient to take certain actions, or achieve agreed outcomes such as setting tariffs according to an agreed formula, the performance of which are guaranteed by third parties. External assistance grants may also be subject to similar terms and conditions, the performance of which are guaranteed by third parties.
- 2.1.82 Disclosure of the amounts of external assistance loans and grants guaranteed by third parties will indicate the extent of support from another entity to obtain the benefits of the external assistance agreement. Disclosure of the terms and conditions of external assistance loans and grants that have been guaranteed, and any additional terms and conditions imposed to effect that guarantee, will indicate the additional performance requirements or conditions that arise as a consequence of securing the guarantee.
- 2.1.83 *An entity is encouraged to disclose in notes to the financial statements other significant terms and conditions associated with external assistance loans, grants or guarantees that have not been complied with, together with the consequence of the non compliance.*
- 2.1.84 Paragraph 1.10.25 of Part 1 of this Standard requires the disclosure of significant terms and conditions that have not been complied with when non compliance has resulted in cancellation of the assistance or given rise to an obligation to return assistance previously provided. External assistance agreements may also include other significant terms and conditions that are to be complied with, as well as some procedural terms and conditions. Consequences of non compliance with these other significant terms and conditions may include a reduction in the amount, or variation in the timing, of funds that may be drawn or made available in the future until the default is

corrected. They may also include an increase in the interest rate charged on loan funds.

- 2.1.85 Identifying these other significant terms and conditions which have not been complied with is likely to require professional judgment. That judgment will be exercised in the context of the entity's particular circumstances and by reference to the qualitative characteristics of financial statements. These terms and conditions are likely to be those where non compliance is likely to affect the amount or timing of funds that will be available to support the entity's future operations.
- 2.1.86 *An entity is encouraged to disclose in the notes to the financial statements, a summary of the repayment terms and conditions of outstanding external assistance debt. Where disclosures of future debt service payments denominated in a foreign currency are made, the entity is encouraged to report them in the entity's reporting currency by applying to the foreign currency amount of those payments the closing rate.*
- 2.1.87 External assistance debt agreements will include terms and conditions relating to such matters as the grace period, interest rate, current debt service payments, future debt service payments, remaining term of the loan, currency of debt service payments, principal repayment requirements (where repayment of the principal is deferred until the end of the loan term, or some other future date), and other significant repayment terms.
- 2.1.88 Debt service payments may be a significant cash outlay for the entity and will impact on cash available to fund current and additional operations. Disclosure of repayment terms and conditions of outstanding external assistance debt will enable readers of the financial statements to determine when debt service payments (principal and interest or service charges) will commence, and the amount of principal and interest or service charge payable.
- 2.1.89 Disclosure of information about repayment terms and conditions may require the estimation of, for example, the interest rate to be applied to variable rate debt. The estimated interest rate will usually be determined by reference to applicable interest rates at the closing date. In accordance with the requirements of paragraphs 1.3.30 to 1.3.37 of Part 1 of this Standard, when an entity elects to make disclosures which involve estimates, the accounting policies selected and applied in developing such estimates will be disclosed where necessary for a proper understanding of the financial statements.
- 2.1.90 *An entity is encouraged to disclose separately in the notes to the financial statements the value of external assistance received in the form of goods or services.*
- 2.1.91 Significant resources may be received under external assistance agreements in the form of goods or services. This will occur when new or used goods such as vehicles, computers or other equipment are transferred to the entity

under an external assistance agreement. It will also occur when food aid is provided to a government for distribution to its citizens under an external assistance agreement. For some recipients, goods or services may be the major form in which external assistance is received.

- 2.1.92 Disclosure of the value of external assistance received as goods and services will assist readers of the financial statements to better understand the full extent of external assistance received during the reporting period. However, in some cases and for some recipients, determining the value of such goods and services can be a difficult, time consuming and costly process. This is particularly so where a domestic market price for those goods and services cannot be readily determined, where the goods and services provided are not widely traded in international markets or where they are of an unique nature, such as often occurs in respect of emergency assistance.
- 2.1.93 This Standard does not specify the basis on which the value of the goods or services is to be determined. Therefore, their value may be determined as the depreciated historical cost of physical assets at the time the assets are transferred to the recipient or the price paid for the food by the external assistance agency. It may also be determined on the basis of an assessment of the value by management of the transferor, or the recipient, or by a third party. Where the value of external assistance in the form of goods or services is disclosed, paragraph 1.10.21 of Part 1 of this Standard requires the disclosure of the basis on which that value is determined. Where such is described as fair value it will conform with the definition of fair value—that is, the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

2.2 Governments and Other Public Sector Entities Intending to Migrate to the Accrual Basis of Accounting

Presentation of the Statement of Cash Receipts and Payments

- 2.2.1 *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 International Public Sector Accounting Standard (IPSAS 2), "Cash Flow Statements."*
- 2.2.2 IPSAS 2 provides guidance on classifying cash flows as operating, financing and investing and includes requirements for preparing a statement of cash flows which reports these classes separately on the face of the statement. A summary of key aspects of IPSAS 2 and guidance on their application for financial reporting under this Standard is included in Appendix 3. Part 2 of this Standard encourages disclosure of information additional to that required by IPSAS 2. Entities which adopt the format of IPSAS 2 for the presentation of the statement of cash receipts and payments are encouraged to also make the additional disclosures identified in Part 2 of this Standard.

Scope of Consolidated Statements—Exclusions from the Economic Entity

- 2.2.3 When an entity adopts the accrual basis of accounting in accordance with the accrual IPSASs, it will not consolidate entities in which control is intended to be temporary because the controlled entity is acquired and held exclusively with a view to its subsequent disposal in the near future. Temporary control may occur where, for example, a national government intends to transfer its interest in a controlled entity to a local government.
- 2.2.4 Part 1 of this Standard does not provide for such entities to be excluded from the consolidated financial statements prepared under the cash basis. This is because:
- (a) The cash of an entity which is controlled on only a temporary basis can be used for the benefit of the economic entity during the period of temporary control; and
 - (b) The potentially complex consolidation adjustments that may be necessary under the accrual basis will not arise under the cash basis.
- 2.2.5 For this exemption from consolidation to apply under the accrual IPSASs, the controlling entity must be demonstrably committed to a formal plan to dispose of, or no longer control, the entity that is subject to temporary control. For the exemption to apply at more than one successive reporting date, the controlling entity must demonstrate an ongoing intent to dispose of, or no longer control, the entity that is subject to temporary control. An entity is demonstrably committed to dispose of, or no longer control, another entity when it has a formal plan to do so and there is no realistic possibility of withdrawal from that plan.
- 2.2.6 Entities preparing to migrate to the accrual basis will need to be aware of this difference in consolidation requirements of the accrual and cash basis IPSASs, and to determine whether, for any controlled entities included in the consolidated statement of receipts and payments, control is temporary.

Appendix 2

Illustration of Certain Disclosures Encouraged in Part 2 of the Standard

This appendix is illustrative only. The purpose of the appendix is to illustrate the application of the encouragements and to assist in clarifying their meaning.

Extract from notes to financial statements of Entity ABC***Administered Transactions (paragraph 2.1.15)***

Administered transactions comprise cash flows resulting from transactions administered by the Entity as an agent on behalf of the government and specific government bodies. All cash collected in the capacity of an agent is deposited in the consolidated revenue fund and/or trust account (name of account), as appropriate. These accounts are not controlled by the Entity and the cash deposited in them cannot be used by the Entity without specific authorization by the relevant government body.

(in thousands of currency units)	Nature of Transaction	200X	200X-1
Cash collected on behalf of			
The Executive/Crown	Collection of taxation	X	X
Agency EF	Collection of utility service fee	<u>X</u>	<u>X</u>
		X	X
Cash transferred to respective entities		(X)	(X)
		<u>—</u>	<u>—</u>

Related Party Transactions (paragraph 2.1.31)

The key management personnel (as defined by IPSAS 20, “Related Party Disclosures”) of Entity ABC are the Minister, the members of the governing body and the members of the senior management group. The governing body consists of members appointed by Government A. The chief executive officer and the chief financial officer attend meetings of the governing body but are not members of the governing body. The Minister is not remunerated by Entity ABC. The aggregate remuneration of members of the governing body and the number of members determined on a full time equivalent basis receiving remuneration within this category, are:

Aggregate remuneration AX million.
 Number of persons AY persons.

The senior management group consists of the Entity's chief executive officer, the chief financial officer, and the heads of division. The aggregate remuneration of members of the senior management group and the number of managers determined on a full-time equivalent basis receiving remuneration within this category are:

Aggregate remuneration AP million.
 Number of persons AQ persons.

Extract from notes to financial statements of Government X

Assets and Liabilities (paragraph 2.1.33(a))

Property, plant and equipment

The Government commenced the process of identifying and valuing major classes of its property, plant and equipment. The assets are stated at historical cost or valuation. The valuations were performed by an independent professional valuer. The valuation bases used for each class of assets are as follows:

Plant and Equipment Cost
 Land Current Value
 Buildings Cost or Market Value

(in thousands of currency units)	200X	200X-1
Plant and equipment	X	X
Land and buildings		
Property within city limits	X	X
Buildings at cost	X	X
Buildings at valuation	X	X
	X	X

*(Extract from notes to financial statements of Government X: Assets and Liabilities
(paragraph 2.1.33(a) continued)*

Borrowings

The borrowings of the Government are listed below:

	200X	200X-1
(in thousands of currency units)		
Balance at beginning of year	X	X
PROCEEDS		
Domestic Commercial Institution	X	X
Offshore Commercial Institution	X	X
Development Banks and Similar Lending Agencies	X	X
Total borrowings	X	X
REPAYMENTS		
Domestic Commercial Institution	(X)	(X)
Offshore Commercial Institution	(X)	(X)
Development Banks and Similar Lending Agencies	(X)	(X)
Total repayments	(X)	(X)
Balance at end of year	X	X

(Extract from notes to financial statements of Government X continued)

**Comparison with budget when the entity does not make its budget publicly available
(paragraph 2.1.33 (b))**

(in thousands of currency units)	Actual	Budgeted	Variance
RECEIPTS			
<i>Taxation</i>			
Income tax	X	X	X
Value-added tax	X	X	(X)
Property tax	X	X	X
Other taxes	<u>X</u>	<u>X</u>	<u>(X)</u>
	X	X	X
<i>Aid Agreements</i>			
International agencies	X	X	–
Other Grants and Aid	<u>X</u>	<u>X</u>	=
	X	X	–
<i>Borrowings</i>			
Proceeds from borrowings	X	X	(X)
<i>Capital Receipts</i>			
Proceeds from disposal of plant and equipment	X	X	X
<i>Trading Activities</i>			
Receipts from trading activities	X	X	X
<i>Other receipts</i>	X	X	X
Total receipts	<u>X</u>	<u>X</u>	<u>X</u>
PAYMENTS			
<i>Operations</i>			
Wages, salaries and employee benefits	(X)	(X)	(X)
Supplies and consumables	<u>(X)</u>	<u>(X)</u>	<u>X</u>
	(X)	(X)	(X)
<i>Transfers</i>			
Grants	(X)	(X)	–
Other transfers	<u>(X)</u>	<u>(X)</u>	=
	(X)	(X)	–
<i>Capital Expenditures</i>			
Purchase/construction of plant and equipment	(X)	(X)	(X)
Purchase of financial instruments	<u>(X)</u>	<u>(X)</u>	=
	(X)	(X)	(X)
<i>Loan and Interest Repayments</i>			
Repayment of borrowings	(X)	(X)	–
Interest payments	<u>(X)</u>	<u>(X)</u>	=
	(X)	(X)	–
<i>Other payments</i>	(X)	(X)	X
Total payments	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>
NET RECEIPTS/(PAYMENTS)	<u>X</u>	<u>X</u>	<u>X</u>

Extract from notes to financial statements of Entity XYZ***Controlled Entities (paragraphs 2.1.41, 2.1.44, and 2.1.45)***

Entity XYZ has the power to govern the financial and operating policies so as to benefit from the activities of other entities. These are controlled entities. All controlled entities are included in the consolidated financial statements. (Paragraph 1.6.20(a) in Part 1 of this Standard requires that a list of significant controlled entities be disclosed.)

Control of government entities arises by way of statute or other enabling legislation. Control of government business enterprises arises by way of statute and in the case of Enterprise C and D, by way of ownership interest. Entity XYZ retains control of Enterprise E through legislative authority although the majority of the equity of Enterprise E has been sold to private investors.

Enterprise	Ownership Interest (%)	Voting Power (%)
Enterprise E	XX	XX

Acquisitions of Controlled Entities and Operating Units

Names of Enterprises acquired	Proportion of shares acquired %	Purchase consideration (in thousands of currency units)	Cash portion of purchase consideration (in thousands of currency units)	Cash balances acquired (in thousands of currency units)
Enterprise C	XX	X	X	X
Enterprise D	XX	X	X	X
		X	X	X

(Extract from notes to financial statements of Entity XYZ continued)

Disposals of Controlled Entities and Other Operating Units

Name of Enterprise disposed of	Proportion of shares disposed of %	Disposal consideration (in thousands of currency units)	Cash portion of disposal consideration (in thousands of currency units)	Cash balance disposed of (in thousands of currency units)
Enterprise F	XX	X	X	X

Significant Joint Ventures (paragraph 2.1.49)

Name of Joint Venture	Principal Activity	Output Interest	
		200X %	200X-1 %
Regional Water Board	Water provision	XX	XX
Regional Electricity Board	Provision of utility services	XX	XX

ENCOURAGED ADDITIONAL DISCLOSURES

Extract from notes to financial statements of Government B:

Biennial Budget on Cash Basis—For the Year Ended December 31, 200X (paragraph 2.1.38)

(in thousands of currency units)	Original Biennial Budget Year	Target Budget for 1 st Year	Revised Budget in 1 st Year	1 st Year Actual on Comparable Basis	Balance Availabl e for 2 nd Year	Target Budget for 2 nd Year	Revised Budget in 2 nd Year	2 nd Year Actual on Comparable Basis	<i>*Difference: Budget and Actual for Budget Period</i>
CASH INFLOWS									
Taxation	X	X	X	X	X	X	X	X	X
Aid agreements	X	X	X	X	X	X	X	X	X
Proceeds: borrowing	X	X	X	X	X	X	X	X	X
Proceeds: disposal of plant and equipment	X	X	X	X	X	X	X	X	X
Other receipts	X	X	X	X	X	X	X	X	X
Total inflows	X	X	X	X	X	X	X	X	X
CASH OUTFLOWS									
Health	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Education	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Public order and safety	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)

* This column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.

ENCOURAGED ADDITIONAL DISCLOSURES

(in thousands of currency units)	Original Biennial Budget Year	Target Budget for 1st Year	Revised Budget in 1st Year	1st Year Actual on Comparable Basis	Balance Availabl e for 2nd Year	Target Budget for 2nd Year	Revised Budget in 2nd Year	2nd Year Actual on Comparable Basis	<i>*Difference: Budget and Actual for Budget Period</i>
Social protection	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Defense	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Housing, community amenities	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Recreational, cultural, religion	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Economic affairs	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Other	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Total outflows	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
NET CASH FLOW	X	X	X	X	X	X	X	X	X

Extract From Notes to the Financial Statements of Government C**Assistance Provided by Non-Governmental Organizations (NGOs) (Paragraph 2.1.64)**

Assistance from NGOs is included in the amount of “Other Grants and Aid” in the Statement of Cash Receipts and Payments. The amount of assistance from NGOs received during the reporting period in the reporting currency is:

	200X		200X-1	
	Cash Receipts	Payments by third parties	Cash Receipts	Payments by third parties
Grant Funds	X	X	X	–
Loan Funds	–	–	–	–
Total	X	X	X	–

Assistance was received from NGOs under agreements specifying that the assistance would be utilized for the following purposes:

	Development Assistance		Emergency Assistance		Other		Total	
	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>
NGO 1	X	X	–	–	–	X	X	X
NGO 2	–	–	X	–	–	–	X	–
NGO 3	X	X	X	–	–	–	X	X
Total	X	X	X	–	–	X	X	X
USD	X	X	X	X	–	X	X	X
Euro	X	X	X	–	–	–	X	X
Yen	–	–	X	X	–	–	X	X

The currency in which external assistance was provided was as follows:

- NGO 1 – US Dollars to the amount of YYY and other currency being (specify currency) to the amount of X
- NGO 2 – Euros to the amount of YYY
- NGO 3 – Yen to the amount of YYY

The assistance was fully used for the purposes specified.

While NGO 1, 2 and 3 have indicated their intention to provide ongoing emergency assistance as the need arises and their resources allow, the extent of the assistance is not

subject to binding written agreements. It will be determined on the basis of an assessment of needs and the capacity of each NGO to provide ongoing assistance.

During 200X, NGO 1 provided medical teams and medical equipment in support of earthquake victims in the ZZZ region. Temporary shelter, food and clothing were also supplied by NGO 2. The value of the goods and services received has been estimated at XX domestic currency units. The value of the specialized emergency assistance provided has been determined based on cost estimates provided by the NGOs involved.

There have been no instances of non compliance with terms and conditions which have resulted in cancellation of assistance grants.

There were no amounts of undrawn assistance from NGOs in 200X or 200X-1.

ENCOURAGED ADDITIONAL DISCLOSURES

Extract From Notes to the Financial Statements of Government C

Classes of External Assistance (*Paragraph 2.1.66 and 2.1.70*)

During the reporting period external assistance was received from multilateral and bilateral external assistance agencies under agreements specifying that the assistance would be utilized for the following purposes:

	Development Assistance		Emergency Assistance		Other		Total	
	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>
Loan Funds	X	X	–	–	X	–	X	X
Grant Funds	X	–	X	X	–	–	X	X
Total	X	X	X	X	X	–	X	X
Amount utilized	X	X	X	X	X	–	X	X

	Agency 1		Agency 2		Agency 3		Agency 4	
	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>
Loan Funds	X	X	–	–	X	–	X	X
Grant Funds	X	–	X	X	–	X	X	X
Total	X	X	X	X	X	X	X	X
Currency: US Dollar	X	X	–	–	–	–	–	–
Euro	–	–	X	X	–	–	–	–
Yen	–	–	–	–	X	X	–	–
Other	–	–	–	–	–	–	X	X

ENCOURAGED ADDITIONAL DISCLOSURES

Undrawn External Assistance (Paragraph 2.1.72)

Undrawn external assistance loans and grants consist of amounts which have been specified in a binding agreement with external assistance agencies but have not been utilized at reporting date, and are subject to terms and conditions that have been satisfied in the past and it is anticipated will be satisfied in the future. External assistance loans cancelled or expired resulted from overestimation of the cost of development projects. Changes in the amount of undrawn assistance loans and grants are presented in the entity's reporting currency.

	Development Assistance		Emergency Assistance		Other		Total	
	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>
<i>Opening balance</i>								
Loans	X	X	–	–	X	X	X	X
Grants	X	X	–	X	–	–	X	X
<i>Approved in period</i>								
Loans	X	X	–	–	X	–	X	X
Grants	X	X	X	X	X	X	X	X
<i>Total available</i>	X	X	X	X	X	X	X	X
Loans drawn down	(X)	(X)	–		(X)	(X)	(X)	–
Grants drawn down	(X)	(X)	(X)	(X)	–	–	(X)	(X)
Loans cancelled/expired	(X)	(X)	–	–	–	–	(X)	(X)
Grants cancelled/expired	–	–	–	–	–	–	–	–
Exchange difference	X	X	–	–	X	X	X	X
<i>Closing balance – Loans</i>	X	X	–	–	X	X	X	X
<i>Closing balance – Grants</i>	X	X	–	–	X	X	X	X

ENCOURAGED ADDITIONAL DISCLOSURES

Closing balance	Development Assistance		Emergency Assistance		Other		Total	
By currency held	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>
US Dollar	X	X	–	X	X	X	X	X
Euro	X	X	–	X	X	X	X	X
Yen	X	X	–	–	X	X	X	X
Other	X	X	–	–	–	–	X	–
By reporting currency								
<i>Loans</i>								
Agency 1	X	X	–	–	X	X	X	X
Agency 4	X	X	–	–	X	X	X	X
<i>Grants</i>								
Agency 2	X	X	–	X	X	X	X	X
Agency 4	X	X	–	X	X	X	X	X
Total	X	X	–	X	X	X	X	X

Significant terms and conditions (*Paragraph 2.1.76*)*General Restrictions*

The balance of commitments for, and undrawn balances of, external assistance is subject to, or restricted by, performance of agreed actions or the maintenance of agreed economic or financial performance levels.

The Government has prepared an economic development plan for receipt of development assistance. The plan includes a poverty reduction strategy which is supported by the donor community. The Government and the donors have agreed the following major targets within the poverty reduction strategy: (Entity to identify major targets).

The Government and the donor community have agreed on methods to monitor progress to achieve the agreed targets and will meet annually to review progress.

Loans and grants to support specific projects include financial performance targets for all electricity and water utilities to ensure adequate revenue to cover the cost of providing services, to properly maintain existing utility assets and to contribute to a program of asset replacement and renewal.

Procurement Restrictions

Certain development assistance received is subject to restrictions in regards to the nature of goods or services that may be purchased or the country in which the goods or services may be purchased. All multilateral development bank loans or grants are restricted in that (a) they prohibit the use of their funds for the purchase of military goods or services, luxury goods or environmentally damaging goods; and (b) the purchase of goods or services must be from their respective member countries. External assistance from bilateral agencies is either unrestricted or limited to purchases of goods or services from the country providing the funds. All “Specific Purpose Loans or Grants” fund specifically defined projects and, as such, the procurement of goods and services is restricted to the agreed inputs for each project.

Non Compliance with other significant terms and conditions (*Paragraph 2.1.83*)

The Government’s expenditures in the education sector did not meet the target level primarily due to construction delays caused by an earthquake. Expenditures were X percent below the target. Steps have been taken to correct the under investment in the education sector and the Government and the relevant donors support the corrective actions planned. The Government has complied with all procurement regulations applicable under all outstanding external assistance loans and grants.

Guarantees of external assistance loans and grants (*Paragraph 2.1.80*)

The Government of YYYY has guaranteed an outstanding export financing loan in the amount of currency units XXX (200X–1: Nil). The principal is to be repaid in 5 years. The interest rate applicable to the outstanding balance is Y percent. Annual, interest only service payments are to be made. No additional terms or conditions

arise from the guarantee. No other external assistance loans or grants are subject to guarantees by third parties.

Repayment Terms and Conditions—Debt Service Obligations (*Paragraph 2.1.86*)

The terms of development assistance loans include grace periods which range from 0 to a maximum of 7 years. Interest rates include both fixed rates and variable rates. All development assistance loans are denominated in US Dollars or Euros. Interest rates on fixed rate loans as at fiscal year ending 200X, range from X percent to Y percent with a weighted average of Z percent. For the fiscal year ending 200X–1, they range from X percent to Y percent with a weighted average of Z percent. Interest rates on variable rate loans range from LIBOR plus X percent to LIBOR plus Y percent with a weighted average at the end of fiscal year 200X of Z percent and at the end of fiscal year 200X–1 of Z percent.

Other external assistance loans do not include a grace period, and are denominated in a range of currencies including US Dollars, Euros and Yen.

200X

**Outstanding Debt by Remaining
Grace Period Years**

	Expired	0–4	5–7	Total
Development Assistance	X	X	X	X
Other	X	–	–	X
Total	X	X	X	X

200X–1

**Outstanding Debt by Remaining
Grace Period Years**

	Expired	0–4	5–7	Total
Development Assistance	X	X	X	X
Other	X	–	–	X
Total	X	X	X	X

Development assistance loans have repayment periods varying from X years to Y years subsequent to the grace period with a weighted average for outstanding debt of Z years including the grace period. In all cases, the debt service is based on a fixed payment of principal plus interest accrued.

Other external assistance loans have repayment periods varying from X to Y years with a weighted average of Z years. Debt service is based on a fixed payment of principal plus interest accrued.

200X**Debt Service Payments Including Interest**

	US				
	Dollar	Euro	Yen	Other	Total
Development Assistance	X	X	X	X	X
Other	X	X	–	–	X
Total	X	X	X	X	X

200X–1**Debt Service Payments Including Interest**

	US				
	Dollar	Euro	Yen	Other	Total
Development Assistance	X	X	X	X	X
Other	X	X	–	–	X
Total	X	X	X	X	X

All debt service payments for subsequent years are based on payment of a fixed amount comprising principal plus accrued interest. The interest payment or service charge component is based on the outstanding principal of each loan at the end of the current year, and for variable interest rate loans, at interest rates prevailing at that date. Debt service payments denominated in foreign currency have been determined by applying the closing rate of exchange on the reporting date of the financial statements.

200X + 1 and X Subsequent Years**Debt Service Payments Including Interest**

	US				
	Dollar	Euro	Yen	Other	Total
Development Assistance	X	X	X	X	X
Other	X	X	–	–	X
Total	X	X	X	X	X

Receipt of Goods and Services (*Paragraph 2.1.90 and 1.10.21*)

During 200X, a severe earthquake occurred in the ZZZ region inflicting serious damage to government property and private property, and significant loss of life. Multilateral agencies and bilateral agencies of several nations donated personnel and equipment to assist in locating and rescuing individuals trapped in the rubble. In addition, specialized medical teams trained in trauma treatment together with medical equipment, were flown into the region. Temporary shelter and food were also supplied. The value of goods and

services received has been estimated at XX domestic currency units. The value of the emergency assistance provided has been determined based on cost estimates provided by the bilateral aid agencies involved because local prices for equivalent goods or services were not available.

Fifty thousand tons of rice was received as food aid during the year. It has been valued at XX domestic currency units which represents the wholesale price of similar rice in domestic wholesale markets.

Goods and services received during the year have not been recorded in the Statement of Cash Receipts and Payments, which reflects only cash received (directly or indirectly) or paid by the Government. Goods and services-in-kind were received as part of the emergency assistance and are reflected in this note.

Appendix 3

Presentation of the Statement of Cash Receipts and Payments in the Format Required by IPSAS 2 Statement of Cash Flows

Paragraph 2.2.1 of Part 2 of this Standard encourages an entity which intends to migrate to the accrual basis of accounting to present a statement of cash receipts and payments in the same format as that required by IPSAS 2, "Statement of Cash Flows." IPSAS 2 is applied by an entity which reports on an accrual basis of accounting in accordance with International Public Sector Accounting Standards.

This appendix provides a summary of key aspects of IPSAS 2 and guidance on their application for financial reporting under the cash basis of accounting as required by this Standard. Entities intending to present a statement of cash receipts and payments in accordance with the requirements of IPSAS 2 as far as is appropriate will need to refer to that IPSAS.

Presentation in the Format Required by IPSAS 2 Statement of Cash Flows

1. IPSAS 2 requires an entity which prepares and presents financial statements under the accrual basis of accounting to prepare a cash flow statement which reports cash flows during the period classified by operating, investing and financing activities as defined below.

Definitions

2. Financing activities are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Operating activities are the activities of the entity that are not investing or financing activities.

Components of the Financial Statements

3. In presenting a statement of cash receipts and payments in this format it may be necessary to classify cash flows arising from a single transaction in different ways. (The term cash flow statement is used in the remainder of this appendix for a statement of cash receipts and payments presented in the same format as that required by IPSAS 2.) For example, when the cash repayment of a loan includes both interest and capital, the interest element may be classified as an operating activity and the capital element may be classified as a financing activity. An entity presenting information by way of a cash flow statement presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its activities.

4. A cash flow statement will include line items which present the following amounts:
 - (a) Total receipts from operating activities;
 - (b) Total payments on operating activities;
 - (c) Net cash flows from operating activities;
 - (d) Net cash flows from investing activities;
 - (e) Net cash flows from financing activities;
 - (f) Beginning and closing balances of cash; and
 - (g) Net increase or decrease in cash.

Additional line items, headings and sub-totals will also be presented on the face of the statement when such presentation is necessary to present fairly the entity's cash flows.

5. An entity will also present on the face of the cash flow statement or in the notes:
 - (a) Major classes of gross cash receipts and gross cash payments arising from operating, investing and financing activities, except to the extent that paragraph 1.3.13 of Part 1 of this Standard allows reporting on a net basis;
 - (b) A sub-classification of total cash receipts from operations in a manner appropriate to an entity's operations; and
 - (c) An analysis of payments on operating activities using a classification based on either the nature of payments or their function within the entity, as appropriate.

Separate disclosure of payments made for capital acquisitions and for interest and dividends is also consistent with the requirements of IPSAS 2.

6. Disclosure of information about such matters as whether cash is generated from taxes, fines, fees (operating activities), the sale of capital assets (investing activities) and/or borrowings (financing activities) and whether it was expended to meet operating costs, for the acquisition of capital assets (investing activities) or for the retirement of debt (financing activities) will enhance transparency and accountability of financial reports. These disclosures will also facilitate more informed analysis and assessments of the entity's current cash resources and the likely sources and sustainability of future cash inflows. Accordingly, this Standard encourages all entities to disclose this information in the financial statements and/or related notes.

Operating Activities

7. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the entity are funded:

- (a) By way of taxes (directly and indirectly); and
- (b) From the recipients of goods and services provided by the entity.

The disclosure of the amount of net cash flows from operating activities also assists in identifying the extent to which operations of the entity generate cash that can be deployed to repay obligations, pay a dividend/distribution to its owner and make new investments without recourse to external sources of financing. The consolidated whole-of-government operating cash flows provide an indication of the extent to which a government has financed its current activities through taxation and charges. Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.

8. Cash flows from operating activities are primarily derived from the principal cash-generating activities of the entity. Examples of cash flows from operating activities are:
 - (a) Cash receipts from taxes, levies and fines;
 - (b) Cash receipts from charges for goods and services provided by the entity;
 - (c) Cash receipts from grants, or transfers and other appropriations or budget authorizations made by central government or other public sector entities, including those made for the acquisition of capital assets;
 - (d) Cash receipts from royalties, fees and commissions;
 - (e) Cash payments to other public sector entities to finance their operations (not including loans or equity injections);
 - (f) Cash payments to suppliers for goods and services;
 - (g) Cash payments to and on behalf of employees;
 - (h) Cash receipts and cash payments of a public sector insurance entity for premiums and claims, annuities and other policy benefits;
 - (i) Cash payments of local property taxes or income taxes (where appropriate) in relation to operating activities;
 - (j) Cash receipts and payments from contracts held for dealing or trading purposes;
 - (k) Cash receipts or payments from discontinuing operations; and
 - (l) Cash receipts or payments in relation to litigation settlements.
9. An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by

public financial institutions are usually classified as operating activities since they relate to the main cash-generating activity of that entity.

10. In some jurisdictions, governments or other public sector entities will appropriate or authorize funds to entities to finance the operations of the entity, and no clear distinction is made for the disposition of those funds between current activities, capital works and contributed capital. Where an entity is unable to separately identify appropriations or budget authorizations as current activities, capital works (operating activities) and contributed capital (investing activities), IPSAS 2 explains that the entity should classify the appropriation or budget authorization as cash flows from operations, and disclose this in the notes to the statement of cash flows.

Investing Activities

11. The separate disclosure of cash flows arising from investing activities identifies the extent to which cash outflows have been made for resources which are intended to contribute to the entity's future service delivery. Examples of cash flows arising from investing activities are:
 - (a) Cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalized development costs and self-constructed property, plant and equipment;
 - (b) Cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
 - (c) Cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);
 - (d) Cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);
 - (e) Cash advances and loans made to other parties (other than advances and loans made by a public financial institution);
 - (f) Cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a public financial institution);
 - (g) Cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and

- (h) Cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

When a contract is designated as a hedge of an identifiable position, the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

Financing Activities

12. The separate disclosure of cash flows arising from financing activities is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:
 - (a) Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;
 - (b) Cash repayments of amounts borrowed;
 - (c) Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease; and
 - (d) Cash receipts and payments relating to the issue of and redemption of currency.

Interest and Dividends

13. IPSAS 2 requires the separate disclosure of cash flows from interest and dividends received and paid. IPSAS 2 also requires that where such disclosures are made they should be classified in a consistent manner from period to period as either operating, investing or financing activities.
14. The total amounts of interest and dividends paid and received during a period are disclosed in the cash flow statement. Interest paid and interest and dividends received are usually classified as operating cash flows for a public financial institution. However, there is no consensus on the classification of the cash flows associated with interest and dividends received and paid for other entities. Interest and dividends paid and interest and dividends received may be classified as operating cash flows. Alternatively, interest and dividends paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

Reporting Major Classes of Receipts and Payments

15. The sub-classification of receipts depends upon the size, nature and function of the amounts involved. Depending upon the nature of the entity, the following sub-classifications may be appropriate:

- (a) Receipts from taxation (these may be further sub-classified into types of taxes);
 - (b) Receipts from fees, fines, penalties and licenses;
 - (c) Receipts from exchange transactions including receipts from the sale of goods and services and user charges (where these are classified as exchange transactions);
 - (d) Receipts from grants, transfers, or budget appropriations (possibly classified by source); and
 - (e) Receipts from interest and dividends.
16. Payment items are sub-classified in order to highlight the costs and cost recoveries of particular programs, activities or other relevant segments of the reporting entity. Examples of classification of payments by nature and function are included in Part 1 of this Standard.

Appendix 4

Qualitative Characteristics of Financial Reporting

Paragraph 1.3.32 of Part 1 of this Standard requires that the financial statements provide information that meets a number of qualitative characteristics. This appendix summarizes the qualitative characteristics of financial reporting.

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. They are applicable to financial statements, regardless of the basis of accounting used to prepare the financial statements. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

Understandability

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

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

Relevance

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

Materiality

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

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

Reliability

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

Faithful Representation

For information to represent faithfully transactions and other events, it should be presented in accordance with the substance of the transactions and other events, and not merely their legal form.

Substance over Form

If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. The substance of transactions or other events is not always consistent with their legal form.

Neutrality

Information is neutral if it is free from bias. Financial statements are not neutral if the information they contain has been selected or presented in a manner designed to influence the making of a decision or judgment in order to achieve a predetermined result or outcome.

Prudence

Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated.

Completeness

The information in financial statements should be complete within the bounds of materiality and cost.

Comparability

Information in financial statements is comparable when users are able to identify similarities and differences between that information and information in other reports.

Comparability applies to the:

- Comparison of financial statements of different entities; and
- Comparison of the financial statements of the same entity over periods of time.

An important implication of the characteristic of comparability is that users need to be informed of the policies employed in the preparation of financial statements, changes to those policies and the effects of those changes.

Because users wish to compare the performance of an entity over time, it is important that the financial statements show corresponding information for preceding periods.

Constraints on Relevant and Reliable Information*Timeliness*

If there is an undue delay in the reporting of information it may lose its relevance. To provide information on a timely basis it may often be necessary to report before all aspects of a transaction are known, thus impairing reliability. Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the decision-making needs of users.

Balance between Benefit and Cost

The balance between benefit and cost is a pervasive constraint. The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is, however, substantially a matter of judgment. Furthermore, the costs do not always fall on those users who enjoy the benefits. Benefits may also be enjoyed by users other than those for whom the information was prepared. For these reasons, it is difficult to apply a benefit-cost test in any particular case. Nevertheless, standard setters, as well as those responsible for the preparation of financial statements and users of financial statements, should be aware of this constraint.

Balance between Qualitative Characteristics

In practice a balancing, or trade-off, between qualitative characteristics is often necessary. Generally the aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgment.

Appendix 5

Establishing Control of Another Entity for Financial Reporting Purposes

1. Whether an entity controls another entity for financial reporting purposes is a matter of judgment based on the definition of control in this Standard and the particular circumstances of each case. That is, consideration needs to be given to the nature of the relationship between the two entities. In particular, the two elements of the definition of control in this Standard need to be considered. These are the power element (the power to govern the financial and operating policies of another entity) and the benefit element (which represents the ability of the controlling entity to benefit from the activities of the other entity).
2. For the purposes of establishing control, the controlling entity needs to benefit from the activities of the other entity. For example, an entity may benefit from the activities of another entity in terms of a distribution of its surpluses (such as a dividend) and is exposed to the risk of a potential loss. In other cases, an entity may not obtain any financial benefits from the other entity but may benefit from its ability to direct the other entity to work with it to achieve its objectives. It may also be possible for an entity to derive both financial and non-financial benefits from the activities of another entity. For example, a Government Business Enterprise (GBE) may provide a controlling entity with a dividend and also enable it to achieve some of its social policy objectives.

Control for Financial Reporting Purposes

3. For the purposes of financial reporting, control stems from an entity's power to govern the financial and operating policies of another entity and does not necessarily require an entity to hold a majority shareholding or other equity interest in the other entity. The power to control must be presently exercisable. That is, the entity must already have had this power conferred upon it by legislation or some formal agreement. The power to control is not presently exercisable if it requires changing legislation or renegotiating agreements in order to be effective. This should be distinguished from the fact that the existence of the power to control another entity is not dependent upon the probability or likelihood of that power being exercised.
4. Similarly, the existence of control does not require an entity to have responsibility for the management of (or involvement in) the day-to-day operations of the other entity. In many cases, an entity may only exercise its power to control another entity where there is a breach or revocation of an agreement between a controlled entity and its controlling entity.
5. For example, a government department may have an ownership interest in a rail authority, which operates as a GBE. The rail authority is allowed to operate autonomously and does not rely on the government for funding but has raised

capital through significant borrowings that are guaranteed by the government. The rail authority has not returned a dividend to government for several years. The government has the power to appoint and remove a majority of the members of the governing body of the rail authority. The government has never exercised the power to remove members of the governing body and would be reluctant to do so because of sensitivity in the electorate regarding the previous government's involvement in the operation of the rail network. In this case, the power to control is presently exercisable but under the existing relationship between the controlled entity and controlling entity, an event has not occurred to warrant the controlling entity exercising its powers over the controlled entity. Accordingly, control exists because the power to control is sufficient even though the controlling entity may choose not to exercise that power.

6. The existence of separate legislative powers does not, of itself, preclude an entity from being controlled by another entity. For example, the Office of Government Statistician usually has statutory powers to operate independently of the government. That is, the Office of Government Statistician may have the power to obtain information and report on its findings without recourse to government or any other body. The existence of control does not require an entity to have responsibility over the day-to-day operations of another entity or the manner in which professional functions are performed by the entity.
7. The power of one entity to govern decision-making in relation to the financial and operating policies of another entity is insufficient, in itself, to ensure the existence of control as defined in this Standard. The controlling entity needs to be able to govern decision-making so as to be able to benefit from its activities, for example by enabling the other entity to operate with it as part of an economic entity in pursuing its objectives. This will have the effect of excluding from the definitions of a "controlling entity" and "controlled entity" relationships which do not extend beyond, for instance, that of a liquidator and the entity being liquidated, and would normally exclude a lender and borrower relationship. Similarly, a trustee whose relationship with a trust does not extend beyond the normal responsibilities of a trustee would not be considered to control the trust for the purposes of this Standard.

Regulatory and Purchase Power

8. Governments and government entities have the power to regulate the behavior of many entities by use of their sovereign or legislative powers. Regulatory and purchase powers do not constitute control for the purposes of financial reporting. To ensure that the financial statements of a public sector entity include only those resources (cash, including cash equivalents) that it controls and can benefit from, the meaning of control for the purposes of this Standard does not extend to:
 - (a) The power of the legislature to establish the regulatory framework within which entities operate and to impose conditions or sanctions on their operations. Such power does not constitute control by a public sector entity

of the assets deployed by these entities. For example, a pollution control authority may have the power to close down the operations of entities that are not complying with environmental regulations. However, this power does not constitute control because the pollution control authority only has the power to regulate; or

- (b) Entities that are economically dependent on a public sector entity. That is, where an entity retains discretion as to whether it will take funding from, or do business with, a public sector entity, that entity has the ultimate power to govern its own financial or operating policies, and accordingly is not controlled by the public sector entity. For example, a government department may be able to influence the financial and operating policies of an entity which is dependent on it for funding (such as a charity) or a profit-orientated entity that is economically dependent on business from it. Accordingly, the government department has some power as a purchaser but not to govern the entity's financial and operating policies.

Determining Whether Control Exists for Financial Reporting Purposes

- 9. Public sector entities may create other entities to achieve some of their objectives. In some cases, it may be clear that an entity is controlled, and hence should be consolidated. In other cases it may not be clear. Paragraphs 10 and 11 below provide guidance to help determine whether or not control exists for financial reporting purposes.
- 10. In examining the relationship between two entities, control is presumed to exist when at least one of the following power conditions and one of the following benefit conditions exists, unless there is clear evidence of control being held by another entity.

Power conditions

- (a) The entity has, directly or indirectly through controlled entities, ownership of a majority voting interest in the other entity.
- (b) The entity has the power, either granted by or exercised within existing legislation, to appoint or remove a majority of the members of the governing body of the other entity.
- (c) The entity has the power to cast, or regulate the casting of, a majority of the votes that are likely to be cast at a general meeting of the other entity.
- (d) The entity has the power to cast the majority of votes at meetings of the board of directors or equivalent governing body.

Benefit conditions

- (a) The entity has the power to dissolve the other entity and obtain a significant level of the residual economic benefits or bear significant obligations. For example, the benefit condition may be met if an entity had responsibility for the residual liabilities of another entity.
 - (b) The entity has the power to extract distributions of assets from the other entity, and/or may be liable for certain obligations of the other entity.
11. When one or more of the conditions listed in paragraph 10 do not exist, the following factors are likely, either individually or collectively, to be indicative of the existence of control.

Power indicators

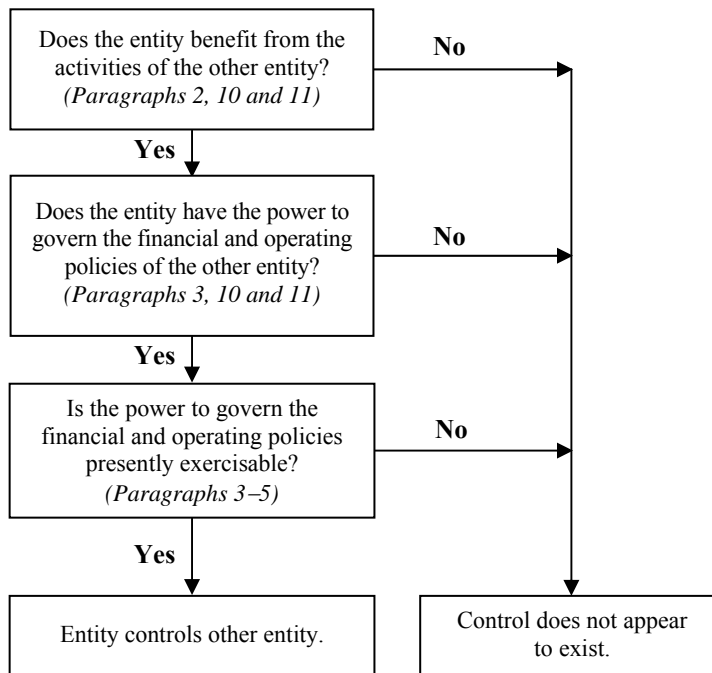
- (a) The entity has the ability to veto operating and capital budgets of the other entity.
- (b) The entity has the ability to veto, overrule, or modify governing body decisions of the other entity.
- (c) The entity has the ability to approve the hiring, reassignment and removal of key personnel of the other entity.
- (d) The mandate of the other entity is established and limited by legislation.
- (e) The entity holds a “golden share”¹ (or equivalent) in the other entity that confers rights to govern the financial and operating policies of that other entity.

Benefit indicators

- (a) The entity holds direct or indirect title to the net assets/equity of the other entity with an ongoing right to access these.
 - (b) The entity has a right to a significant level of the net assets/equity of the other entity in the event of a liquidation or in a distribution other than a liquidation.
 - (c) The entity is able to direct the other entity to cooperate with it in achieving its objectives.
 - (d) The entity is exposed to the residual liabilities of the other entity.
12. The following diagram indicates the basic steps involved in establishing control of another entity. It should be read in conjunction with paragraphs 1 to 11 of this appendix.

¹ “Golden share” refers to a class of share that entitles the holder to specified powers or rights generally exceeding those normally associated with the holder’s ownership interest or representation on the governing body.

Establishing Control of another Entity for Financial Reporting Purposes



13. Sometimes a controlled entity is excluded from consolidation when its activities are dissimilar to those of other entities within the economic entity, for example, the consolidation of GBEs with entities in the budget sector. Exclusion on these grounds is not justified because better information would be provided by consolidating such controlled entities and disclosing additional information in the consolidated financial statements about the different activities of controlled entities.