INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD: FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING—ISSUED IN 2017

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INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD: FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING—ISSUED IN 2017

Structure of the Standard

This Standard comprises two parts:

- Part 1 is mandatory. It sets out the requirements which are applicable to all public sector entities preparing general purpose financial statements under the cash basis of accounting. It defines the cash basis of accounting, establishes requirements for the disclosure of information in the financial statements and supporting notes, and deals with a number of specific reporting issues. The requirements in this part of the Standard must be complied with by public sector entities which claim to be reporting in accordance with the International Public Sector Accounting Standard Financial Reporting under the Cash Basis of Accounting.

- Part 2 is not mandatory. It identifies additional accounting policies and disclosures that a public sector entity is encouraged to adopt to enhance the usefulness of its financial statements for accountability and decision-making purposes and to support its transition to the accrual basis of financial reporting and adoption of accrual IPSAS.

- The Cash Basis IPSAS was issued in January 2003. The IPSAS was updated with additional requirements and encouragements dealing with the presentation of budget information in 2006 and external assistance in 2007.

- In 2017 a revised Cash Basis IPSAS was issued. The objectives of the revisions were to:
  
  (a) Remove obstacles to the adoption of the Cash Basis IPSAS represented by the existing requirements dealing with consolidation, external assistance and third party payments: in particular, to recast the requirements in Part 1 of the IPSAS to prepare consolidated financial statements and disclose information about external assistance and third party payments as encouragements in Part 2 of the IPSAS;

  (b) Ensure that requirements and encouragements in the Standard are not contrary to those of the equivalent accrual IPSAS, except where such differences are appropriate to reflect adoption of the cash basis; and

  (c) Clarify that the role the Cash Basis IPSAS is intended to play in the IPSASB’s overall standards setting strategy is primarily as a step on the path to adoption of the accrual basis IPSAS, rather than as an end in itself.
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PART 1: REQUIREMENTS

Part 1 of this Standard sets out the requirements for reporting under the cash basis of accounting.

Authoritative requirements are set out in bold italic type. They use the term “shall” to signal that they are authoritative requirements. They are to be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the “Preface to International Public Sector Accounting Standards”. International Public Sector Accounting Standards are not intended to apply to immaterial items.

Objective

The purpose of this Standard is to prescribe the manner in which general purpose financial statements are to be presented under the cash basis of accounting.

The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of general purpose financial statements and other general purpose financial reports (GPFRs) for accountability and decision-making purposes. Information about the cash receipts, cash payments and cash balances of an entity is necessary for accountability purposes and provides input useful for assessments of the ability of the entity to generate adequate cash in the future and the likely sources and uses of cash. In making and evaluating decisions about the allocation of cash resources and the sustainability of the entity’s activities, users require an understanding of the timing and certainty of cash receipts and cash payments.

Compliance with the requirements and encouragements of this Standard will enhance comprehensive and transparent financial reporting of the cash receipts, cash payments and cash balances of the entity. It will also enhance comparability with the entity’s own general purpose financial statements of previous periods and with the financial statements of other entities which adopt the cash basis of accounting.

Role of the Cash Basis IPSAS

The IPSASB is of the view that the objectives of financial reporting can best be achieved by adoption of the accrual IPSAS. Consequently the IPSASB encourages governments and other public sector entities to present financial statements that comply with the requirements of the accrual IPSAS. However, the IPSASB appreciates that in some jurisdictions a transitional process may be necessary to achieve that end. The Cash Basis IPSAS has been developed as an intermediate step to assist in the transition to the accrual basis of financial reporting and adoption of accrual IPSAS. It is not intended as an end in itself. The role of the encouraged disclosures in Part 2 of the Standard is to support an entity’s transition to the accrual basis of financial reporting and adoption of the accrual IPSAS.

The path chosen to transition to the accrual basis of financial reporting and adoption of the accrual IPSAS will reflect jurisdiction circumstances and, consequently, may
differ from jurisdiction to jurisdiction. The IPSASB does not specify that a particular transitional path should be adopted nor that entities must necessarily adopt the Cash Basis IPSAS as the first step in the transition process.

1.1 **Scope of the Requirements**

1.1.1 The IPSAS are designed to apply to public sector entities\(^1\) that meet all the following criteria:

(a) Are responsible for the delivery of services\(^2\) to benefit the public and/or to redistribute income and wealth;

(b) Mainly finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, debt or fees; and

(c) Do not have a primary objective to make profits.

1.1.2 *A public sector entity which prepares and presents general purpose financial statements (financial statements) under the cash basis of accounting, as defined in this Standard, shall apply the requirements of Part 1 of this Standard in the presentation of its annual financial statements.*

1.1.3 General purpose financial statements are developed primarily to respond to the information needs of service recipients and resource providers who are not in a position to demand reports tailored to meet their specific information needs, and representatives of these users. Service recipients and their representatives and resource providers and their representatives include citizens, residents, taxpayers and ratepayers, members of the legislature (or similar body) and members of parliament (or a similar representative body), donor agencies, lenders and others that provide resources to, or benefit from, services of governments. General purpose financial statements prepared to respond to the information needs of service recipients and resource providers for accountability and decision-making purposes may also provide information useful to other parties. General purpose financial statements include those financial statements that are presented separately or within another public document such as an annual report. For purposes of this Standard, the terms “general purpose financial statements” and “financial statements” are used interchangeably, unless specified otherwise.

1.1.4 A reporting entity is an individual entity that presents financial statements or, where a controlling entity elects to present group financial statements, a reporting entity may comprise a controlling entity and one or more controlled entities that present financial statements as if they are a single entity. A public

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1 Paragraph 1.8 of *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* identifies a wide range of public sector entities for which IPSASs are designed.

2 Services encompasses goods, services and policy advice, including to other public sector entities.
sector reporting entity (hereafter referred to as a reporting entity or entity, unless specified otherwise) is a government or other public sector organization, program or identifiable area of activity for which financial statements are prepared. Paragraph 1.4.7 of this Standard requires the disclosure of certain information about the entities and activities in respect of which financial statements have been prepared.

1.1.5 This Standard applies equally to the financial statements of an individual entity and to the financial statements of a reporting entity that comprises a controlling entity and one or more controlled entities. It requires the preparation of a statement of cash receipts and payments which recognizes the cash controlled by the reporting entity, and the disclosure of accounting policies and explanatory notes.

1.1.6 An entity whose financial statements comply with the requirements of Part 1 of this Standard shall disclose that fact. Financial statements shall not be described as complying with this Standard unless they comply with all the requirements in Part 1 of this Standard.

1.2 The Cash Basis

Definitions

1.2.1 The following terms are used in this Standard with the meaning specified:

Cash comprises cash on hand, demand deposits and cash equivalents.

Cash basis means a basis of accounting that recognizes transactions and other events only when cash is received or paid.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows are inflows and outflows of cash.

Cash payments are cash outflows.

Cash receipts are cash inflows.

Control of cash arises when the entity can use or otherwise benefit from the cash in pursuit of its objectives and can exclude or regulate the access of others to that benefit.

Control of an entity: An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.

Controlled entity is an entity that is under the control of another entity (known as the controlling entity).
Cash Basis of Accounting

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

Cash Equivalents

1.2.3 Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents.

1.2.4 Bank borrowings are generally considered to give rise to cash inflows. However, in some jurisdictions, bank overdrafts which are repayable on demand form an integral part of an entity’s cash management. In these circumstances, bank overdrafts are included as a component of cash. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

1.2.5 Cash flows exclude movements between items that constitute cash because these components are part of the cash management of an entity rather than increases or decreases in the cash it controls. Cash management includes the investment of excess cash on hand in cash equivalents.

Cash Controlled by the Reporting Entity

1.2.6 Cash is controlled by an entity when the entity can use the cash for the achievement of its own objectives or otherwise benefit from the cash and exclude or regulate the access of others to that benefit. Cash collected by, or appropriated or granted to, an entity which the entity can use to fund its operating objectives, acquire capital assets or repay its debt is controlled by the entity.

1.2.7 Amounts deposited in the bank account of an entity are controlled by that entity. In some cases, cash which a government entity:

(a) Collects on behalf of its government (or another entity) is deposited in its own bank account before transfer to consolidated revenue or another general government account; and
(b) Is to transfer to third parties on behalf of its government is initially deposited in its own bank account prior to transfer to the authorized recipient.

In these cases, the entity will control the cash for only the period during which the cash resides in its bank account prior to transfer to consolidated revenue or another government controlled bank account, or to third parties. Paragraph 1.4.9 requires the disclosure of cash balances held by an entity at reporting date that are not available for use by the entity or are subject to external restrictions. Additional guidance on the treatment of cash flows that an entity administers on behalf of other entities is included in paragraphs 2.1.6 to 2.1.13 of Part 2 of this Standard.

1.2.8 In some jurisdictions, a government will manage the expenditure of its individual departments and other entities through a centralized treasury function, often referred to as a “treasury single account”. Under these arrangements, individual departments and entities do not establish their own separate bank accounts. Rather, the centralized treasury function acts as a bank on behalf of the individual departments and other entities. The cash inflows, cash outflows and cash balances of the entity which flow through, or are held in, the treasury single account will be reported in the statement of cash receipts and payments in accordance with the requirements of paragraph 1.3.4. From the perspective of the centralized treasury function, payments on behalf of individual departments and other entities are treated as changes within their accounts — reflecting the approach adopted by a bank in accounting for payments made on behalf of its customers.

1.2.9 In some cases, the centralized treasury function will be undertaken by an entity which controls the bank account(s) from which payments on behalf of the individual operating departments and other entities are made. In these cases, transfers to and payments from those bank accounts reflect cash receipts and payments which the central entity administers on behalf of the individual operating departments and other entities. Paragraph 1.3.13 specifies that cash receipts and payments which arise from transactions the entity administers on behalf of other entities and which are recognized in the primary financial statements may be reported on a net basis. Paragraph 1.4.9 requires the disclosure of cash balances held by an entity at reporting date that are not available for use by the entity or are subject to external restrictions.

Control of an entity

1.2.10 Governments and other public sector entities may control a large number of entities including government departments, agencies and commercial public sector entities. Financial statements may be prepared in respect of a reporting entity that comprises an individual entity or a controlling entity and all or some of its controlled entities. This Standard encourages (at paragraph
2.1.37) but does not require, controlling entities to prepare and present consolidated financial statements that encompass the controlling entity and all its controlled entities, with exceptions in certain defined circumstances. The factors to be considered in assessing whether one entity controls another entity for financial reporting purposes are set out in IPSAS 35, Consolidated Financial Statements.

1.3 Presentation and Disclosure Requirements

Definitions

1.3.1 The following terms are used in this Standard with the meanings specified:

Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

Materiality: information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity’s financial statements prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity.

Reporting date means the date of the last day of the reporting period to which financial statements relate.

1.3.2 Financial statements result from processing large quantities of transactions that are structured by being aggregated into groups according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data that form line items either on the face of the financial statements or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of the financial statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of the financial statements may nevertheless be sufficiently material that it should be presented separately in the notes.

1.3.3 The principle of materiality provides that the specific disclosure requirements of International Public Sector Accounting Standards need not be met if the resulting information is not material.

Financial Statements

1.3.4 An entity shall prepare and present financial statements which include the following components:

(a) A statement of cash receipts and payments which recognizes all cash receipts, cash payments and cash balances controlled by the entity;

(b) Accounting policies and explanatory notes; and
When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the statement of cash receipts and payments in accordance with paragraph 1.7.8 of this Standard.

When an entity elects to disclose information prepared on a different basis from the cash basis of accounting as defined in this Standard or otherwise required by paragraph 1.3.4(c), such information shall be disclosed in the notes to the financial statements.

The financial statements comprises the statement of cash receipts and payments and other statements that disclose additional information about the cash receipts, payments and balances controlled by the entity and accounting policies and notes. In accordance with the requirements of paragraph 1.3.4(a) above, only cash receipts, cash payments and cash balances controlled by the reporting entity will be recognized as such in the statement of cash receipts and payments or other statements that might be prepared. In accordance with the requirements of paragraph 1.3.4(c) above, the financial statements may include a comparison of budget and actual amounts as an additional financial statement.

Paragraph 1.7.17 of this Standard provides that an entity can present a comparison of budget and actual amounts as additional budget columns in the statement of cash receipts and payments only where the financial statements and the budget are prepared on a comparable basis. When the budget and financial statements are not prepared on a comparable basis, a separate statement of comparison of budget and actual amounts is presented.

Notes to the financial statements include narrative descriptions or more detailed schedules or analyses of amounts shown on the face of the financial statements, as well as additional information. They include information required and encouraged to be disclosed by this Standard, and can include other disclosures considered necessary to achieve a fair presentation and enhance accountability.

This Standard does not preclude an entity from including in its general purpose financial statements, statements in addition to the statement of cash receipts and payments as specified in paragraph 1.3.4 above. Consequently, general purpose financial statements may also include additional statements which, for example:

(a) Report cash receipts, cash payments and cash balances for major fund categories such as the consolidated revenue fund;

(b) Provide additional information about the sources and deployment of borrowings and the nature and type of cash payments; or

(c) Provide a comparison of actual and budget amounts.
In accordance with the requirements of paragraph 1.3.5 above, any additional statements will only report cash receipts, payments and balances which are controlled by the entity.

1.3.10 Entities that report using the cash basis of accounting frequently collect information on items that are not recognized under cash accounting. Examples of the type of information that may be collected include details of:

(a) Receivables, payables, borrowings and other liabilities, non-cash assets and accruing revenues and expenses;

(b) Commitments and contingent liabilities; and

(c) Performance indicators and the achievement of service delivery objectives.

1.3.11 Entities preparing general purpose financial statements in accordance with this Standard may disclose such information in the notes to the financial statements where that information is likely to be useful to users. Where such disclosures are made they should be clearly described and readily understandable. If not disclosed in the financial statements themselves, comparisons with budget may also be included in the notes. Part 2 of this Standard encourages inclusion of information about non-cash assets and liabilities and a comparison with budget in general purpose financial statements.

Information to be Presented in the Statement of Cash Receipts and Payments

1.3.12 The statement of cash receipts and payments shall present the following amounts for the reporting period:

(a) 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;

(b) Total cash payments of the entity showing separately a sub-classification of total cash payments using a classification basis appropriate to the entity’s operations; and

(c) Beginning and closing cash balances of the entity.

1.3.13 Total cash receipts and total cash payments, and cash receipts and cash payments for each sub-classification of cash receipt and payment, shall be reported on a gross basis, except that cash receipts and payments may be reported on a net basis when:

(a) They arise from transactions which the entity administers on behalf of other parties and which are recognized in the statement of cash receipts and payments; or
They are for items in which the turnover is quick, the amounts are large, and the maturities are short.

1.3.14 Line items, headings and sub-totals shall be presented in the statement of cash receipts and payments when such presentation is necessary to present fairly the entity’s cash receipts, cash payments and cash balances.

1.3.15 This Standard requires all entities to present a statement of cash receipts and payments which discloses beginning and closing cash balances of the entity, total cash receipts and total cash payments over the reporting period, and major sub-classifications thereof. This will ensure that the financial statements provide comprehensive information about the cash balances of the entity and changes therein over the period in a format that is accessible and understandable to users.

1.3.16 Disclosure of information about such matters as the cash balances of the entity, whether cash is generated from taxes, fines, fees, and/or borrowings and whether it was expended to meet operating costs, for the acquisition of capital assets or for the retirement of debt will enhance transparency and accountability of financial reporting. 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.

Classification

1.3.17 The sub-classifications (or classes) of total cash receipts and payments which will be disclosed in accordance with paragraphs 1.3.12 and 1.3.14 are a matter of professional judgment. That judgment will be applied in the context of the objectives and qualitative characteristics of financial reporting under the cash basis of accounting. Appendix 4 of this Standard summarizes the qualitative characteristics of information included in general purpose financial reports. Total cash receipts may be classified to, for example, separately identify cash receipts from: taxation or appropriation; grants and donations; borrowings; proceeds from the disposal of property, plant and equipment; and other ongoing service delivery and trading activities. Total cash payments may be classified to, for example, separately identify cash payments in respect of: ongoing service delivery activities including transfers to constituents or other governments or entities; debt reduction programs; acquisitions of property, plant and equipment; and any trading activities. Alternative presentations are also possible, for example total cash receipts may be classified by reference to their source and cash payments may be sub-classified by reference to either the nature of the payments or their function or program within the entity, as appropriate.

1.3.18 Part 2 of this Standard encourages the disclosure of certain information about external assistance and other assistance received during the reporting period, and the balance of undrawn external assistance and other assistance available to the entity at reporting date. For many public sector reporting entities in
developing economies, the classification of cash receipts and payments to identify the amount of external assistance and other assistance received as cash and the use of that assistance is likely to be relevant for accountability and decision-making purposes.

**Line Items, Headings and Sub-Totals**

1.3.19 Factors to be taken into consideration in determining which line items, headings and sub-totals should be presented within each sub-classification in accordance with the requirements of paragraph 1.3.14 above include: the requirements of other sections of this Standard; assessments of the likely materiality of the disclosures to users; and the extent to which necessary explanations and disclosures are made in the notes to the financial statements. Part 2 of this Standard sets out disclosures of additional major classes of cash flows that an entity is encouraged to make in the notes to the financial statements or in the financial statements themselves. It is likely that in many, but not necessarily all, cases these disclosures will satisfy the requirements of paragraph 1.3.12 above.

**Reporting on a Net Basis**

1.3.20 This Standard requires the reporting of cash receipts, payments and balances on a gross basis except in the circumstances identified by paragraph 1.3.13 above. Paragraphs 1.3.21 and 1.3.24 below further elaborate on those circumstances in which reporting on a net basis may be justified.

1.3.21 Governments and government departments and other government entities may administer transactions and otherwise act as agents on behalf of others. These administered and agency transactions may encompass the collection of revenues on behalf of another entity, the transfer of funds to eligible beneficiaries or the safekeeping of monies on behalf of constituents. Examples of such activities may include:

(a) The collection of taxes by one level of government for another level of government, not including taxes collected by a government for its own use as part of a tax sharing arrangement;

(b) The acceptance and repayment of demand deposits of a financial institution;

(c) Funds held for customers by an investment or trust entity;

(d) Rents collected on behalf of, and paid over to, the owners of properties;

(e) Transfers by a government department to third parties consistent with legislation or other government authority; and

(f) Funds administered by a central entity under the “single account” basis for management of government expenditure (as referred to in paragraph 1.2.8).
1.3.22 In many cases, the cash an entity receives in respect of transactions it administers as an agent for others will be deposited in trust accounts for, or directly in the bank account of, the ultimate recipients of the cash. In these cases, the entity will not control the cash it receives in respect of the transactions it administers and these cash flows will not form part of the cash receipts, cash payments or cash balances of the entity. However, in other cases the cash received will be deposited in bank accounts controlled by the entity acting as an agent and the receipt and transfer of that cash will be reported in the statement of cash receipts and payments of the entity.

1.3.23 In some cases, the amounts of the cash flows arising from administered transactions which “pass-through” the bank account of the reporting entity may be large relative to the entity’s own transactions, and control may occur for only a short time before the amounts are transferred to the ultimate recipients. This may also be true for other cash flows including for example, advances made for, and the repayment of:

(a) The purchase and sale of investments; and
(b) Other short-term borrowings, for example, those which have a maturity period of three months or less.

1.3.24 The recognition of these transactions on a gross basis may undermine the ability of the financial statements of some governments and government entities to communicate information about cash receipts and cash payments resulting from the entity’s own activities. Accordingly, this Standard permits cash receipts and cash payments to be offset and reported on a net basis in the statement of cash receipts and payments in the circumstances identified in paragraph 1.3.13 above.

**Accounting Policies and Explanatory Notes**

**Structure of the Notes**

1.3.25 *The notes to the financial statements of an entity shall:*

(a) *Present information about the basis of preparation of the financial statements and the specific accounting policies selected and applied for significant transactions and other events; and*

(b) *Provide additional information which is not presented on the face of the financial statements but is necessary for a fair presentation of the entity’s cash receipts, cash payments and cash balances.*

1.3.26 *Notes to the financial statements shall be presented in a systematic manner. Each item on the face of the statement of cash receipts and payments and other financial statements shall be cross referenced to any related information in the notes.*
Selection and Disclosure of Accounting Policies

1.3.27 Financial statements shall present information that is:

(a) Understandable;
(b) Relevant to the decision-making and accountability needs of users;
(c) A faithful representation of the cash receipts, cash payments and cash balances of the entity and the other information disclosed in the financial statements in that it is:

(i) Complete;
(ii) Neutral; and
(iii) Free from material error;
(d) Comparable;
(e) Timely; and
(f) Verifiable.

Constraints on information included in financial statements are that it is material, satisfies a cost-benefit assessment, and achieves an appropriate balance between the qualitative characteristics identified in (a) to (f) above.

1.3.28 The quality of information provided in financial statements determines the usefulness of those statements to users. Paragraph 1.3.27 identifies the qualitative characteristics of, and pervasive constraints on, information included in financial statements. It requires the development of accounting policies to ensure that the financial statements provide information that meets the qualitative characteristics identified in paragraphs 1.3.27(a) to 1.3.27(f), and satisfies the constraints on information included in financial statements. Appendix 4 of this Standard summarizes the qualitative characteristics of, and constraints on, information included in general purpose financial reports. The maintenance of complete and accurate accounting records during the reporting period is essential for timely production of the financial statement.

1.3.29 The accounting policies section of the notes to the financial statements shall describe each specific accounting policy that is necessary for a proper understanding of the financial statements, including the extent to which the entity has applied any transitional provisions in this Standard.

1.3.30 Inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material.

1.3.31 In deciding whether a specific accounting policy should be disclosed, management considers whether disclosure would assist users in understanding the way in which transactions and events are reflected in the reported cash receipts, payments and balances. An accounting policy may be significant
even if amounts shown for current and prior periods are not material. Paragraph 1.3.4 of this Standard specifies that general purpose financial statements include accounting policies and explanatory notes. Consequently, the requirements of paragraph 1.3.29 above also apply to notes to the financial statements.

1.3.32 *Where an entity elects to include in its financial statements any disclosures encouraged in Part 2 of this Standard, those disclosures shall comply with the requirements of paragraph 1.3.27 above.*

1.3.33 Part 2 of this Standard encourages the disclosure of additional information in notes to the financial statements. Where such disclosures are made, they will need to be understandable and to satisfy the other qualitative characteristics of financial information.

### 1.4 General Considerations

#### Reporting Period

1.4.1 *The general purpose financial statements shall be presented at least annually. When, in exceptional circumstances, an entity’s reporting date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity shall disclose in addition to the period covered by the financial statements:*  

(a) *The reason(s) for a period other than one year being used; and*  

(b) *The fact that comparative amounts may not be comparable.*

1.4.2 The reporting date is the date of the last day of the reporting period to which the financial statements relate. In exceptional circumstances an entity may be required to, or decide to, change its reporting date to, for example, align the reporting cycle more closely with the budgeting cycle. When this is the case, it is important that the reason for the change in reporting date is disclosed and that users are aware that the amounts shown for the current period and the comparative amounts are not comparable.

1.4.3 Normally, the financial statements are consistently prepared covering a one-year period. However, some entities prefer to report, for example, for a 52 week period for practical reasons. This Standard does not preclude this practice, as the resulting financial statements are unlikely to be materially different from that which would be presented for one year.

#### Timeliness

1.4.4 The usefulness of the financial statements are impaired if they are not made available to users within a reasonable period after the reporting date. An entity should be in a position to issue its financial statements within six months of the reporting date, although a timeframe of no more than three months is
strongly encouraged. Ongoing factors such as the complexity of an entity’s operations are not sufficient reason for failing to report on a timely basis. More specific deadlines are dealt with by legislation and regulations in many jurisdictions.

**Authorization Date**

1.4.5 *An entity shall disclose the date when the financial statements were authorized for issue and who gave that authorization. If another body has the power to amend the financial statements after issuance, the entity shall disclose that fact.*

1.4.6 The authorization date is the date on which the financial statements have received approval from the individual or body with the authority to finalize those statements for issue. It is important for users to know when the financial statements were authorized for issue, because the financial statements do not reflect events after this date. It is also important for users to know of the rare circumstances in which any persons or organizations have the authority to amend the financial statements after issuance. Examples of individuals or bodies that may have the power to amend the financial statements after issuance are Ministers, the government of which the entity forms part, Parliament or an elected body of representatives. If changes are made, the amended financial statements are a new set of financial statements.

**Information about the Entity**

1.4.7 *An entity shall disclose the following in the notes to the financial statements if not disclosed elsewhere in information published with the financial statements:*

(a) *The domicile and legal form of the entity, and the jurisdiction(s) within which it operates;*

(b) *A description of the nature of the entity’s operations and principal activities;*

(c) *A reference to the relevant legislation governing the entity’s operations, if any; and*

(d) *The significant entities or sectors of government that are presented in the financial statements, and changes in the significant entities or sectors that comprise the reporting entity and were presented in the previous periods financial statements.*

1.4.8 Financial statements may be prepared for a single organization or administrative unit such as a government department, agency or program; for the government as a whole; or for a group of entities or identifiable activities such as those that reflect the budget sector, general government sector or other sector of government. The disclosure of the information required by paragraph 1.4.7 will enable users to identify the nature of the entity’s operations and
gain an understanding of the legislative and institutional environment within which it operates. It will also enable users to identify the significant entities or sectors that make up the reporting entity and changes therein since the last reporting date. This is necessary for accountability purposes and will assist users in understanding and evaluating the financial statements of the entity.

Restrictions on Cash Balances and Access to Borrowings

1.4.9  An entity shall disclose in the notes to the financial statements together with a commentary, the nature and amount of:

(a) Significant cash balances that are not available for use by the entity;
(b) Significant cash balances that are subject to external restrictions; and
(c) Undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities.

1.4.10 Cash balances held by an entity would not be available for use by the entity when, for example, a controlled entity operates in a country where exchange controls or other legal restrictions apply and the balances are not available for general use by the controlling entity or other controlled entities.

1.4.11 Cash balances controlled by an entity may be subject to restrictions which limit the purpose or timing of their use. This situation often exists when an entity receives a grant or donation which must be used for a specific purpose. It may also exist where, at reporting date, an entity holds in its own bank accounts cash it has collected for other parties in its capacity as an agent but not yet transferred to those parties. Although these balances are controlled by the entity and reported as a cash balance of the entity, separate disclosure of the amount of such items is helpful to readers.

1.4.12 Undrawn borrowing facilities represent a potential source of cash for an entity. Disclosure of the amount of these facilities by significant type allows readers to assess the availability of such cash, and the extent to which the entity has made use of them during the reporting period.

Consistency of Presentation

1.4.13 The presentation and classification of items in the financial statements shall be retained from one period to the next unless:

(a) It is apparent, following a significant change in the nature of the operations of the entity or a review of its financial statements that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in paragraph 1.3.27; or

(b) A change in presentation is required by a future amendment to this Standard.
1.4.14 A major restructuring of service delivery arrangements; the creation of a new, or termination of a major existing, government entity; a significant acquisition or disposal; or a review of the overall presentation of the entity’s financial statements might suggest that the statement of cash receipts and payments or other individual financial statements should be presented differently. For example, a government may dispose of a government savings bank that represents one of its most significant entities with the remaining entities conducting mainly administrative and policy advice services. In this case, the presentation of the financial statements identifying a financial institution as a principal activity of the government is unlikely to be relevant.

1.4.15 Only if the revised structure is likely to continue, or if an alternative presentation provides information that is a faithful representation and is more relevant to users of the financial statement, should an entity change the presentation of its financial statements. When such changes in presentation are made, an entity reclassifies its comparative information in accordance with paragraph 1.4.19. Where an entity complies with this International Public Sector Accounting Standard, a change in presentation to comply with national requirements is permitted as long as the revised presentation is consistent with the requirements of this Standard.

Comparative Information

1.4.16 Unless a provision of this Standard permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all numerical information required by this Standard to be disclosed in the financial statements, except in respect of the financial statements for the reporting period to which this Standard is first applied. Comparative information shall be included in narrative and descriptive information when it is relevant to an understanding of the current period’s financial statements.

1.4.17 This Standard requires the presentation of a statement of cash receipts and payments and specifies certain disclosures that are required to be made in that statement and notes thereto. This Standard does not preclude the preparation of additional financial statements. Part 2 of this Standard encourages certain additional disclosures. Where financial statements in addition to the statement of cash receipts and payments are prepared or disclosures encouraged by Part 2 of this Standard are made, the disclosure of comparative information is also encouraged.

1.4.18 In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, details of a legal dispute, the outcome of which was uncertain at the last reporting date and is yet to be resolved, may be disclosed in the current period. Users benefit from knowing that the uncertainty existed at the last
reporting date, and the steps that have been taken during the period to resolve the uncertainty.

1.4.19 When the presentation or classification of items required to be disclosed in the financial statements is amended, comparative amounts shall be reclassified, unless it is impracticable to do so, to ensure comparability with the current period, and the nature, amount of, and reason for any reclassification shall be disclosed. When it is impracticable to reclassify comparative amounts, an entity shall disclose the reason for not reclassifying and the nature of the changes that would have been made if amounts were reclassified.

1.4.20 Circumstances may exist when it is impracticable to reclassify comparative information to achieve comparability with the current period. For example, data may not have been collected in the previous period(s) in a way which allows reclassification, and it may not be practicable to recreate the information. In such circumstances, the nature of the adjustments to comparative amounts that would have been made is disclosed.

Identification of Financial Statements

1.4.21 The financial statements shall be clearly identified and distinguished from other information in the same published document.

1.4.22 This Standard applies only to the financial statements, and not to other information presented in an annual report or other document. Therefore, it is important that users are able to distinguish information that is prepared using this Standard from other information that may be useful to users but that is not the subject of this Standard.

1.4.23 Each component of the financial statements shall be clearly identified. In addition, the following information shall be prominently displayed and repeated when it is necessary for a proper understanding of the information presented:

(a) The name of the reporting entity or other means of identification;

(b) Whether the financial statements cover an individual entity or a group of entities;

(c) The reporting date or the period covered by the financial statements, whichever is appropriate to the related component of the financial statements;

(d) The presentation currency; and

(e) The level of precision used in the presentation of figures in the financial statements.

1.4.24 The requirements in paragraph 1.4.23 are normally met by presenting page headings and abbreviated column headings on each page of the financial
statements. Judgment is required in determining the best way of presenting such information. For example, when the financial statements are read electronically, separate pages may not be used. In such cases, the items identified in paragraph 1.4.23 are presented frequently enough to ensure a proper understanding of the information given.

1.4.25 Financial statements are often made more understandable by presenting information in thousands or millions of units of the presentation currency. This is acceptable as long as the level of precision in presentation is disclosed and relevant information is not lost.

1.5 Correction of Errors

1.5.1 When an error arises in relation to a cash balance reported in the financial statements, the amount of the error that relates to prior periods shall be reported by adjusting the cash at the beginning of the period. Comparative information shall be restated, unless it is impracticable to do so.

1.5.2 An entity shall disclose in the notes to the financial statements the following:

(a) The nature of the error that relates to a prior period;

(b) The amount of the correction; and

(c) The fact that comparative information has been restated or that it is impracticable to do so.

1.5.3 Potential current period errors discovered in the current period are corrected before the financial statements are authorized for issue. Errors in the preparation of the financial statements of one or more prior periods may be discovered in the current period. Errors may occur as a result of mathematical mistakes, mistakes in applying accounting policies, misinterpretation of facts, fraud or oversights. When an error is identified in respect of a previous period, the opening balance of cash is adjusted to correct the prior period error and the financial statements, including the comparative information for prior periods, is presented as if the error had been corrected in the period in which it was made. An explanation of the error and its adjustment is included in the notes.

1.5.4 The restatement of comparative information does not necessarily give rise to the amendment of financial statements which have been approved by the governing body or registered or filed with regulatory authorities. However, national laws may require the amendment of such financial statements.

1.5.5 This Standard requires the presentation of a statement of cash receipts and payments, and does not preclude the presentation of other financial statements. Where financial statements in addition to the statement of cash receipts and payments are presented, the requirements in paragraphs 1.5.1 and 1.5.2 for correction of errors will also apply to those statements.
1.6 Foreign Currency

Definitions

1.6.1 The following terms are used in this Standard with the meanings specified:

- **Closing rate** is the spot exchange rate at the reporting date.
- **Exchange difference** is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.
- **Exchange rate** is the ratio of exchange for two currencies.
- **Foreign currency** is a currency other than the presentation currency of the entity.
- **Presentation currency** is the currency in which the financial statements are presented.
- **Spot exchange rate** is the exchange rate for immediate delivery.

Treatment of Foreign Currency Cash Receipts, Payments and Balances

1.6.2 Cash receipts and payments arising from transactions in a foreign currency shall be incorporated in the Statement of Receipts and Payments in an entity’s presentation currency by applying to the foreign currency amount the spot exchange rate between the reporting currency and the foreign currency at the date of the receipts and payments.

1.6.3 Cash balances held in a foreign currency shall be translated using the closing rate.

1.6.4 The cash receipts and cash payments of a foreign controlled entity shall be translated at the exchange rates between the presentation currency and the foreign currency at the dates of the receipts and payments.

1.6.5 An entity shall disclose the amount of exchange differences included as reconciling items between opening and closing cash balances for the period.

1.6.6 When the presentation currency is different from the currency of the country in which the entity is domiciled, the reason for using a different currency shall be disclosed. The reason for any change in the presentation currency shall also be disclosed.

1.6.7 Governments and government entities may have transactions in foreign currencies such as borrowing an amount of foreign currency, receiving external and other assistance in the form of foreign currency, or purchasing goods and services where the purchase price is designated as a foreign currency amount. They may also have foreign operations and transfer cash to and receive cash from those foreign operations. In order to include foreign
currency transactions and foreign operations in financial statements the entity must express cash receipts, payments and balances in the currency in which the reporting entity presents its financial statements.

1.6.8 Unrealized gains and losses arising from changes in foreign currency exchange rates are not cash receipts and payments. However, the effect of exchange rate changes on cash held in a foreign currency is reported in the statement of cash receipts and payments in order to reconcile cash at the beginning and the end of the period. This amount is presented separately from cash receipts and payments and includes the differences, if any, had those cash receipts payments and balances been reported at end-of-period exchange rates.

1.7 Presentation of Budget Information in Financial Statements

Definitions

1.7.1 The following terms are used in this Standard with the meanings specified:

Accounting basis means the accrual or cash basis of accounting as defined in the accrual basis International Public Sector Accounting Standards and the Cash Basis International Public Sector Accounting Standard.

Annual budget means an approved budget for one year. It does not include published forward estimates or projections for periods beyond the budget period.

Appropriation is an authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority.

Approved budget means the expenditure authority derived from laws, appropriation bills, government ordinances and other decisions related to the anticipated revenue or receipts for the budgetary period.

Budgetary basis means the accrual, cash or other basis of accounting adopted in the budget that has been approved by the legislative body.

Comparable basis means the actual amounts presented on the same accounting basis, same classification basis, for the same entities and for the same period as the approved budget.

Final budget is the original budget adjusted for all reserves, carry over amounts, transfers, allocations, supplemental appropriations, and other authorized legislative or similar authority changes applicable to the budget period.

Multiyear budget is an approved budget for more than one year. It does not include published forward estimates or projections for periods beyond the budget period.

Original budget is the initial approved budget for the budget period.
Approved Budgets

1.7.2 An approved budget as defined by this Standard reflects the anticipated revenues or receipts expected to arise in the annual or multiyear budget period based on current plans and the anticipated economic conditions during that budget period, and expenses or expenditures approved by a legislative body, being the legislature or other relevant authority. An approved budget is not a forward estimate or a projection based on assumptions about future events and possible management actions which are not necessarily expected to take place. Similarly, an approved budget differs from prospective financial information which may be in the form of a forecast, a projection or a combination of both – for example, a one year forecast plus a five year projection.

1.7.3 In some jurisdictions, budgets may be signed into law as part of the approval process. In other jurisdictions, approval may be provided without the budget becoming law. Whatever the approval process, the critical feature of approved budgets is that the authority to withdraw funds from the government treasury or similar body for agreed and identified purposes is provided by a higher legislative body or other appropriate authority. The approved budget establishes the expenditure authority for the specified items. The expenditure authority is generally considered the legal limit within which an entity must operate. In some jurisdictions, the approved budget for which the entity will be held accountable may be the original budget and in others it may be the final budget.

1.7.4 If a budget is not approved prior to the beginning of the budget period, the original budget is the budget that was first approved for application in the budget year.

Original and Final Budget

1.7.5 The original budget may include residual appropriated amounts automatically carried over from prior years by law. For example, governmental budgetary processes in some jurisdictions include a legal provision that requires the automatic rolling forward of appropriations to cover prior year commitments. Commitments encompass possible future liabilities based on a current contractual agreement. In some jurisdictions, they may be referred to as obligations or encumbrances and include outstanding purchase orders and contracts where goods or services have not yet been received.

1.7.6 Supplemental appropriations may be necessary where the original budget did not adequately envisage expenditure requirements arising from, for example, war or natural disasters. In addition, there may be a shortfall in budgeted receipts during the period, and internal transfers between budget heads or line items may be necessary to accommodate changes in funding priorities during the fiscal period. Consequently, the funds allotted to an entity or activity may need to be cut back from the amount originally appropriated for the
period in order to maintain fiscal discipline. The final budget includes all such authorized changes or amendments.

Actual Amounts

1.7.7 This Standard uses the term actual or actual amounts to describe the amounts that result from execution of the budget. In some jurisdictions, budget out-turn, budget execution or similar terms may be used with the same meaning as actual or actual amounts.

Presentation of a Comparison of Budget and Actual Amounts

1.7.8 Subject to the requirements of paragraph 1.7.17, an entity that makes publicly available its approved budget(s) shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the statement of cash receipts and payments currently presented in accordance with this Standard. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

(a) The original and final budget amounts;

(b) The actual amounts on a comparable basis; and

(c) By way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Scope

1.7.9 This Standard applies to all entities that are required to, or elect to, make publicly available their approved budget(s). This Standard does not require approved budgets to be made publicly available, nor does it require that the financial statements disclose information about, or include comparisons with, approved budgets which are not made publicly available.

1.7.10 In some cases, approved budgets will be compiled to encompass all the activities controlled by a public sector entity. In other cases, separate approved budgets may be required to be made publicly available for certain activities, groups of activities or entities included in the financial statements of a government or other public sector entity. This may occur where, for example, a government’s financial statements encompass government agencies or programs that have operational autonomy and prepare their own budgets, or where a budget is prepared only for the general government sector of the whole-of-government. This Standard applies to all entities which present financial statements when approved budgets for the entity, or components thereof, are made publicly available.
Comparison of Budget and Actual Amounts

1.7.11 Presentation in the financial statements of the original and final budget amounts and actual amounts on a comparable basis with the budget, which is made publicly available, will complete the accountability cycle by enabling users of the financial statements to identify whether resources were obtained and used in accordance with the approved budget. Differences between the actual amounts and the budget amounts, whether original or final budget (often referred to as the “variance” in accounting), may also be presented in the financial statements for completeness.

1.7.12 An explanation of the material differences between actual amounts and the budget amounts will assist users in understanding the reasons for material departures from the approved budget for which the entity is held publicly accountable.

1.7.13 An entity may be required, or may elect, to make publicly available its original budget, its final budget or both its original and final budget. In circumstances where both original and final budget are required to be made publicly available, the legislation, regulation or other authority will often provide guidance on whether explanation of material differences between actual and the original budget amounts, or actual and the final budget amounts, is required in accordance with paragraph 1.7.8(c). In the absence of any such guidance, material differences may be determined by reference to, for example, differences between actual and original budget to focus on performance against original budget, or differences between actual and final budget to focus on compliance with the final budget.

1.7.14 In many cases, the final budget amount and the actual amount will be the same. This is because budget execution is monitored over the reporting period and the original budget progressively revised to reflect changing conditions, changing circumstances and experiences during the reporting period. Paragraph 1.7.23 of this Standard requires the disclosure of an explanation of the reasons for changes between the original and final budget. That disclosure, together with the disclosures required by paragraph 1.7.8 above, will ensure that entities which make publicly available their approved budget(s) are held publicly accountable for their performance against, and compliance with, the relevant approved budget.

1.7.15 Management discussion and analysis, operations review or other public reports which provide commentary on the performance and achievements of the entity during the reporting period, including explanations of any material differences from budget amounts, are often issued in conjunction with the financial statements. In accordance with paragraph 1.7.8(c) of this Standard, explanation of material differences between actual and budget amounts will be included in notes to the financial statements unless included in other public reports or documents issued in conjunction with the financial statements,
and the notes to the financial statements identify the reports or documents in which the explanation can be found.

1.7.16 Where approved budgets are only made publicly available for some of the entities or activities included in the financial statements, the requirements of paragraph 1.7.8 will apply to only the entities or activities reflected in the approved budget. This means that where, for example, a budget is prepared only for the general government sector of a whole-of-government reporting entity, the disclosures required by paragraph 1.7.8 will be made only in respect of the general government sector of the government.

**Presentation**

1.7.17 *An entity shall present a comparison of budget and actual amounts as additional budget columns in the statement of cash receipts and payments only where the financial statements and the budget are prepared on a comparable basis.*

1.7.18 Comparisons of budget and actual amounts may be presented in a separate financial statement (“statement of comparison of budget and actual amounts” or a similarly titled statement). Alternatively, where the financial statements and the budget are prepared on a comparable basis – that is, on the same basis of accounting for the same entity and reporting period, and adopt the same classification structure – additional columns may be added to the statement of cash receipts and payments presented in accordance with this Standard. These additional columns will identify original and final budget amounts and, if the entity so chooses, differences between the budget and actual amounts.

1.7.19 When the budget and financial statements are not prepared on a comparable basis, a separate statement of comparison of budget and actual amounts is presented. In these cases, to ensure that readers do not misinterpret financial information which is prepared on different bases, the financial statements could usefully clarify that the budget and the accounting bases differ and the statement of comparison of budget and actual amounts is prepared on the budget basis.

**Level of Aggregation**

1.7.20 Budget documents may provide great detail about particular activities, programs or entities. These details are often aggregated into broad classes under common budget heads, budget classifications or budget headings for presentation to, and approval by, the legislature or other authoritative body. The disclosure of budget and actual information consistent with those broad classes and budget heads or headings will ensure that comparisons are made at the level of legislative or other authoritative body oversight identified in the budget document(s).

1.7.21 In some cases, the detailed financial information included in approved budgets may need to be aggregated for presentation in financial statements.
in accordance with the requirements of this Standard. Such aggregation may be necessary to avoid information overload and to reflect relevant levels of legislative or other authoritative body oversight. Determining the level of aggregation will involve professional judgment. That judgment will be applied in the context of the objective of this Standard and the qualitative characteristics of financial statements as identified in paragraph 1.3.27 of this Standard.

1.7.22 Additional budget information, including information about service achievements, may be presented in documents other than financial statements. Part 2 of this Standard encourages the inclusion in the financial statements of a cross reference to such documents.

Changes from Original to Final Budget

1.7.23 An entity shall present an explanation of whether changes between the original and final budget are a consequence of reallocations within the budget, or of other factors, either:

(a) By way of note disclosure in the financial statements; or

(b) In a report issued before, at the same time as, or in conjunction with the financial statements, and shall include a cross reference to the report in the notes to the financial statements.

1.7.24 The final budget includes all changes approved by legislative actions or other designated authority to revise the original budget. Consistent with the requirements of this Standard, notes to the financial statements or a separate report issued before, in conjunction with or at the same time as the financial statements, will include an explanation of changes between the original and final budget. That explanation will include whether, for example, changes arise as a consequence of reallocations within the original budget parameters or as a consequence of other factors, such as changes in the overall budget parameters, including changes in government policy. Such disclosures are often made in a management discussion and analysis or similar report on operations issued in conjunction with, but not as part of, the financial statements. Such disclosures may also be included in budget out-turn reports issued by governments to report on budget execution. Where such disclosures are made in a separate report rather than in the notes to the financial statements, the notes will include a cross reference to that report.

Comparable Basis

1.7.25 All comparisons of budget and actual amounts shall be presented on a comparable basis to the budget.

1.7.26 The comparison of budget and actual amounts will be presented on the same accounting basis (accrual, cash or other basis), same classification basis and for the same entities and period as for the approved budget. This will ensure that
the disclosure of information about compliance with the budget in the financial statements is on the same basis as the budget itself. In some cases, this may mean presenting a budget and actual comparison on a different basis of accounting, for a different group of activities, and with a different presentation or classification format than that adopted for the financial statements.

1.7.27 As noted in paragraph 1.7.10, separate budgets may be approved and made publicly available for individual entities or particular activities that make up the reporting entity. Where this occurs, the separate budgets may be recompiled for presentation in the financial statements in accordance with the requirements and encouragements of this Standard. Where such recompilation occurs, it will not involve changes or revisions to approved budgets. This is because this Standard requires a comparison of actual amounts with the approved budget amounts.

1.7.28 Entities may adopt different bases of accounting for the preparation of their financial statements and for their approved budgets. For example, in some, albeit rare, cases a government or government agency may adopt the cash basis for its financial statements and the accrual basis for its budget. In addition, budgets may focus on, or include information about, commitments to expend funds in the future and changes in those commitments, while the financial statements will report cash receipts and payments and balances thereof. However, the budget entity and financial reporting entity will often be the same. Similarly, the period for which the budget is prepared and the classification basis adopted for the budget will often be reflected in financial statements. This will ensure that the accounting system records and reports financial information in a manner which facilitates the comparison of budget and actual data for management and for accountability purposes – for example, for monitoring progress of execution of the budget during the budget period and for reporting to the government, the public and other users on a relevant and timely basis.

1.7.29 In some jurisdictions, budgets may be prepared on a cash or accrual basis consistent with a statistical reporting system that encompasses entities and activities different from those included in the financial statements. For example, budgets prepared to comply with a statistical reporting system may focus on the general government sector and encompass only entities fulfilling the “primary” or “non-market” functions of government as their major activity, while financial statements report on all activities controlled by a government, including the business activities of the government.

1.7.30 In statistical reporting models, the general government sector may comprise national, state/provincial and local government levels. In some jurisdictions, the national government may control state/provincial and local governments, consolidate those governments in its financial statements and develop, and require to be made publicly available, an approved budget that encompasses all three levels of government. In these cases, the requirements of this Standard will apply to the financial statements of those national governmental
entities. However, where a national government does not control state or local governments, the consolidated financial statements of the national government will not consolidate state/provincial or local governments that it does not control. However, separate financial statements may be prepared for each level of government. The requirements of this Standard will only apply to the financial statements of governmental entities when approved budgets for the entities and activities they control, or subsections thereof, are made publicly available.

Multiyear Budgets

1.7.31 Some governments and other entities approve and make publicly available multiyear budgets, rather than separate annual budgets. Conventionally, multiyear budgets comprise a series of annual budgets or annual budget targets. The approved budget for each component annual period reflects the application of the budgetary policies associated with the multiyear budget for that component period. In some cases, the multiyear budget provides for a roll forward of unused appropriations in any single year.

1.7.32 Governments and other entities with multiyear budgets may take different approaches to determining their original and final budget depending on how their budget is passed. For example, a government may pass a biennial budget that contains two approved annual budgets, in which case an original and final approved budget for each annual period will be identifiable. If unused appropriations from the first year of the biennial budget are legally authorized to be spent in the second year, the “original” budget for the second year period will be increased for these “carry over” amounts. In the rare cases in which a government passes a biennial or other multi-period budget that does not specifically separate budget amounts into each annual period, judgment may be necessary in identifying which amounts are attributable to each annual period for determining the annual budget for the purposes of this Standard. For example, the original and final approved budget for the first year of a biennial period will encompass any approved capital acquisitions for the biennial period that occurred during the first year, together with the amount of the recurring revenue and expenditure items attributable to that year. The unexpended amounts from the first annual period would then be included in the “original” budget for the second annual period and that budget together with any amendments thereto would form the final budget for the second year. Part 2 of this Standard encourages disclosure of the relationship between budget and actual amounts during the budget period.

Note Disclosures of Budgetary Basis, Period and Scope

1.7.33 An entity shall explain in notes to the financial statements the budgetary basis and classification basis adopted in the approved budget.

1.7.34 There may be differences between the accounting basis (cash, accrual, or some modification thereof) used in preparation and presentation of the budget and the
accounting basis used in the financial statements. These differences may occur when the accounting system and the budget system compile information from different perspectives – the budget may focus on cash flows plus certain accruals and commitments, while the financial statements report cash receipts and cash payments.

1.7.35 Formats and classification schemes adopted for presentation of the approved budget may also differ from the formats adopted for the financial statements. An approved budget may classify items on the same basis as is adopted in the financial statements, for example, expenditures by economic nature (compensation of employees, supplies and consumables, grants and transfers, etc.) or function (health, education, etc.). Alternatively, the budget may classify items by specific programs (for example, poverty reduction or control of contagious diseases) or program components linked to performance outcome objectives (for example, students graduating from tertiary education or surgical operations performed by hospital emergency services), which differ from classifications adopted in the financial statements. Further, a recurrent budget for ongoing operations (for example, education or health) may be approved separately from a capital budget for capital outlays (for example, infrastructure or buildings).

1.7.36 Disclosure of the budgetary basis and classification basis adopted for the preparation and presentation of approved budgets will assist users to better understand the relationship between the budget and accounting information disclosed in the financial statements.

1.7.37 An entity shall disclose in notes to the financial statements the period of the approved budget.

1.7.38 Financial statements are presented at least annually. Entities may approve budgets for an annual period or for multiyear periods. Disclosure of the period covered by the approved budget where that period differs from the reporting period adopted for the financial statements will assist the user of those financial statements to better understand the relationship of the budget data and budget comparison to the financial statements. Disclosure of the period covered by the approved budget where that period is the same as the period covered by the financial statements will also serve a useful confirmation role, particularly in jurisdictions where interim budgets and financial statements and reports are also prepared.

1.7.39 An entity shall identify in notes to the financial statements the entities included in the approved budget.

1.7.40 Paragraph 2.1.37 of Part 2 of this Standard encourages controlling entities to prepare and present consolidated financial statements which encompass budget-dependent entities and commercial public sector entities controlled by the government. However, as noted in paragraph 1.7.29, approved budgets prepared in accordance with statistical reporting models may not encompass operations of the government that are undertaken on a commercial or market
Reconciliation of Actual Amounts on a Comparable Basis and Actual Amounts in the Financial Statements

1.7.41 The actual amounts presented on a comparable basis to the budget in accordance with paragraph 1.7.25 shall, where the financial statements and the budget are not prepared on a comparable basis, be reconciled to total cash receipts and total cash payments, identifying separately any basis, timing and entity differences. The reconciliation shall be disclosed on the face of the statement of comparison of budget and actual amounts or in the notes to the financial statements.

1.7.42 Differences between the actual amounts identified consistent with the comparable basis and the actual amounts recognized in the financial statements can usefully be classified into the following:

(a) Budgetary basis differences, which occur when the approved budget is prepared on a basis other than the accounting basis. For example, where the budget is prepared on the accrual basis or modified cash basis and the financial statements are prepared on the cash basis;

(b) Timing differences, which occur when the budget period differs from the reporting period reflected in the financial statements; and

(c) Entity differences, which occur when the budget omits programs or entities that are part of the entity for which the financial statements are prepared.

There may also be differences in formats and classification schemes adopted for presentation of financial statements and the budget.

1.7.43 The reconciliation required by paragraph 1.7.41 of this Standard will enable the entity to better discharge its accountability obligations by identifying major sources of difference between the actual amounts on a budget basis and the total cash receipts and total cash payments recognized in the statement of cash receipts and payments. This Standard does not preclude reconciliation of each major total and subtotal, or each class of items, presented in a comparison of budget and actual amounts with the equivalent amounts in the financial statements.

1.7.44 For entities adopting the cash basis of accounting for preparation of both the budget documents and the financial statements, a reconciliation will not be required where the budget is prepared for the same period, encompasses the same entities and adopts the same presentation format as the financial statements. For other entities adopting the same basis of accounting for the budget and the
financial statements, there may be a difference in presentation format, reporting entity or reporting period – for example, the approved budget may adopt a different classification or presentation format to the financial statements, may include only non-commercial activities of the entity, or may be a multiyear budget. A reconciliation would be necessary where there are presentation, timing or entity differences between the budget and the financial statements prepared on the same accounting basis.

1.7.45 The disclosure of comparative information in respect of the previous period in accordance with the requirements of this Standard is not required.

1.7.46 This Standard requires a comparison of budget and actual amounts to be included in the financial statements of entities which make publicly available their approved budget(s). It does not require the disclosure of a comparison of actual amounts of the previous period with the budget of that previous period, nor does it require that the related explanations of differences between the actuals and budget of that previous period be disclosed in the financial statements of the current period.

1.8 Effective Date of Part 1 and Transitional Provisions

Transitional Provisions

1.8.1 Entities which are adopting the Cash Basis IPSAS, Financial Reporting under the Cash Basis of Accounting for the first time shall apply all its provisions from the date of its first adoption.

1.8.2 Entities that currently present financial statements in accordance with the superseded Cash Basis IPSAS, Financial Reporting under the Cash Basis of Accounting are not required to comply with the requirements in this Standard until 1 January 2019.

1.8.3 Where entities apply the transitional provision in paragraph 1.8.2, they shall disclose the accounting policies that have not yet been adopted.

1.8.4 When an entity adopts the Cash Basis IPSAS for the first time, this Standard applies to the entity’s annual financial statements covering periods beginning on or after the date of adoption. The transitional provisions provide entities that currently adopt the Cash Basis IPSAS with a period of up to two years from the effective date of this Standard to adopt all of its accounting policies. Entities that take advantage of the transitional provisions shall identify the policies that they are not yet fully compliant with. All changes to accounting policies resulting from the application of this Standard shall be accounted for in accordance with the requirements of paragraphs 1.8.11 to 1.8.13 below.

Effective Date

1.8.5 An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is
encouraged. If an entity applies this Standard for a period beginning before January 1, 2019 it shall disclose that fact.

1.8.6 This Standard applies to an entity which adopts the Cash Basis IPSAS for the first time and to an entity which already adopts the Cash Basis IPSAS.

Withdrawal of the Cash Basis IPSAS (2007)

1.8.7 This Standard supersedes the Cash Basis IPSAS, Financial Reporting under the Cash Basis of Accounting issued in 2007.

1.8.8 The Cash Basis IPSAS was first issued in January 2003. It was applicable to annual financial statements covering periods beginning on or after 1 January 2004. It was subsequently updated with additional requirements and encouragements dealing with budget reporting and external assistance in 2006 and 2007. The effective date of the additional requirements in Section 9, Presentation of Budget Information in Financial Statements and Section 10, Recipients of External Assistance of Part 1 of the Standard was for annual financial statements covering periods beginning on or after 1 January 2009.

1.8.9 This Standard was issued in 2017. It supersedes the 2007 Standard previously on issue. It has been revised to provide relief from the requirement for preparation of consolidated financial statements and disclosure of information about third party payments and external assistance included in Part 1 of the 2007 Standard. Certain of those requirements are now included as encouragements in Part 2 of this Standard. This Standard has also been amended to better align with The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework) and the accrual IPSAS currently on issue where appropriate.

1.8.10 The combination of requirements and encouragements in Part 1 and Part 2 of this Standard will mean that in many, though not necessarily all, respects information presented in financial statements prepared in accordance with the superseded standard will also be presented by financial statements prepared in accordance with this Standard. However, entities that presented financial statements that complied with the superseded standard will need to review the requirements and encouragements in this Standard to ensure they remain compliant.

Changes in Accounting Policies of Entities that Adopt the Superseded Cash Basis IPSAS

1.8.11 When the adoption of this Standard requires a change in an accounting policy of an entity that currently applies the superseded Cash Basis IPSAS, the entity shall apply the change retrospectively by adjusting the opening cash balance of the current period presented and the other comparative amounts disclosed for the immediate prior period presented as if the new accounting policy had always been applied.
1.8.12 When it is impracticable for an entity that currently applies the superseded Cash Basis IPSAS to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to the immediate prior period presented, the entity shall:

(a) Apply the new accounting policy to transactions, other events and conditions occurring after the date at which the policy is changed; and

(b) Recognize the effects of the new policy on the cash receipts, payments and balances of the current period and future periods affected by the change.

1.8.13 When initial application of this Standard by an entity that currently applies the superseded Cash Basis IPSAS, (a) has an effect on the current period or the immediate prior period, or (b) would have such an effect, except that it is impracticable to determine the amount of the adjustment, the entity shall disclose:

(a) The nature of the change in accounting policy;

(b) For the current period and the immediate prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected; and

(c) If retrospective application required by paragraph 1.8.11 is impracticable, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.
Basis for Conclusions – Cash Basis IPSAS Part 1

This Basis for Conclusions accompanies, but is not part of the IPSAS, Financial Reporting under the Cash Basis of Accounting.

The Basis for Conclusions which follows Part 2 of this Standard deals with amendments to the encouragements in Part 2.

Introduction

BC1 The IPSAS, Financial Reporting under the Cash Basis of Accounting (the Cash Basis IPSAS) was issued in January 2003 and updated with additional requirements and encouragements about the presentation of budget information in 2006 and external assistance in 2007. It comprises two parts: Part 1 identifies the requirements that must be adopted by a reporting entity whose general purpose financial statements comply with this Standard. Part 2 identifies encouraged additional disclosures which provide additional information useful for accountability and decision-making purposes and support those entities transitioning to the accrual basis of financial reporting and adoption of accrual IPSAS.

Reasons for, and Scope of, this Review

BC2 While there are different views about just how many governments and other public sector entities have adopted the Cash Basis IPSAS, there is general agreement that it is not widely adopted. The requirements for consolidation, external assistance and third party payments have been identified by the IPSASB Task Force established to review operation of the IPSAS (IPSASB Task Force Report 2010) and many constituents, including those implementing the IPSAS, as major obstacles to adoption of the Cash Basis IPSAS.

BC3 Despite its limited adoption, the IPSASB’s strategy consultation in 2014 found that there is strong support for retention of the Cash Basis IPSAS, whether as a Standard in its own right or as first step on the transition to the accrual basis of financial reporting and adoption of accrual IPSAS and, in some cases, for revisions to its requirements to remove obstacles to its adoption. Entities transitioning to the accrual basis of financial reporting are also encouraged to refer to IPSASB Study 14 Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities (Third Edition January 2011) which provides guidance on the approaches that may be adopted in transitioning to the accrual basis.

BC4 The amendments made through this revised Cash Basis IPSAS (2017) reflect a limited scope review of the IPSAS as a response to input the IPSASB has received from constituents on the operation of the Cash Basis IPSAS. The amendments are intended to:

(a) Overcome the substantial obstacles to its adoption represented by the requirements relating to consolidation, external assistance and third party payments; and
(b) Clarify that the role the Cash Basis IPSAS is intended to play in the IPSASB’s standards setting strategy is primarily as a step on the path to adoption of the accrual basis IPSAS, rather than an end in itself.

BC5 This revised Cash Basis IPSAS (2017) also includes minor “housekeeping” amendments intended to ensure that, while the requirements and encouragements in this Standard may differ from the requirements in equivalent accrual IPSAS, they are not contrary to those requirements unless intended to be so to reflect the cash basis focus in this Standard. Since issue of the Cash Basis IPSAS in 2003, the accrual IPSAS have been updated, and in some cases withdrawn and/or replaced. The “housekeeping” amendments reflect, as far as is appropriate, developments in the accrual IPSAS.

Consolidation

BC6 Many public sector entities wishing to prepare financial statements that comply with the requirements of this Standard and reflect best practice for financial reporting under the cash basis of accounting faced significant obstacles in the preparation and presentation of fully consolidated financial statements. This may be for a number of reasons including: (a) compatibility with existing legislation or regulation which requires the preparation of financial reports for the budget or general government sector or other grouping of activities; (b) difficulties in identifying all controlled entities at reporting date; (c) differences in the reporting basis adopted by commercial public sector entities, and (d) the capacity (including access to necessary technical expertise) to collect and process the necessary data on a timely basis and meet reporting deadlines.

BC7 Many constituents expressed concern that the previous consolidation requirements undermined the capacity of the Cash Basis IPSAS (2007) to perform its role of enhancing the quality of financial statements prepared under the cash basis of accounting and supporting the transition to the accrual basis of financial reporting and adoption of accrual IPSAS — because governments and other public sector entities could not comply with the Standard. This revised Cash Basis IPSAS (2017) makes amendments to the Cash Basis IPSAS (2007) to respond to these concerns, as outlined below.

BC8 This revision removes from Part 1 of the Standard and recasts as an encouragement in Part 2 of the Standard the requirement that controlling entities are to prepare consolidated financial statements that consolidate all controlled entities. This is intended to overcome a major obstacle to adoption of the IPSAS.

BC9 Part 2 of this Standard also encourages controlling entities that do not consolidate all controlled entities to prepare financial statements that reflect a budget sector, general government sector or other representation of core government activities as they transition to the accrual basis of financial reporting and adoption of the accrual IPSAS. This supports an orderly and
achievable transition to full consolidation as required by the accrual IPSAS, and responds to concerns of some constituents that full consolidation would result in the loss of information about core governmental activities and, in some cases, is contrary to legislative requirements.

BC10 To support those entities transitioning to the accrual basis, the key definitions, including that of control, are revised where necessary to ensure that they do not conflict with IPSAS 34, *Separate Financial Statements* and IPSAS 35, *Consolidated Financial Statements*.

BC11 The IPSASB considered a number of approaches to removing the obstacles to adoption represented by the current requirements for consolidation. While many of these approaches had merit, the IPSASB decided that, on balance, the approach taken in this revised Cash Basis IPSAS (2017) best responded to the concerns of those faced with implementing the Cash Basis IPSAS, and those dependent on financial statements prepared in accordance with the IPSAS for information useful for accountability and decision-making purposes. The other approaches considered, and IPSASB’s reasons for not proposing their adoption, include:

(a) The inclusion of a transitional period of 3 to 5 years, or longer, from first adoption for entities to comply with the requirement that controlling entities shall consolidate all controlled entities. However, it is some 12 years since issue of the Cash Basis IPSAS and consolidation remains a major obstacle to its adoption. The IPSASB was not convinced that a 3 to 5 year transitional period was sufficient to overcome the wide, and differing, range of obstacles identified in many jurisdictions;

(b) Recasting all the consolidation requirements as encouragements, except for those requirements relating to the accounting procedures that are to be adopted in the preparation of consolidated financial statements and disclosure of the composition of the economic entity. Such an approach was appealing. It meant that the procedures adopted for the preparation of any consolidated financial statements would be identified as requirements to be applied consistently from period to period for the same economic entity and across all entities that complied with the IPSAS. However, the retention of these matters as requirements may continue to present obstacles to the adoption of the IPSAS. In addition, the IPSASB was of the view that designation of some processes and disclosures central to the preparation and presentation of consolidated financial statements as requirements and the designation of other such processes and disclosures as only encouragements is difficult to justify and results in an unnecessarily complex Standard;

(c) Retaining the existing consolidation requirements but providing relief for specific practical obstacles such as the need to consolidate commercial public sector entities or other problematic class of public sector entities. Such an approach would respond to some of the obstacles identified
by constituents and was appealing on that basis. However, it did not respond to all of the obstacles identified by constituents. In addition, for consistency of application, it would have also required an agreed definition of what constitutes a commercial public sector entity or other specified class of public sector entities. It was not clear that such a definition would be readily applicable across all jurisdictions; and

(d) Requiring presentation of financial statements for an economic entity that reflects the budget sector or the general government sector or similar interim group of controlled entities, rather than for all controlled entities. Such an approach responded to obstacles identified by constituents in many jurisdictions and was appealing on that basis. However, any attempt to define or specify such an interim group may trigger some jurisdictional specific obstacles, particularly if legislative requirements did not directly align with a specified interim group. It may also give rise to obstacles in jurisdictions that are transitioning to the accrual basis and have moved past the interim group reporting entity that might be specified. This revised Cash Basis IPSAS (2017) allows and acknowledges that group financial statements reflecting the budget sector or general government sector may be prepared and presented on the path to the full accrual basis.

External Assistance

BC12 The requirements and encouragements for the disclosure of information about external assistance were added to the Cash Basis IPSAS in 2007 in response to requests from, and with the support of, many recipients, donors and others from the financial reporting community who saw a need for internationally agreed authoritative requirements for financial reporting of external assistance under the cash basis of accounting.

BC13 However, the IPSASB was aware that the information recipients of external assistance needed to satisfy the requirements of that Standard was not made as readily available or accessible as was anticipated by the IPSASB and its constituents when the requirements were developed and, after being subject to the IPSASB’s due process, included in the Cash Basis IPSAS (2007). The Cash Basis IPSAS (2007) provided some relief from the disclosure requirements when the information is not readily available or verifiable. However, the IPSASB was concerned that the extent to which that relief was necessary, and the resultant inability to verify the completeness and accuracy of information disclosed, may well have undermined the usefulness for accountability or decision-making purposes of any resultant information that was disclosed. This revised Cash Basis IPSAS (2017) responded to these concerns as outlined below.

BC14 All requirements to disclose information about external assistance received during the reporting period and available to the entity at reporting date have been removed from Part 1 and recast as encouragements in Part 2 of the
IPSAS and revised to focus on the disclosure of information about external assistance received as cash or in the form of third party payments. The Cash Basis IPSAS (2017) also encourages disclosure of similar information about other assistance (assistance from non-government organizations and other sources) received by the entity during the period.

BC15 The recasting of these requirements as encouragements will overcome a major obstacle to adoption of the IPSAS. It also responds to concerns of constituents that the requirements for disclosure of information about external assistance included in the Cash Basis IPSAS (2007) were:

(a) More detailed and onerous than those specified in the accrual basis IPSAS, and that was not consistent with the role in supporting the transition to the accrual basis of financial reporting and adoption of accrual IPSAS; and

(b) In the nature of information that sits more comfortably in special purpose financial reports than in general purpose financial statements.

BC16 External assistance received in cash will continue to be recognized in the Statement of Cash Receipts and Payments. Paragraph 1.3.18 is added to Part 1 of the Cash Basis IPSAS (2017) to explain that for many public sector reporting entities in developing economies, the amount of external assistance received as cash is likely to warrant separate disclosure in the statement of cash receipts and payments.

Third Party payments

BC17 In principle, the rationale for the disclosure of third party payments as a separate column on the statement of cash receipts and payments appears sound — to ensure that the form of arrangements to provide cash resources to support an entity’s operations during any period, whether provided to the recipient entity for the acquisition of goods or services or provided directly to the supplier of those goods or services as designated by the recipient, does not determine whether it is reported in the statement of cash receipts and payments. However, payments made by third parties are likely to mostly comprise payments for goods and services that satisfy the definition of external assistance and other assistance.

BC18 Concerns about limited access to information necessary to satisfy the requirements for disclosure of information about external assistance in the form of third party payments noted above, and the potential misinterpretation of the inevitable incomplete information that results, also apply to other categories of third party payments.

BC19 The Cash Basis IPSAS (2017) removes from Part 1 and recasts as encouraged disclosures in Part 2 the requirements for disclosure of information about payments made by third parties. This responds to the concerns of many constituents and overcome a major obstacle to adoption of the IPSAS.
In some jurisdictions, a government will manage the expenditure of its individual departments and other entities through a centralized treasury function, often referred to as a “treasury single account”. The Cash Basis IPSAS (2007) reflected that under “treasury single account” arrangements, amounts paid by a central agency on behalf of a government department or other government entity that is a reporting entity are also to be classified as third party payments. The IPSASB was of the view that, while the individual departments and entities do not establish separate bank accounts in which amounts authorized for their use are deposited, they can use and will benefit from those amounts. Therefore they do control such cash inflows, outflows and available balances. The Cash Basis IPSAS (2017) includes additional explanation of treasury single account arrangements to reflect the IPSASB’s view that such arrangements do not give rise to third party payments.

“Housekeeping” — Correction of Errors, Foreign Currency, Government Business Enterprises and Qualitative Characteristics

Some minor amendments have been made to terminology and explanation of defined terms in sections dealing with Correction of Errors and Foreign Currency to ensure that the requirements of this Standard are not directly in conflict with those in the equivalent accrual IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors (issued in December 2006 and last updated in October 2011), and IPSAS 4, The Effects of Changes in Foreign Exchange Rates (issued in April 2008 and last updated in October 2011).

The differences between the current IPSAS 3 and IPSAS 4 and the equivalent IPSAS that were on issue when the Cash Basis IPSAS (2007) was approved are substantial. In some cases, they involved different accounting methods and in other cases additional disclosures. Readers should be aware that the revisions to these sections in the Cash Basis IPSAS (2017) do not fully reflect all the requirements of the updated IPSAS 3 and IPSAS 4. This is because the IPSASB has not received input that the requirements of the Cash Basis IPSAS (2007) present obstacles to its adoption. The IPSASB was concerned that amending the Cash Basis IPSAS to incorporate all changes to IPSAS 3 and IPSAS 4 may have some unintended effects that could introduce additional obstacles to adoption of the IPSAS. While more substantial amendments to these sections are beyond the limited scope of this review, they may be considered in any future review of the Standard.

As part of the housekeeping process, this revised Cash Basis IPSAS (2017):

(a) Deletes the definition and explanation of a Government Business Enterprise (GBE). The characteristics of the public sector entities to which IPSAS are designed to apply are identified. This is consistent with amendments made in the IPSAS, Applicability of IPSASs (issued April 2016);
(b) Updates the objectives of financial reporting and the identification and explanation of the qualitative characteristics of information included in general purpose financial statements and pervasive constraints on such information, and the users of general purpose financial statements, to better reflect their explanation in the Conceptual Framework. Similar amendments are being developed for inclusion in accrual IPSAS; and

(c) Brings together and amends the requirements for the effective date of application of the Standard and transitional arrangements to better reflect the equivalent requirements of in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* currently on issue.
Illustration of the Requirements of Part 1 of the Standard

This Appendix is illustrative only and does not form part of the Standard. Its purpose is to assist in clarifying the meaning of the requirements of Part 1 of this Standard by illustrating their application in the preparation and presentation of general purpose financial statements under the cash basis of accounting for:

A The Financial Statements of National Government A;

B The financial Statements of Government Entity B, which controls its own bank account; and

C The financial Statements of Government Department C, whose cash receipts and payments are managed through a centralized treasury function often referred to as a “treasury single account”.
## APPENDIX 1A – GOVERNMENT A

### FINANCIAL STATEMENTS FOR NATIONAL GOVERNMENT A

#### STATEMENT OF CASH RECEIPTS AND PAYMENTS FOR YEAR ENDED 31 DECEMBER 200X

(RECEIPTS ONLY)

<table>
<thead>
<tr>
<th>Note</th>
<th>200X</th>
<th>200X-1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Receipts/(Payments)</td>
<td>Receipts/(Payments)</td>
</tr>
</tbody>
</table>

### RECEIPTS

#### Taxation
- Income tax: X X
- Value-added tax: X X
- Property tax: X X
- Other taxes: X X

### Donations, Grants and Other Aid
- Donations, Grants and Other Aid: 10 X X

### Borrowings
- Borrowings: 3
  - Proceeds from:
    - Commercial Institutions: X
    - Development Banks and similar organizations: X

### Capital Receipts
- Capital Receipts
  - Proceeds from disposal of plant and equipment: X X
  - Proceeds from disposal of financial instruments: X X

### Trading Activities
- Trading Activities
  - Receipts from trading activities: X X

### Other receipts
- Other receipts: 4 X X

### Total receipts
- Total receipts: X X
## Financial Reporting Under the Cash Basis of Accounting

### Cash Basis Appendix 1A

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<thead>
<tr>
<th>Note</th>
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<th>200X-1 Receipts/(Payments)</th>
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</thead>
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<td><strong>Operations</strong></td>
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<td>Wages, salaries and employee benefits</td>
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<tr>
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<td>2</td>
<td>X</td>
</tr>
<tr>
<td>Increase/(Decrease)Cash</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Cash at end of year</td>
<td>2</td>
<td>X</td>
</tr>
</tbody>
</table>
## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT

For Government A for the Year Ended 31 December 200X

**Budget Approved on the Cash Basis**

(Classification of Payments by Functions)

<table>
<thead>
<tr>
<th>(in thousands of currency units)</th>
<th>Actual Amounts</th>
<th>Final Budget</th>
<th>Original Budget</th>
<th>Final Budget and Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CASH INFLOWS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxation</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Grants and Aid agreements</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Proceeds: borrowing</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Proceeds: disposal of plant and equipment</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Proceeds: disposal of financial instruments</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Trading activities</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Other receipts</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Total receipts</strong></td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>CASH OUTFLOWS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Education</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Public order/safety</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Social protection</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Defense</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Housing and community amenities</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Recreational, cultural and religion</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Economic affairs</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Environmental Protection</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>General Public Services</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Total payments</strong></td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>NET CASH FLOWS</strong></td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

* The “Difference…” column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.
ADDITIONAL FINANCIAL STATEMENTS (OPTIONAL)

Additional financial statements may be prepared to provide details of amounts included in the statement of cash receipts and payments: for example, to disclose information by major fund groups or to disclose expenditures by major functions or programs, or to provide details of sources of borrowings. Columns disclosing budgeted amounts may also be included.

**STATEMENT OF CASH RECEIPTS BY FUND CLASSIFICATION**

<table>
<thead>
<tr>
<th>(in thousands of currency units)</th>
<th>200X</th>
<th>200X-1</th>
</tr>
</thead>
<tbody>
<tr>
<td>RECEIPTS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consolidated Funds</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Special Funds</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Trading Funds</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Loans</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Total receipts</strong></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

**PROCEEDS OF BORROWINGS**

<table>
<thead>
<tr>
<th>(in thousands of currency units)</th>
<th>Note</th>
<th>200X Cash Receipts</th>
<th>200X-1 Cash Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>BORROWINGS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic Commercial Institution</td>
<td>3</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Offshore Commercial Institution</td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Development Banks and Similar</td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Lending Agencies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total borrowings</strong></td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
## STATEMENT OF PAYMENTS BY PROGRAMS/ACTIVITIES/FUNCTION OF GOVERNMENT

(in thousands of currency units)

<table>
<thead>
<tr>
<th></th>
<th>200X Payments</th>
<th>200X-1 Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PAYMENTS – Operating Account</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Health</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Social Protection</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Defense</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Public Order and Safety</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Recreation, Culture and Religion</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Economic Affairs</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Environment Protection</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>General Public Services</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Total payments</strong></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

| **PAYMENTS – Capital Account**  |               |                 |
| Education                       | X             | X               |
| Health                          | X             | X               |
| Social Protection and Welfare   | X             | X               |
| Defense                         | X             | X               |
| Public Order and Safety         | X             | X               |
| Recreation, Culture and Religion | X          | X               |
| Environment Protection          | X             | X               |
| General Public Services         | X             | X               |
| **Total payments**              | X             | X               |
| **Total Operating and Capital Accounts** | X     | X                 |
PUBLIC SECTOR ENTITY – WHOLE-OF-GOVERNMENT A

Notes to the Financial Statements

1. Accounting Policies

Basis of preparation

The financial statements have been prepared in accordance with Cash Basis IPSAS, *Financial Reporting under the Cash Basis of Accounting*. The accounting policies have been applied consistently throughout the period.

Reporting entity

The financial statements are for the national government of Country A. The financial statements encompass the reporting entity as specified in the relevant legislation (Public Finance Act 20XX).

Government activities include the provision of health, education, defense, social protection, housing, recreational and cultural and general public services and economic management to, and on behalf of, constituents. [Identify level of government, jurisdiction and nature of services provided.]

A list of significant entities encompassed in the financial statements and the sectors in which they operate is shown in Note 7 to the financial statements.

Presentation currency

The presentation currency is (currency of Country A).

2. Cash

Cash comprises cash on hand, demand deposits and cash equivalents. Demand deposits and cash equivalents consist of balances with banks and investments in short-term money market instruments.

Cash included in the statement of cash receipts and payments comprise the following amounts:

<table>
<thead>
<tr>
<th>(in thousands of currency units)</th>
<th>200X</th>
<th>200X-1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on hand and balances with banks</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

Included in the amount stated above is X currency units provided by the International Agency XX that is restricted to the construction of road infrastructure.
3. **Borrowings**

Borrowings comprise cash inflows from commercial banks and similar commercial institutions and development banks and similar aid agencies.

4. **Other Receipts**

Included in other receipts are fees, fines, penalties and miscellaneous receipts.

5. **Other Payments**

Included in other payments are dividends, distributions paid, legal settlements of lawsuits and miscellaneous payments.

6. **Undrawn Borrowing Facilities**

(in thousands of currency units)  

<table>
<thead>
<tr>
<th>Movement in Undrawn Borrowing Facilities</th>
<th>200X</th>
<th>200X-1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Undrawn borrowing facilities at 1.1.0X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Additional loan facility</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Total available</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Amount drawn</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Facility closure/cancellations</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Undrawn borrowing facilities at 31.12.0X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

(in thousands of currency units)  

<table>
<thead>
<tr>
<th>Undrawn Borrowing Facilities</th>
<th>200X</th>
<th>200X-1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Financial Institutions</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Development Banks and similar organizations</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Total undrawn borrowing facilities</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

7. **Significant Entities**

<table>
<thead>
<tr>
<th>Entity 200X</th>
<th>Entity 200X-1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entity A</td>
<td>Entity A</td>
</tr>
<tr>
<td>Entity B</td>
<td>Entity B</td>
</tr>
<tr>
<td>Entity C</td>
<td>Entity C</td>
</tr>
<tr>
<td>Entity D</td>
<td>Entity D</td>
</tr>
</tbody>
</table>

8. **Authorization Date**

The financial statement was authorized for publication on XX Month 200X+1 by Mr. YY, the Treasurer of Country A.
9. **Original and Final Approved Budget and Comparison of Actual and Budget Amounts**

The approved budget is developed on the same accounting basis (cash basis), same classification basis, and for the same period (from 1 January 200X to 31 December 200X) as for the financial statements. It encompasses the same entities as the consolidated financial statement – these are identified in Note 7 above.

The original budget was approved by legislative action on (date) and a supplemental appropriation of XXX for disaster relief support was approved by legislative action on (date) due to the earthquake in the Northern Region on (date). The original budget objectives and policies, and subsequent revisions are explained more fully in the Operational Review and Budget Out-turn Report issued in conjunction with the financial statements.

The excess of actual expenditure over the final budget of 15% (25% over original budget) for the Health function was due to expenditures above the level approved by legislative action in response to the earthquake. There were no other material differences.

**Alternative Note 9 when budget and financial statements are prepared on a different basis**

9. **Original and Final Approved Budget and Comparison of Actual and Budget Amounts**

The budget is approved on a modified cash basis by functional classification. The approved budget covers the fiscal period from 1 January 200X to 31 December 200X and includes all entities within the general government sector. The general government sector includes all government departments – significant departments are included in the list of entities identified in Note 7 above.

The original budget was approved by legislative action on (date) and a supplemental appropriation of XXX for disaster relief support was approved by legislative action on (date) due to the earthquake in the Northern Region on (date). The original budget objectives and policies, and subsequent revisions are explained more fully in the Operational Review and Budget Out-turn Report issued in conjunction with the financial statements.

The excess of actual expenditure over the final budget of 15% (25% over original budget) for the Health function was due to expenditures above the level approved by legislative action in response to the earthquake. There were no other material differences between the final approved budget and the actual amounts.

The budget and the accounting bases differ. The financial statements for the government are prepared on the cash basis using a classification based on the nature of expenses. The financial statements include all controlled entities, including commercial public sector entities for the fiscal period from 1 January 20XX to 31 December 20XX. The budget is approved on the modified cash basis by functional classification and deals
only with the general government sector which excludes commercial public sector entities and certain other non-market government entities and activities.

The amounts in the statement of cash receipts and payments were adjusted to be consistent with the modified cash basis and reclassified by functional classification to be on the same basis as the final approved budget. In addition, adjustments to amounts in the statement of cash receipts and payments for timing differences associated with the continuing appropriation and differences in the entities covered (commercial public sector entities and other entities) were made to express the actual amounts on a comparable basis to the final approved budget.

A reconciliation between the actual inflows and outflows as presented in the statement of comparison of budget and actual amounts and the amounts of total cash receipts and total cash payments reported in the statement of cash receipts and payments for the year ended 31 December 20XX is presented below.

<table>
<thead>
<tr>
<th></th>
<th>Total inflows</th>
<th>Total outflows</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Basis Differences</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Timing Differences</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Entity Differences</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Total Cash receipts</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Total Cash Payments</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

The financial statements and budget documents are prepared for the same period. There is an entity difference: the budget is prepared for the general government sector and the financial statements include all entities controlled by the government. There is also a basis difference: the budget is prepared on a modified cash basis and the financial statements on the cash basis.

This reconciliation could be included on the face of the Statement of Comparison of Budget and Actual Amounts or as a note disclosure.

10. **Donations, Grants and Other Aid**

Cash receipts during the period included donations, grants and other aid provided by individual multilateral and bilateral donor agencies and non-governmental organizations; co-operative financing facilities established by such organizations and donations from charities, corporations and private individuals.

The amount of donations, grants and other aid (XXX) does not include aid received during the reporting period in the form of the proceeds of loans. The proceeds of any aid received during the period in the form of loans are included in the amount of borrowings presented as a separate line item in the Statement of Receipts and Payments.
## APPENDIX 1B – GOVERNMENT ENTITY B

(This entity controls its own bank account.)

### STATEMENT OF CASH RECEIPTS AND PAYMENTS FOR ENTITY B

For Year Ended 31 December 200X

<table>
<thead>
<tr>
<th>Note</th>
<th>200X</th>
<th>200X-1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Receipts/(Payments)</td>
<td>Receipts/(Payments)</td>
</tr>
<tr>
<td><strong>RECEIPTS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Authorized allocations</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Other receipts</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Total receipts</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>PAYMENTS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages, salaries and employee benefits</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Rent</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Capital Payments</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Transfers</td>
<td>3</td>
<td>(X)</td>
</tr>
<tr>
<td>Total payments</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Increase/(Decrease) in Cash</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

Cash at beginning of year 2 | X | X |

Increase/(Decrease) in Cash | X | X |

Cash at end of year 2 | X | X |
ADDITIONAL FINANCIAL STATEMENTS (OPTIONAL)

Additional financial statements may be prepared, for example, to disclose budget information by major fund groups if applicable or to display expenditures by major functions. An example of a statement by function is included below.

**STATEMENT OF PAYMENTS BY FUNCTION**

<table>
<thead>
<tr>
<th>Note</th>
<th>200X Payments</th>
<th>200X-1 Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program I</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Program II</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Program III</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Program IV</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Other payments</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Total payments</strong></td>
<td>(X)</td>
<td>(X)</td>
</tr>
</tbody>
</table>
NOTES TO THE FINANCIAL STATEMENTS

1. **Accounting Policies**

**Basis of preparation**

The financial statements have been prepared in accordance with the Cash Basis IPSAS, *Financial Reporting under the Cash Basis of Accounting*.

The *accounting* policies have been applied consistently throughout the period.

**Reporting entity**

The financial statements are for a public sector entity (Government Entity B). The financial statements encompass the reporting entity as specified in the relevant legislation (Public Finance Act 20XX).

Government Entity B’s principal activity is to provide [identify type of] services to constituents. The Entity controls its own bank account.

**Presentation currency**

The presentation currency is (currency of Country A).

2. **Cash**

Cash comprises cash on hand, demand deposits and cash equivalents. Demand deposits and cash equivalents *comprise* balances with banks and investments in short-term money market instruments.

Appropriations and other cash receipts are deposited in the Entity’s bank account. All borrowings are undertaken by a central finance entity.

Receipts from exchange transactions are deposited in trading fund accounts controlled by the Entity. They are *transferred* to consolidated revenue at year end.

Cash included in the *statement* of cash receipts and payments comprise the following amounts:

<table>
<thead>
<tr>
<th>(in thousands of currency units)</th>
<th>200X</th>
<th>200X-1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on hand and balances with banks</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

3. **Transfers**

Amounts are transferred to eligible recipients in accordance with the operating mandate and authority of the entity.
4. **Significant Entities**

<table>
<thead>
<tr>
<th>Entity 200X</th>
<th>Entity 200X-1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entity X</td>
<td>X</td>
</tr>
<tr>
<td>Entity Y</td>
<td>X</td>
</tr>
</tbody>
</table>

5. **Authorization Date**

The financial statements were authorized for issue on XX *Month* 200X+1 by Mr. YY, Minister of XXXXX for Entity AB.
APPENDIX 1C – GOVERNMENT DEPARTMENT C  
(THE GOVERNMENT OPERATES A CENTRALIZED SINGLE ACCOUNT SYSTEM)  

STATEMENT OF CASH RECEIPTS AND PAYMENTS FOR DEPARTMENT C  
FOR YEAR ENDED 31 DECEMBER 200X  

<table>
<thead>
<tr>
<th>Note</th>
<th>200X</th>
<th>200X-1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Receipts/(Payments)</td>
<td>Receipts/(Payments)</td>
</tr>
<tr>
<td><strong>RECEIPTS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Appropriations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other receipts</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Total receipts</strong></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>PAYMENTS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(X)</td>
<td>(X)</td>
<td></td>
</tr>
<tr>
<td>(X)</td>
<td>(X)</td>
<td></td>
</tr>
<tr>
<td>(X)</td>
<td>(X)</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Total payments</strong></td>
<td>(X)</td>
<td>(X)</td>
</tr>
</tbody>
</table>
ADDITIONAL FINANCIAL STATEMENTS (OPTIONAL)

Additional financial statements may be prepared, for example, to disclose budget information by major fund groups if applicable or to display expenditures by major functions or payments. An example of a statement by function is included below.

STATEMENT OF PAYMENTS BY FUNCTION

<table>
<thead>
<tr>
<th></th>
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NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

Basis of preparation

The financial statements have been prepared in accordance with the Cash Basis IPSAS, *Financial Reporting under the Cash Basis of Accounting*.

The accounting policies have been applied consistently throughout the period.

Reporting entity

The financial statements are for a public sector entity: Government Department C. The financial statements encompass the reporting entity as specified in the relevant legislation (Public Finance Act 20XX).

Government Department C’s principal activity is to provide (specify type of) services to constituents.

Government Department C does not operate its own bank account. The Government operates a centralized treasury function which manages the cash receipts and payments (expenditures) of the department during the financial year.

Presentation currency

The presentation currency is (currency of Country A).
2. **Amounts authorized for use by Department C**

Amounts authorized for use by Government Department C are managed through a central account administered by the Office of the Treasury on the Department’s behalf. Amounts are deployed on behalf of Department C on request when supported by presentation of appropriate documentation and authorization. All borrowings are undertaken by a central finance entity.

Amounts authorized for use of the Department which are unexpended amounts at year end are transferred to consolidated revenue.

3. **Transfers**

Amounts are transferred to eligible recipients in accordance with the operating mandate and authority of Department AC.

4. **Authorization Date**

The financial statements were authorized on XX Month 200X+1 by Mr. YY, Minister of XXXXX for Government Department C.
PART 2: FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING—ENCOURAGED ADDITIONAL DISCLOSURES

This part of the Standard is not mandatory. It is has been prepared to support those entities transitioning from the cash basis of accounting to the accrual basis of financial reporting and adoption of the accrual IPSAS. It sets out encouraged additional disclosures for reporting under the cash basis of accounting. 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 type, should be read in the context of the commentary paragraphs in this part of the Standard, which are in plain type.

Reporting entities should plot their path to adoption of the accrual IPSAS, and commence the process of building the information necessary to comply with those IPSAS consistent with the transition path that has been adopted.
FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING PART 2: ENCOURAGED ADDITIONAL DISCLOSURES

The encouraged disclosures are set out in italicized type. They are to be read in the context of the commentary paragraphs in Part 2 of this Standard, which are in plain type.

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.

*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.

*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.
Administered Transactions

2.1.6 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.

2.1.7 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.

2.1.8 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 2.1.9 to 2.1.13 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

2.1.9 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.

2.1.10 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.

2.1.11 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

2.1.12 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) 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

2.1.13 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

2.1.14 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 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.

2.1.15 The sub-classifications encouraged in paragraph 2.1.14(a) may be presented on the face of the statement of cash receipts and payments in accordance with the requirements of paragraph 1.3.12 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 2.1.14(a) above is encouraged either as a separate statement or by way of note.

2.1.16 Cash payment items 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.

2.1.17 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

- Wages and salaries (X)
- Transport costs (X)
- Capital acquisitions (X)
- Borrowing costs (X)
- Other (X)
- Total payments (X)

2.1.18 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

- Health services (X)
- Education services (X)
- Other (X)
- Total payments (X)

2.1.19 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.

2.1.20 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.

2.1.21 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 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 total amount of receipts from external and other assistance (possibly classified by the amount of grants, loans and other assistance provided, the significant classes of 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, donations, and other forms of assistance.

Related Party Disclosures

2.1.22 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.”

2.1.23 IPSAS 20, in the accrual based series of IPSAS, 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, Revenues, Expenses and Comparison with Budgets

2.1.24 An entity is encouraged to disclose in the notes to the financial statements:

(a) Information about the assets, liabilities, revenues and expenses of the entity; and

(b) If the entity does not make publicly available its approved budget, a comparison with budgets

2.1.25 Governments and government entities control significant resources in addition to cash and deploy those resources in the achievement of service delivery objectives. They 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. They also incur costs and generate revenues during the reporting period which will result in cash flows of a future reporting period. Non-cash assets, liabilities, revenues and expenses 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, their non-cash assets and the costs of their activities during the reporting period and the sources and amount of related revenues. The disclosure of information about assets, liabilities and the costs and revenues of particular programs and activities
will enhance accountability and provide information useful for decision-making purposes and, therefore, is encouraged by this Standard.

2.1.26 Entities that make such disclosures are encouraged to identify revenues and expenses by nature or their function as appropriate to the entity’s operations and 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 as they transition to full adoption of the accrual IPSAS. In order to comply with the requirements of paragraphs 1.3.5 and 1.3.32 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.

2.1.27 Accrual basis IPSAS can provide useful guidance to entities disclosing additional information about assets, liabilities revenues and expense. Recommended Practice Guidelines will also provide guidance on disclosures that will assist users to better understand such matters as the financial position, financial performance and cash flows of the entity; its service performance objectives and achievements; and the sustainability of its finances.

**Comparison with Budgets**

2.1.28 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 1.7.1 to 1.7.46 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.

2.1.29 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.

2.1.30 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.

2.1.31 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.

2.1.32 As noted in paragraph 1.7.32 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**

**Definitions**

2.1.33 The following terms are used in this Part of the Standard with the meanings specified:

**Consolidated financial statements** are the financial statements of an economic entity in which the cash receipts, cash payments and cash balances of the controlling entity and its controlled entities are presented as that of a single entity.

**Control of an entity**: An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.

**Controlled entity** is an entity that is under the control of another entity (known as the controlling entity).
Controlling entity is an entity that has one or more controlled entities.

Economic entity means a controlling entity and its controlled entities.

Economic Entity

2.1.34 The term “economic entity” is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity, and group. Factors to be considered in assessing whether one entity controls another entity for financial reporting purpose are outlined in IPSAS 35, Consolidated Financial Statements.

2.1.35 An economic entity may include entities with both social policy and commercial objectives. For example, a government housing department may be an economic entity which includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.

2.1.36 The determination of the economic entity will need to be made having regard to the constitutional arrangements in a jurisdiction, in particular the ways in which government power is limited and allocated, and how the government system is set up and operates. For example, in jurisdictions with an executive, legislature and judiciary, these may collectively form an economic entity in respect of which there is a user need for consolidated financial statements. Such consolidated financial statements are commonly referred to as whole-of-government financial statements.

Scope of Consolidated Financial Statements

2.1.37 A controlling entity, other than a controlling entity identified in paragraph 2.1.40 is encouraged to present consolidated financial statements which consolidates all its controlled entities, foreign and domestic by applying the following consolidation procedures:

(a) Cash balances and cash transactions between entities within the economic entity are eliminated in full;

(b) When the financial statements used in a consolidation are drawn up to different reporting dates, adjustments are made for the effects of significant cash transactions that have occurred between those dates and the date of the controlling entity’s financial statements; and

(c) Consolidated financial statements are prepared using uniform accounting policies for like cash transactions. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.
2.1.38 When a controlling entity, other than a controlling entity identified in paragraph 2.1.40, does not present financial statements that consolidated all its controlled entities, it is encouraged to present financial statements that consolidate those of its controlled entities which represent the budget sector, general government sector or other economic entity that represents core government activities and responds to users information needs.

2.1.39 An economic entity uses the term “consolidated financial statements” to describe financial statements which comprises the controlling entity and its controlled entities as identified in paragraph 2.1.37. Financial statements of an economic entity which do not comprise the controlling entity and all its controlled entities as identified in paragraph 2.1.37, are identified by a term that is readily understood and clearly describes the classes or (characteristics) of entities that make up the economic entity.

2.1.40 The preparation of consolidated financial statements is unnecessary for a controlling entity that meets all the following conditions:

(a) It is itself a controlled entity and the information needs of users are met by its controlling entity’s consolidated financial statements and, in the case of a partially owned controlled entity, all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not presenting consolidated financial statements;

(b) Its debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

(c) It did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and

(d) Its ultimate or any intermediate controlling entity produces consolidated financial statements that are available for public use and comply with the Cash Basis IPSAS or the accrual IPSAS.

2.1.41 For accountability and decision-making purposes, users of the financial statements of a government or other public sector entity are usually concerned with, and need to be informed about, the cash resources controlled by the economic entity as a whole. This need is served by consolidated financial statements which present financial information about the economic entity as a single entity without regard for the legal boundaries of the separate legal entities.

2.1.42 This Standard encourages governments and other public sector controlling entities to present financial statements which consolidate all controlled entities when users of such financial statements are likely to exist.
2.1.43 The consolidated financial statements of an economic entity that comprises a government and all its controlled entities will provide information about the cash resources controlled by the government directly and through its controlled entities at reporting date, and changes in those resources during the reporting period. The consolidated financial statements of other public sector economic entities such as, for example, a ministry of health or an education department, will provide information about the cash resources controlled by the ministry or department and changes in those resources during the reporting period.

2.1.44 The preparation of consolidated financial statements is not a cost-free process. Therefore, it is important that the benefits of preparing such statements justify the costs of their preparation. Preparation of consolidated financial statements by a controlling entity which is itself a controlled entity will often not be necessary in the circumstances identified in paragraph 2.1.40. This is because users’ need for information presented in cash basis financial statements are often met by the consolidated financial statements of its controlling entity when such statements are prepared consistent with the requirement of the Cash Basis IPSAS or the accrual IPSAS, and the other circumstances identified in paragraph 2.1.40 apply. However, in other cases, consolidated financial statements at a whole-of-government level may not meet the information needs of users in respect of key sectors or activities of a government. In many jurisdictions, there are legislated financial reporting requirements intended to address the information needs of such users.

2.1.45 In some cases, an entity which has the power to direct the relevant activities of another entity may not be able to benefit from the activities of that other entity - for example, when the other entity is subject to severe external long-term restrictions which prevent the entity with the power to direct its activities from benefiting from those activities. The cash flows and balances of such entities are not included in consolidated financial statements. This is because consolidated financial statements present information about the cash resources of the government or other public sector reporting entity that can be used to support the delivery of goods and services or otherwise benefit the reporting entity.

2.1.46 Paragraph 2.1.40(d) acknowledges that the ultimate or intermediate controlling entity of an entity which adopts the cash basis IPSAS may prepare and present consolidated financial statements on an accrual basis. While this may occur in some jurisdictions, the ultimate or intermediate controlling entity is likely to face significant practical issues in compiling, in respect of controlled entities that adopt the cash basis, the information necessary to comply with the accrual IPSAS.
Transitioning to Consolidated Financial Statements

2.1.47 Governments and other public sector entities may control a large number of entities including government departments, agencies and commercial public sector entities. The preparation of consolidated financial statements that consolidate a controlling entity and all its controlled entities can be a complex and resource intensive process. Some governments and other public sector entities face significant obstacles in the preparation and presentation of consolidated financial statements and may not be able to prepare fully consolidated financial statements in the short to medium term as they commence the transition to the full accrual basis. This may be because of capacity constraints that limit the ability of a government or other entity to collect and process data from all controlled entities in a timely fashion, because of legislative or other requirements to present financial statements for a subgroup of controlled entities rather than for all controlled entities, or for other reasons.

2.1.48 As governments and other public sector entities that report on the cash basis transition to the accrual basis of financial reporting and develop the capacity, systems and the legislative frameworks to overcome obstacles to consolidation, the potential to include in cash basis financial statements information about additional controlled entities will increase. For governments, the preparation of financial statements that report information about the cash receipts, cash payments and cash balances of an economic entity that comprises the controlled entities that represents, for example, the budget sector, the general government sector or other representation of core government activities will provide information about key sectors of government that is useful to users for accountability and decision-making purposes. This Standard encourages a controlling entity that does not present fully consolidated financial statements to present financial statements for such an economic entity as an interim step in the transition to the accrual basis of financial reporting and the presentation of fully consolidated financial statements in accordance with the accrual IPSAS. Government agencies which do not consolidate all their controlled entities are also encouraged to present financial statements which consolidate controlled entities which represent a subgroup of their activities useful to users for accountability and decision-making purposes.

2.1.49 The term “consolidated financial statements” is used to describe financial statements that present a “full consolidation” of all controlled entities as identified in paragraph 2.1.37 of this Standard. A term other than “consolidated financial statements” is to be used to describe financial statements that present information about an economic entity that does not include the controlling entity and all its controlled entities. That term is to be readily understood and to clearly describe the classes or (characteristics) of entities that make up the economic entity. The selection of an appropriate term is a matter of professional judgement. That judgment should be exercised in the context
of the qualitative characteristics of financial reporting including that it be understandable and a faithful representation of the economic entity presented. For national, state/provincial or local governments that prepare such financial statements, terms such as, for example, the financial statements of the budget sector or the general government sector may be appropriate.

Consolidation Procedures

2.1.50 The consolidation procedures outlined in paragraph 2.1.37 provide the basis for preparing consolidated financial statements for all the entities within the economic entity as a single economic unit, as encouraged by this Standard.

2.1.51 The consolidated financial statements encouraged by this Standard reflect transactions between the economic entity and other entities external to it. Accordingly, transactions between entities within the economic entity are eliminated to avoid double-counting. For example, a government department may sell a physical asset to another government department. Because the net cash effect on the whole-of-government reporting entity is zero, this transaction needs to be eliminated to avoid overstating the cash receipts and cash payments of the whole-of-government reporting entity. A government entity may hold funds with a public sector financial institution. These balances would be eliminated at the whole-of-government level because they represent balances within the economic entity. Similarly, a commercial public sector entity operating overseas may make a payment to a government department which remains in transit at the reporting date. In this case, failure to eliminate the transaction in the preparation of whole-of-government consolidated financial statements would result in understating the cash balance of the whole-of-government economic entity and overstating its cash payments. However, the transaction would not be eliminated in financial statements prepared for a group entity that, for example, represented a general government sector which excluded the commercial public sector entity.

2.1.52 Individual entities within the economic entity may adopt different policies for the classification of cash receipts and cash payments and the presentation of their financial statements. Cash receipts or cash payments arising from like transactions are classified and presented in a uniform manner in the consolidated financial statements where practicable.

Consolidation Disclosures

2.1.53 An entity is encouraged to disclose in the notes to the consolidated financial statements of an economic entity prepared in accordance with the encouragements in paragraph 2.1.37:

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

(c) The proportion of ownership interest in controlled entities and a description of how that ownership interest has been determined; and

(d) Where applicable, the factors considered in determining that the controlling entity:

   (i) Controls another entity (or category of entities) even though it holds less than half of the voting rights of the other entity (or entities), together with an explanation of how control exists; and

   (ii) Does not control another entity (or category of entities) even though it holds more than half of the voting rights of the other entity (or entities).

2.1.54 An entity which presents financial statements for an economic entity which consolidates some but not all controlled entities as is encouraged in paragraph 2.1.37, is encouraged to disclose in the notes to those financial statements the disclosures encouraged in paragraph 2.1.53 together with:

   (a) A description of the classes (or characteristics) of controlled entities that are included in, and excluded from, the group financial statements together with an explanation of the reason for the exclusion of any classes from the group accounts; and

   (b) A listing of significant entities that have been added to, or removed from, those included in the group financial statements since presentation of the previous period’s financial statements.

2.1.55 A controlling entity which does not present a consolidated financial statement as encouraged in paragraph 2.1.37 is encouraged to disclose the reasons why the consolidated financial statements have not been presented together with the method used to account for controlled entities in its separate financial statements. It is also encouraged to disclose the name and the principal address of its controlling entity that publishes a consolidated financial statement.

2.1.56 The disclosures encouraged in paragraphs 2.1.53 and 2.1.54 will provide users with information about the composition and key features of fully consolidated financial statements prepared in accordance with the encouragements in paragraph 2.1.37, and financial statements that consolidate a subset of its controlled entities in accordance with the encouragements in paragraph 2.1.38. The disclosures encouraged in paragraph 2.1.55 will enable users to determine whether a controlling entity prepares consolidated financial statements and, if not, the method used to account for controlled entities.
Acquisitions and Disposals of Controlled Entities and Other Operating Units

2.1.57 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.

2.1.58 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.

2.1.59 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.

2.1.60 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.

2.1.61 Paragraph 2.1.24 encourages the disclosure of assets, liabilities, revenues and expenses of the entity. Assets, liabilities, revenues and expenses other than cash or cash flows 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 1.3.32 of Part 1 of this Standard, where such disclosure is made, the assets, liabilities, revenues and expenses should be clearly identified and the basis on which they are measured and recognized explained.

Joint Arrangements

2.1.62 An entity is encouraged to make disclosures about joint arrangements 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 the reporting date.

2.1.63 A joint arrangement is an arrangement of which two or more parties have joint control. Many public sector entities establish joint arrangements 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 arrangement 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 arrangement and in the ongoing operations of the joint arrangement; and

(b) As cash receipts, the cash received from the joint arrangement.

Disclosures about joint arrangements may include a listing and description of interests in significant joint arrangements. International Public Sector Accounting Standards IPSAS 36, Investments in Associates and Joint Ventures and IPSAS 37, Joint Arrangements in the accrual based series of IPSAS provides guidance on the different forms and structures that joint arrangements may take and potential additional disclosures that might be made. The definition and explanation of “control” in IPSAS 35 will need to be considered in determining whether an entity is an “associate” and whether an arrangement is a “joint arrangement“ as defined in IPSAS 36 and IPSAS 37.

Financial Reporting in Hyperinflationary Economies

2.1.64 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.

2.1.65 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

2.1.66 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.

2.1.67 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.

2.1.68 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.

2.1.69 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 2.1.66 and 2.1.67 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.

2.1.70 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.

2.1.71 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

2.1.72 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

2.1.73 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.

2.1.74 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

2.1.75 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.

2.1.76 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.

Payments by Third Parties on Behalf of the Entity

2.1.77 When during the reporting period a reporting entity has been formally advised that payments have been made to directly settle its obligations or purchase goods and services for its benefit by third parties, or the entity has otherwise
verified that such payments have been made, the entity is encouraged to disclose in notes to the financial statements:

(a)  Total payments made by such third parties; and

(b)  A sub-classification of the total amount of such payments using a classification basis appropriate to the entity’s operation.

2.1.78 In some cases, third parties purchase goods or services on behalf of the entity or settle obligations of the entity. For example, a national government may fund the operation of a health or education program of an independent provincial or municipal government by directly paying service providers and acquiring and transferring to the other government the necessary supplies during the period. Similarly, a national government or independent aid agency may pay a construction company directly for building a road for another government rather than providing the funds directly to the government itself. These payments may be made by way of a grant, donation or other form of aid, or as a loan which is to be repaid. In these cases, the provincial or municipal government does not receive cash (including cash equivalents) directly from, or gain control of a bank account or similar facility established for its benefit by, the other entity. Therefore, the amount settled or paid on its behalf does not constitute “cash” as defined in this Standard. However, the recipient government benefits from the cash payments being made on its behalf.

2.1.79 The disclosure of information about the amount, and the classes of payments made by third parties (whether by nature, function or both) will provide additional information useful for accountability and decision-making purposes. In some cases, an entity may not have been formally advised or otherwise be aware of third party payments made on its behalf during the reporting period, or may be unable to verify that an expected payment has occurred. If an entity cannot have confidence that the amount of third party payments disclosed is a faithful representation of all such payments made on behalf of the entity during the period, the notes should advise users that such disclosures may not encompass all such third party payments.

2.1.80 Paragraph 2.1.77 encourages the disclosure of the total amount of third party payments made during the reporting period and the major classes of such payments. Third party payments will encompass amounts defined as external assistance and other assistance in paragraph 2.1.82 of this Standard. Paragraph 2.1.90(b) encourages the disclosure of the amount of external assistance provided to an entity in the form of third party payments. Paragraph 2.1.91 encourages that such disclosures also be made about other assistance where practicable.

2.1.81 The sub-classifications (or classes) of third party payments which may be disclosed in accordance with paragraphs 2.1.77(b) are a matter of professional judgment. The factors that will be considered in exercising that judgment are outlined in paragraph 1.3.17 of Part 1 of this Standard.
Recipients of External and Other Assistance

Definitions

2.1.82 The following terms are used in this Standard with the meaning specified:

**Assistance** means external assistance and other assistance.

**Bilateral External Assistance Agencies** are agencies established under national law, regulation or other authority of a nation for the purpose of, or including the purpose of, providing some or all of that nation's external assistance.

**Exchange transactions** are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equally value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

**External Assistance** means all official resources which the recipient can use or otherwise benefit from in pursuit of its objectives.

**Multilateral External Assistance Agencies** are all agencies established under international agreement or treaty for the purpose of, or including the purpose of, providing external assistance.

**Non-Governmental Organizations (NGOs)** are all foreign or national agencies established independent of control by any government for the purpose of providing assistance to government(s), government agencies, other organizations or individuals.

**Official Resources** means all loans, grants, technical assistance, guarantees or other forms of assistance provided or committed under a binding agreement by multilateral or bilateral external assistance agencies or by a government, or agencies of a government, other than to a recipient of the same nation as the government or government agency providing, or committing to provide, the assistance.

**Other Assistance** means resources provided by non-governmental organizations (NGOs) and gifts and donations or other forms of assistance voluntarily provided by individuals and private sector organizations which the recipient can use or otherwise benefit from in pursuit of its objectives. Other assistance does not include official resources, taxes, fines and fees, resources provided in an exchange transaction or resources provided by the government or agencies of a government of the same nation as the recipient.

**Assistance**

2.1.83 “Assistance” is defined broadly in this Standard to encompass “external assistance” and “other assistance”. Key features of external assistance and other assistance are outlined below.
External assistance

2.1.84 External assistance is defined as all official resources which the recipient can use or otherwise benefit from in pursuit of its objectives. Different organizations may use different terminology for external assistance or classes of external assistance. For example, some organizations may use the term external aid or aid, rather than external assistance. In these cases, the different terminology is unlikely to cause confusion. However, in other cases, the terminology may be substantially different. In these cases it will be necessary to exercise professional judgment in determining whether the resources provided should be classified as external assistance.

2.1.85 Official resources are resources provided or committed under a binding agreement by multilateral or bilateral external assistance agencies or governments or government agencies, other than to a recipient of the same nation as the provider of the assistance. Governments as referred to in the definition of official resources may include national, state, provincial or local governments in any nation. Therefore, assistance provided by, for example, a national government or state government agency of one nation to a state or local government of another nation is external assistance as defined in this Standard. However, assistance provided by a national or state government to another level of government within the same nation and assistance provided by non-governmental organizations (NGOs), even if such assistance is provided under a binding agreement, does not satisfy the definition of official resources and, therefore, is not external assistance.

2.1.86 External assistance agreements may provide for the entity to:

(a) Draw down in cash the full proceeds of the loan or grant or a tranche of the loan or grant;

(b) Seek reimbursement(s) for qualifying payments made by the entity to a third party settling in cash an obligation(s) of the entity, as defined by the loan or grant agreement; or

(c) Request the external assistance agency to make payments directly to a third party settling in cash an obligation(s) of the recipient entity as defined by the loan or grant agreement, including an obligation of the recipient entity for goods or services provided or to be provided by a NGO.

External assistance agreements may also include the provision of goods or services to the recipient.

Other Assistance

2.1.87 Other assistance is defined as resources provided by NGO’s and assistance that is voluntarily provided by, for example, individuals and charitable and other organizations. Taxes and other resources compulsorily paid or payable
to public sector entities in accordance with laws or regulation, fines or other
penalties imposed for breaches of laws or regulation, and fees for services
provided by, or on behalf of, public sector entities are not other assistance
as defined in paragraph 2.1.82. Similarly, resources provided in exchange
transactions and transfers of resources between governments within the same
nation are not classified as other assistance.

2.1.88 In most cases it will be clear whether resources are provided voluntarily
and whether their intent is to provide assistance for purposes of, for
example, emergency relief or to assist the entity in achieving economic
development or welfare objectives, or for other purposes. However, in
some cases, it will be necessary to exercise professional judgment in
determining whether the resources provided should be classified as other
assistance.

2.1.89 NGOs are foreign or national agencies established independent of control
by any government. In some rare cases, it may not be clear whether the
donor organization is a bilateral or multilateral external assistance agency
or a NGO, and therefore independent of control by any government. Where
such a donor organization provides, or commits to provide, assistance under
the terms of a binding agreement, the distinction between official resources
as defined in this Standard and resources provided by a NGO may become
blurred. In these cases, professional judgment will need to be exercised to
determine whether the assistance received satisfies the definition of external
assistance or other assistance.

External Assistance Received

2.1.90 An entity is encouraged to disclose separately in notes to the financial
statements:

(a) The total amount of external assistance received in cash during the
period unless disclosed as a separate class of cash receipt on the face
of the statement of cash receipts and payments;

(b) The total external assistance paid by third parties during the period to
directly settle obligations of the entity or purchase goods and services
on behalf of the entity when advised by the third party or otherwise
verified by the recipient;

(c) The total amount of external assistance received during the period as
loans and the total amount received as grants;

(d) The significant classes of providers of external assistance and the
amount provided;

(e) By significant class and amount, the purposes for which external
assistance was received and used during the reporting period showing
separately amounts provided by way of loans and grants; and
The balance of undrawn external assistance loans and grants available at reporting date to fund future operations when the amount of the loans or grants available to the recipient is specified in a binding agreement and the satisfaction of any substantial terms and conditions that determine, or affect access to, that amount is highly likely, showing separately:

(i) Total external assistance loans;
(ii) Total external assistance grants; and
(iii) The purposes for which the undrawn loan assistance and undrawn grant assistance may be used.

Other Assistance Received

2.1.91 Where practicable, an entity is encouraged to apply to other assistance received, the disclosures identified in paragraph 2.1.90 above.

External Assistance and Other Assistance Received

2.1.92 Disclosure of the total amount of external assistance received and, separately, other assistance received in the form of cash and in the form of third party payments made on behalf of the entity can provide useful information about the extent to which the operations of the reporting entity are funded from taxes and/or internal sources, or are dependent upon external assistance and other assistance, and the form of that assistance – whether as cash or other benefit. The disclosure of external assistance and other assistance received in the form of payments made by third parties is encouraged when the entity has been formally advised, or otherwise verified, that such payments have been made during the reporting period.

2.1.93 Disclosure of the amount of external assistance and other assistance received by way of loan or grant will enable users to identify whether the entity has an obligation to repay the assistance provided at some time in the future.

2.1.94 Disclosure of the significant classes of providers of assistance such as, for example, multilateral donors, bilateral donors, international assistance organizations, NGOs, national assistance organizations or other major classes as appropriate for the reporting entity will identify the extent of the entity’s dependence on particular classes of providers, and will be relevant to an assessment of the sustainability of the assistance.

2.1.95 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.

2.1.96 Other assistance may also be provided for some of these purposes such as, for example, emergency relief and to support an entity’s welfare objectives.

2.1.97 Disclosure by significant class of the purposes for which external assistance and other assistance was provided and used during the reporting period will further enhance the entity’s accountability for its use of assistance received.

2.1.98 The amount of external assistance and assistance from NGO’s and other sources currently committed under a binding agreement but not yet drawn may be significant. In some cases, the amount of assistance loan(s) or grant(s) is specified in a binding agreement and the satisfaction of any substantial conditions that need to be satisfied to access that amount is highly likely. This may occur in respect of undrawn balances of project funding for projects currently under development where conditions have been, and continue to be, satisfied and the project is anticipated to continue under the terms of the agreement. The disclosure of undrawn balances of external assistance and other assistance in these circumstances will provide information about the extent to which assistance made available to the entity has been drawn on during the reporting period and the amount of committed external and other assistance is available to support the ongoing development of particular projects.

2.1.99 In some cases, a donor may express an intention to provide ongoing assistance to the reporting entity, but not specify in a binding agreement the amount of the assistance loan(s) or grant(s) to be provided in future periods. In other cases, the amount of assistance may be specified but be subject to terms and conditions, the satisfaction of which cannot be assessed as being highly likely at the reporting date. In these cases, disclosure of the undrawn amounts is not encouraged by paragraph 2.1.90(f). In some cases, professional judgment may need to be exercised in assessing whether the satisfaction of the substantial terms and conditions that determine, or effect access to, the external assistance or other assistance is highly likely.

**Goods and Services Received**

2.1.100 An entity is encouraged to disclose separately in the notes to the financial statements the value of assistance received during the period in the form of goods or service, and the basis on which that value is determined.

2.1.101 Significant resources may be received as assistance 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 or by, for example, NGO’s or private sector benefactors. It will also occur when food aid is provided to a government for distribution to its citizens as emergency relief under an external assistance agreement or by NGO’s or other donors. For some recipients, goods or services may be the major form in which assistance is received.

2.1.102 Disclosure of the value of assistance received as goods and services during the reporting period will assist readers of the financial statements to better understand the full extent of 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.

2.1.103 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 an external assistance agency or other donor. 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 assistance in the form of goods or services is disclosed, paragraph 2.1.100 encourages 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 willing parties in an arm’s length transaction.

2.2 Governments and Other Public Sector Entities Completing the Transition to the Accrual Basis of Financial Reporting and Adoption of Accrual IPSAS

Presentation of the Statement of Cash Receipts and Payments

2.2.1 An entity which is completing its transition to the accrual basis of financial reporting and adoption of accrual IPSAS is encouraged to present a statement of cash receipts and payments in the same format as that required by International Public Sector Accounting Standard 2 (IPSAS 2), Cash Flow Statements.

2.2.2 As entities transition to the accrual basis of financial reporting they will need to progressively build the information and systems necessary to comply with each accrual IPSAS on issue prior to the formal adoption of the accrual IPSAS. The presentation of information in a format that replicates as far as possible that adopted by the accrual IPSAS will assist the transition process.
2.2.3 IPSAS 2 provides guidance on classifying cash flows as operating, financing and investing and includes requirements for preparing a cash flow statement 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.

Consolidated Financial Statements – The Economic Entity

2.2.4 This Standard encourages controlling entities to present consolidated financial statements which consolidates all controlled entities in accordance with generally accepted consolidation processes, and identifies some circumstances in which this may not be necessary. These circumstances reflect those in IPSAS 35, Consolidated Financial Statements. However, IPSAS 35 includes additional exemptions from the requirement to prepare consolidated financial statements for controlling entities that are investment entities and measure their controlled entities at fair value through surplus or deficit. This exemption is not applicable to controlling entities that are investment entities and apply the Cash Basis IPSAS.

2.2.5 When financial statements which consolidate all controlled entities are not presented, this Standard encourages the presentation of financial statements which present information about an economic entity that comprises subgroups of controlled entities such as those reflecting the budget sector or the general government sector or other representation of core government activities. While accrual IPSAS do not prohibit the presentation of information about such economic entities, they cannot be presented as an alternative to the full consolidation of all controlled entities as prescribed in IPSAS 35.

2.2.6 Entities completing the transition to the accrual basis of financial reporting and adoption of the accrual IPSAS will need to be aware of these differences in the consolidation requirements of the accrual and cash basis IPSAS.

Required and Encouraged Disclosures under the Cash Basis IPSAS

2.2.7 The requirements and encouragements of this Standard are not inconsistent with the requirements and encouragements of the equivalent accrual IPSAS to the extent they apply to financial reporting under the cash basis. However, in some cases this Standard encourages disclosures that are not required by the accrual IPSAS. This occurs in respect of, for example, encouraged disclosures about such matters as third party payments and external and other assistance. These disclosures are encouraged in this Standard to provide additional information useful in assessing how the entity is resourced. Such information is useful to all users of general purpose financial statements.
for accountability and decision-making purposes. It may also be relevant to the “special purpose” needs of, for example, providers of external and other assistance for information useful in monitoring the provision and use of assistance provided to the entity.

**IPSAS 33—First-Time Adoption of Accrual Basis IPSAS**

2.2.8 IPSAS 33, *First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* identifies transitional provisions that provide entities with relief from adoption of certain of the requirements of accrual IPSAS for three (3) years from the date of first adoption of accrual IPSAS. IPSAS 33 provides that on the date of adoption of IPSAS, a first-time adopter may elect to adopt one of more of the exemptions included in IPSAS 33 and, subject to the nature of the exemptions adopted, identify its financial statements as either:

(a) *Transitional IPSAS financial statements*, when it adopts exemptions identified in IPSAS 33 as “Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS”; or

(b) *Financial statements that comply with the accrual IPSAS*, when it adopts other of the exemptions identified in IPSAS 33. That is the exemptions identified in IPSAS 33 as “Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS”.

2.2.9 Appendix A of IPSAS 33 lists the transitional exemptions and provisions that a first-time adopter is required to apply and/or can elect to apply on adoption of accrual basis IPSAS, and illustrates whether fair presentation and the first-time adopter’s ability to assert compliance with accrual basis IPSAS will be affected.

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1 IPSAS 33, Appendix A lists the transitional exemptions and provisions that a first-time adopter is required to apply and/or can elect to apply on adoption of accrual basis IPSAS and illustrates whether fair presentation and the first-time adopter’s ability to assert compliance with accrual basis IPSAS will be affected.
Basis for Conclusions – Cash Basis IPSAS Part 2

This Basis for Conclusions accompanies, but is not part of the IPSAS, Financial Reporting under the Cash Basis of Accounting.

Introduction — Removing obstacles to adoption of this IPSAS

BC1 The requirements for preparation of consolidated financial statements and disclosure of information about external assistance and third party payments that were previously included in Part 1 of the Cash Basis IPSAS (2007) (proved to be major obstacles to adoption of this Standard. To remove those obstacles these requirements were revised and recast as encouragements in Part 2 of the Standard.

BC2 In the process of recasting these requirements as encouragements, additional amendments were made to strengthen the role of Part 2 of the Standard in supporting the transition to the accrual basis of financial reporting and adoption of accrual IPSAS.

Consolidation

BC3 Part 2 of the Standard encourages controlling entities to present consolidated financial statements which consolidates all controlled entities. It also encourages controlling entities that do not consolidate all controlled entities, to prepare financial statements for an economic entity that represents the budget sector, the general government sector or other representation of core government activities as an interim step in the transition to the accrual basis of financial reporting and adoption of accrual IPSAS. Such financial statements will provide information useful to users for accountability and decision-making purposes and support an orderly and useful transition to full consolidation as required by the accrual IPSAS. The encouragement to present financial statements for an economic entity that comprises the controlled entities that represent the general government sector is also consistent with the IPSASB’s strategic objective of supporting the convergence of public sector accounting standards and statistical bases of financial reporting where appropriate.

BC4 To further support those entities transitioning to the accrual basis, key definitions and encouraged disclosures were revised where necessary to ensure that they did not conflict with IPSAS 34, Separate Financial Statements; IPSAS 35, Consolidated Financial Statements, IPSAS 36, Investments in Associates and Joint Ventures, IPSAS 37, Joint Arrangements and IPSAS 38, Disclosure of Interests in Other Entities.

External assistance

BC5 Requirements to disclose information about external assistance that were included in Part 1 of the Cash Basis IPSAS (2007) have been revised and
recast as encouragements in Part 2 of the Standard. In addition, disclosures that were previously required or encouraged have been reduced to focus primarily on encouragements to disclose information about external assistance received and used during the reporting period in the form of cash and third party payments, and the amount of undrawn assistance available to the reporting entity as at reporting date. This revised Cash Basis IPSAS (2017) also encourages the disclose of information about such matters as significant terms and conditions of external assistance agreements, terms and conditions that have not been complied with and repayment terms and conditions of outstanding external assistance debt be removed from the Standard. Where practical, Part 2 of the Standard encourages a reporting entity to make disclosures about assistance provided to the entity in the form of cash and third party payments by, for example, NGOs and public and private sector donors.

BC6 The IPSASB is of the view that the encouraged disclosures provide information useful for accountability and decision-making purposes, are more likely to be achievable and better reflect the general purpose nature intended for the cash basis financial statements.

BC7 Part 2 of the Cash Basis IPSAS (2007) encouraged the disclosure of the value of goods and services received during the period in the form of external assistance. Part 1 of the Cash Basis IPSAS (2007) required that where an entity chose to disclose the value of external assistance received during the period in the form of goods and services it should also disclose the basis on which that value is determined. Such disclosures were encouraged, but not required, for assistance received from NGO’s. Some constituents sought clarification of the relationship of these requirements and encouragements to those relating to third party payments. Some constituents also expressed concern that the disclosure of the basis on which the value of goods and services was determined was required when those goods and services were received as official resources under external assistance agreements, but only encouraged in other circumstances. The IPSASB responded to these concerns. In this revised Cash Basis IPSAS (2017) the relationship between external assistance and third party payments has been clarified and the requirement to disclose the basis of valuation of goods and services received has been recast as an encouragement in Part 2 of the IPSAS and broadened to apply to external assistance and other assistance received in the form of goods and services.

**Third Party payments**

BC8 Part 1 of the Cash Basis IPSAS (2007) required the disclosure of certain information about payments made by third parties in a separate column on the face of the statement of cash receipts and payments. This revised Cash Basis IPSAS (2017) recasts this as an encouragement to include such
disclosures in notes to the financial statements, rather than on the face of the financial statements. The recasting of the requirement to disclose information about third party payments as an encouragement was made because of concerns that information necessary to fully satisfy the requirements or encouragement would not be available to recipients on a timely basis. In such circumstances, the information included in the financial statements was likely to be incomplete and the potential for misinterpretation of its usefulness for accountability and decision-making purposes did not justify its disclosure in a separate column on the face of the financial statements.

BC9 This revised Cash Basis IPSAS (2017) also makes changes to Part 1 to include an additional explanation of single account type arrangements to reflect the IPSASB’s view that such arrangements do not give rise to third party payments. This explanation narrows the circumstances in which third party payments may arise.

Amendments to support Entities transitioning to the accrual basis of financial reporting and adoption of accrual IPSAS

BC10 This revised Cash Basis IPSAS (2017) makes refinements to the encouragements in Part 2 to reinforce the role of the Standard in supporting governments and other public sector entities transitioning to the accrual basis of financial reporting and adoption of accrual IPSAS. These refinements include:

(a) Updated definitions and encouraged disclosures to ensure that they are not contrary to the equivalent accrual IPSAS unless intended to be so to reflect the cash basis focus in this Standard; and

(b) Outlining the role of IPSAS 33, First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) in providing relief from complying with certain of the requirements of accrual IPSAS for a 3-year period from first adoption.

BC11 Consistent with the role of Part 2 of the Standard in supporting entities transitioning to the accrual basis of financial reporting and adoption of the accrual IPSAS, the definitions of assets, liabilities, revenues and expenses included in this Standard are the same as those included in the accrual IPSAS. While encompassing essentially the same characteristics, the definitions of assets, liabilities, revenues and expenses in the “Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities” (The Conceptual Framework) have been further developed to clarify their key characteristics. The accrual IPSAS have not yet been updated to reflect the definitions of assets, liabilities, revenues and expenses in the Conceptual Framework and, consequently, the definitions in this Standard do not reflect those in the Framework.
Extraordinary Items

BC12 This revised Cash Basis IPSAS (2017) no longer encourages the disclosure of information about extraordinary items and supporting definitions and explanations. IPSAS 1, *Presentation of Financial Statements* (issued in 2000), which was on issues when the previous Cash Basis IPSAS was issued, required certain disclosures about extraordinary items to be made on the face of the financial statements. IPSAS 2, *Cash Flow Statements* (issued in 2000) and IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* (issued in 2000) also required separate disclosure of extraordinary items. These requirements have now been removed from the accrual IPSAS. The accrual IPSAS do not require, encourage or prohibit disclosure of extraordinary items. These amendments were made to align Part 2 of this Standard with the accrual IPSAS.
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 the financial statements of Government Entity ABC

Administered Transactions (paragraph 2.1.6)

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.

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

Related Party Transactions (paragraph 2.1.22)

The key management personnel (as defined by International Public Sector Accounting Standard 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:

<table>
<thead>
<tr>
<th>Aggregate remuneration</th>
<th>AP millions.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of persons</td>
<td>AQ persons.</td>
</tr>
</tbody>
</table>
**Government X: Consolidated Statement of Cash Receipts and Payments**

of Government X and extracts from notes to the financial statements of Government X

**Government X: Statement of Consolidated Cash Receipts and Payments:**

*Year Ended 31 December 200X (Paragraph 2.1.37)*

<table>
<thead>
<tr>
<th>(Receipts) Note</th>
<th>200X (in thousands of currency units)</th>
<th>200X-1 (Receipts/(Payments))</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RECEIPTS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Taxation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Value-added tax</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Property tax</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Other taxes</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>External and Other Assistance</td>
<td>F</td>
<td>X</td>
</tr>
<tr>
<td><strong>Borrowings</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from Commercial Institutions</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Proceeds from Development Banks and similar organizations</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td><strong>Capital Receipts</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from disposal of plant and equipment</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Proceeds from disposal of Financial Instruments</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Trading Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipts from trading activities</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Other receipts</strong></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Total receipts</strong></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
Government X: Statement of Consolidated Cash Receipts and Payments:

Year Ended 31 December 200X

(Payments)

<table>
<thead>
<tr>
<th>Note</th>
<th>200X Receipts/(Payments)</th>
<th>200X-1 Receipts/(Payments)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>PAYMENTS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Operations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages, salaries and employee benefits</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Supplies and consumables</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td></td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Transfers</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Other transfer payments</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td></td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Capital Payments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase/construct plant and equipment</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Purchase of financial instruments</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td></td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Loan and Interest Repayments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repayment of borrowings</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Interest payments</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td></td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Other payments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Total payments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Increase/(Decrease) Cash</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Cash at beginning of year</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Increase/(Decrease) Cash</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Cash at end of year</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
Notes to consolidated financial statements of Government X

(Extracts illustrating encouraged disclosures)

Note A: Controlled Entities (paragraph 2.1.53)

Entity XYZ has rights to variable benefits from its involvement with controlled entities and has the ability to affect the nature or amount of those benefits through its power over those entities. All controlled entities are included in the consolidated financial statements. The significant controlled entities are identified below.

<table>
<thead>
<tr>
<th>Significant Controlled Entities</th>
<th>Jurisdiction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entity A</td>
<td></td>
</tr>
<tr>
<td>Entity B</td>
<td></td>
</tr>
<tr>
<td>Entity C</td>
<td>X</td>
</tr>
<tr>
<td>Entity D</td>
<td></td>
</tr>
<tr>
<td>Entity E</td>
<td></td>
</tr>
<tr>
<td>Entity F</td>
<td></td>
</tr>
<tr>
<td>Entity G</td>
<td></td>
</tr>
<tr>
<td>Entity H</td>
<td>X</td>
</tr>
<tr>
<td>Entity I</td>
<td></td>
</tr>
<tr>
<td>Entity J</td>
<td></td>
</tr>
</tbody>
</table>

Control of government entities arises by way of statute or other enabling legislation. Control of commercial public sector entities (commercial entities) arises by way of statute and in the case of commercial entities C and D, by way of ownership interest. The Government retains control of commercial entity J through legislative authority although the majority of the equity of commercial entity J has been sold to private investors.

<table>
<thead>
<tr>
<th>Entity</th>
<th>Ownership Interest (%)</th>
<th>Voting Power (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entity C</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Entity D</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>Entity J</td>
<td>XX</td>
<td>XX</td>
</tr>
</tbody>
</table>
### Acquisitions of Controlled Entities and Operating Units (paragraphs 2.1.57 and 2.1.58)

<table>
<thead>
<tr>
<th>Names of Entities acquired</th>
<th>Proportion of shares acquired %</th>
<th>Purchase consideration (in thousands of currency units)</th>
<th>Cash portion of purchase consideration (in thousands of currency units)</th>
<th>Cash balances acquired (in thousands of currency units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entity C</td>
<td>XX</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Entity D</td>
<td>XX</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

### Disposals of Controlled Entities and Other Operating Units

<table>
<thead>
<tr>
<th>Name of Entities disposed of</th>
<th>Proportion of shares disposed of %</th>
<th>Disposal consideration (in thousands of currency units)</th>
<th>Cash portion of disposal consideration (in thousands of currency units)</th>
<th>Cash balance disposed of (in thousands of currency units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise H</td>
<td>XX</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

### Note B: Significant Joint Arrangements (paragraph 2.1.62)

<table>
<thead>
<tr>
<th>Name of Joint Arrangement</th>
<th>Principal Activity</th>
<th>Output Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional Water Board</td>
<td>Water provision</td>
<td>200X XX</td>
</tr>
<tr>
<td>Regional Electricity Board</td>
<td>Provision of utility services</td>
<td>200X-1 XX</td>
</tr>
</tbody>
</table>
(Extract from notes to consolidated financial statements of Government X Continued)

**Note C: Assets, Liabilities, Revenues and Expenses (paragraph 2.1.24(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:

<table>
<thead>
<tr>
<th>Plant and Equipment</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>Current Value</td>
</tr>
<tr>
<td>Buildings</td>
<td>Cost or Market Value</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(in thousands of currency units)</th>
<th>200X</th>
<th>200X-1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plant and equipment</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Land and buildings</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Property within jurisdiction (country, state, city) limits</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Buildings at cost</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Buildings at valuation</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

**Revenue and Expense**

The Government continues to build data on revenues and expenses of the reporting period as it transitions to the accrual basis of financial reporting.

The Government maintains records of property taxes due and payable at reporting date based on property values as assessed by the revenue office on a three year rolling basis. It also estimates amounts of goods and services tax and [identify industry] royalties accruing based on sales and production returns and reports.

It is developing a statistical model for measuring income tax revenue on an accruals basis which draws on taxation statistics compiled since 200X-3 as well as other information, including average weekly earnings, gross domestic product, and the consumer and producer price indexes. The Government anticipates that the model will enable it to reliably measure income tax revenue on an accruals basis for the reporting period ended December 31, 20XX.
Accrued expenses comprise amounts due and payable for wages, salaries and rental and other costs due and payable as at reporting date.

<table>
<thead>
<tr>
<th>(in thousands of currency units)</th>
<th>200X</th>
<th>200X-1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accrued Revenue</strong></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Property taxes</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Goods and services tax</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Royalties</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Accrued Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Rent</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Other</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

**Borrowings**

The borrowings of the Government are listed below:

<table>
<thead>
<tr>
<th>(in thousands of currency units)</th>
<th>200X</th>
<th>200X-1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of year</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>PROCEEDS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic Commercial Institution</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Offshore Commercial Institution</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Development Banks and Similar Lending Agencies</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Total borrowings</strong></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>REPAYMENTS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic Commercial Institution</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Offshore Commercial Institution</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Development Banks and Similar Lending Agencies</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Total repayments</strong></td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Balance at end of year</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
**Note D: Comparison with Budget when the entity does not make its budget publicly available (paragraph 2.1.24(b))**

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

<table>
<thead>
<tr>
<th>(in thousands of currency units)</th>
<th>Actual</th>
<th>Budget</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RECEIPTS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Taxation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Value-added tax</td>
<td>X</td>
<td>X</td>
<td>(X)</td>
</tr>
<tr>
<td>Property tax</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Other taxes</td>
<td>X</td>
<td>X</td>
<td>(X)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td><strong>Assistance – Aid Agreements</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International agencies</td>
<td>X</td>
<td>X</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>X</td>
<td>X</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
</tr>
<tr>
<td><strong>Borrowings</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from borrowings</td>
<td>X</td>
<td>X</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Capital Receipts</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from disposal of plant and equipment</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Trading Activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipts from trading activities</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Other receipts</strong></td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td><strong>Total receipts</strong></td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>PAYMENTS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Operations</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages, salaries and employee benefits</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Supplies and consumables</td>
<td>(X)</td>
<td>(X)</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Transfers</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants</td>
<td>(X)</td>
<td>(X)</td>
<td>-</td>
</tr>
<tr>
<td>Other transfers</td>
<td>(X)</td>
<td>(X)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>(X)</td>
<td>(X)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Capital Payments</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase/construction of plant and equipment</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Purchase of financial instruments</td>
<td>(X)</td>
<td>(X)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Loan and Interest Repayments</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repayment of borrowings</td>
<td>(X)</td>
<td>(X)</td>
<td>-</td>
</tr>
<tr>
<td>Interest payments</td>
<td>(X)</td>
<td>(X)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>(X)</td>
<td>(X)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Other payments</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(X)</td>
<td>(X)</td>
<td>X</td>
</tr>
<tr>
<td><strong>Total payments</strong></td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>NET RECEIPTS/(PAYMENTS)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
**Note D2: When the Entity Prepares a Biennial Budget**

**Biennial Budget On Cash Basis - For The Year Ended 31 December 200X (paragraph 2.1.30)**

<table>
<thead>
<tr>
<th>(in thousands of currency units)</th>
<th>Original Biennial Budget Year</th>
<th>Target Budget for 1st Year</th>
<th>Revised Budget in 1st Year</th>
<th>1st Year Actual on Comparable Basis</th>
<th>Balance Available for 2nd Year</th>
<th>Target Budget for 2nd Year</th>
<th>Revised Budget in 2nd Year</th>
<th>2nd Year Actual on Comparable Basis</th>
<th><em>Difference: Budget and Actual for Budget Period</em></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CASH INFLOWS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxation</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Aid agreements</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Proceeds: borrowing</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Proceeds-Disposal of: Plant &amp; equipment</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Financial Instruments</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Other receipts</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Total inflows</strong></td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>CASH OUTFLOWS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Education</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Public order &amp; safety</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Social protection</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Defense</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Housing, community amenities</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Recreational, cultural, religion</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Economic affairs</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>Environment Protection</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td>General Public Services</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>Total outflows</strong></td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
<td>(X)</td>
</tr>
<tr>
<td><strong>NET CASH FLOW</strong></td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

* This column is not required. However, a comparison between actual and the original or the final budget, clearly identified as appropriate, may be included.
(Extract from notes to consolidated financial statements of Government X continued)

**Note E: Payments by Third Parties** *(paragraph 2.1.77)*

Government X benefits from payments made by third parties to purchase goods and services on its behalf during the period. These payments do not constitute cash receipts or payments by the government. They include payments for goods and services made by multilateral and bilateral aid agencies and non-governmental organizations. They form part of the support for government programs provided by way of external and other assistance – additional information about external assistance and other assistance is provided in Note F below. The government has verified that the following payments have been made by third parties to purchase goods and services during 200X and 200X-1.

### THIRD PARTY PAYMENTS

<table>
<thead>
<tr>
<th></th>
<th>200X</th>
<th>200X-1</th>
</tr>
</thead>
<tbody>
<tr>
<td>(in thousands of currency units)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages and Salaries</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Supplies and consumables</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Capital Payments</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Loan and interest repayment</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Total third party payments</strong></td>
<td><strong>X</strong></td>
<td><strong>X</strong></td>
</tr>
</tbody>
</table>

**Note F: External Assistance and Other Assistance** *(paragraphs 2.1.90 and 2.1.91)*

Assistance was received in the form of cash transfers and deposits to current and term deposit accounts and trusts fund accounts controlled by the government. It also encompasses amounts drawn by the government from accounts of donors consistent with external assistance and other assistance agreements and other authorizations. Assistance was also received in the form of third party payments.

External assistance comprises loans and grants from multilateral and bilateral donor agencies under agreements specifying the purposes for which the assistance will be utilized. Other assistance was provided for specified purposes by NGOs, private corporations and other donors.

The amounts, class of provider and purposes for which external assistance was provided during the period is outlined below.
(Extract from notes to consolidated financial statements of Government X continued)

**External Assistance and Other Assistance received (paragraph 2.1.90(a), (b), (c) and (d) and paragraph 2.1.91)**

<table>
<thead>
<tr>
<th>(in thousands of currency units)</th>
<th>200X</th>
<th>200X-1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>External Assistance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total cash receipts</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Total third party payments</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Total External Assistance</strong></td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

| Multilateral aid agencies        |      |        |
| Cash receipts                    | X    | X      |
| Third party payments             | X    | X      |
| **Total multilateral aid agencies** | X    | X      |

| Bilateral aid agencies           |      |        |
| Cash receipts                    | X    | X      |
| Third party payments             | X    | X      |
| **Total bilateral aid agencies** | X    | X      |

| **Other Assistance**             |      |        |
| Total cash receipts              | X    | X      |
| Total third party payments       | X    | X      |
| **Total Other Assistance**       | X    | X      |

| Non-Governmental Organizations (NGOs) |      |        |
| Cash receipts                      | X    | X      |
| Third party payments               | X    | X      |
| **Total NGOs**                     | X    | X      |

| Private corporations and other donors |      |        |
| Cash receipts                        | X    | X      |
| **Total private corporations and other donors** | X | X |
(Extract from notes to consolidated financial statements of Government X continued)

(in thousands of currency units)

<table>
<thead>
<tr>
<th></th>
<th>200X</th>
<th>200X+1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Loan Funds</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External assistance</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Total Loan Funds</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>Grants and Donations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External Assistance</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Other assistance</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Total Grants and Donations</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

Purposes for which External Assistance and Other Assistance was provided and used (paragraph 2.1.90(e) and paragraph 2.1.91)

**External Assistance**

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:

<table>
<thead>
<tr>
<th></th>
<th>Development Assistance</th>
<th>Emergency Assistance</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Funds</td>
<td>X</td>
<td>-</td>
<td>-</td>
<td>X</td>
</tr>
<tr>
<td>Grant Funds</td>
<td>X</td>
<td>-</td>
<td>X</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>-</td>
</tr>
<tr>
<td>Amount utilized</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>-</td>
</tr>
</tbody>
</table>

**Other Assistance**

During the reporting period other assistance was received as grants and donations from non-governmental organizations, private sector corporations and other donors for the following purposes:

<table>
<thead>
<tr>
<th></th>
<th>Development Assistance</th>
<th>Emergency Assistance</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants &amp; Donations</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Amount utilized</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
Undrawn External Assistance and Other Assistance (paragraph 2.1.90(f) and paragraph 2.1.91)

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

<table>
<thead>
<tr>
<th></th>
<th>Development Assistance</th>
<th>Emergency Assistance</th>
<th>Other Assistance</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>200X</td>
<td>200X-1</td>
<td>200X</td>
<td>200X-1</td>
</tr>
<tr>
<td>Closing balance - Loans</td>
<td>X</td>
<td>X</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Closing balance - Grants</td>
<td>X</td>
<td>X</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Goods and Services Received (paragraph 2.1.100)

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, bilateral agencies, NGO’s, private corporations and associations 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, food and clothing 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 estimated based on cost estimates provided by international aid agencies, NGO’s and corporations that were major contributors 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, Cash Flow Statements

Paragraph 2.2.1 of Part 2 of this Standard encourages an entity which is completing its transition to the accrual basis of financial reporting and adoption of accrual IPSAS to present a statement of cash receipts and payments in the same format as that required by IPSAS 2, Cash Flow Statements. IPSAS 2 is applied by an entity which reports on an accrual basis of financial reporting 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, Cash Flow Statements

1 IPSAS 2, Cash Flow Statements requires an entity which prepares and presents financial statements under the accrual basis of financial reporting and adoption of accrual IPSAS 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.
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.

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**

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 Parts 1 and 2 of this Standard.
Appendix 4

Qualitative Characteristics of Information Included in General Purpose Financial Reports

Paragraph 1.3.27 of Part 1 of this Standard requires that the financial statements provide information that meets the qualitative characteristics of information included in general purpose financial statements and satisfies the constraints on such information. This appendix summarizes the qualitative characteristics and constraints of general purpose financial reports as identified in paragraph 1.3.27. For a full explanation of the qualitative characteristics and constraints, readers should refer to “The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities”.

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users and support the achievement of the objectives of financial reporting. The objectives of financial reporting are to provide information useful for accountability and decision-making purposes. They are applicable to financial statements, regardless of the basis of accounting used to prepare the financial statements. The qualitative characteristics are understandability, relevance, faithful representation, timeliness, comparability and verifiability. Pervasive constraints on information included in financial statements are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics.

Understandability

Understandability is the quality of information that enables users to comprehend its meaning. General Purpose Financial Statements (financial statements) of public sector entities should present information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. 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 without assistance.

Relevance

Information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Information is capable of making a difference when it has confirmatory value, predictive value, or both. It may be capable of making a difference, and thus be relevant, even if some users choose not to take advantage of it or are already aware of it.

Faithful Representation

To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation
is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transactions and other events, activity or circumstance—which is not necessarily always the same as its legal form.

**Comparability**

Information in financial statements is comparable when users are able to identify similarities in, and differences between, two sets of phenomena. Comparability is not a quality of an individual item of information, but rather a quality of the relationship between two or more items of information.

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.

**Timeliness**

Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful.

**Verifiability**

Verifiability is the quality of information that helps assure users that information in financial statements faithfully represents the economic and other phenomena that it purports to represent. Supportability is sometimes used to describe this quality when applied in respect of explanatory information and prospective financial and non-financial quantitative information disclosed in financial statements. Whether referred to as verifiability or supportability, the characteristic implies that different knowledgeable and independent observers could reach general consensus, although not necessarily complete agreement, that either:

- The information represents the economic and other phenomena that it purports to represent without material error or bias; or
- An appropriate recognition, measurement, or representation method has been applied without material error or bias.
Constraints on Information Included in General Purpose Financial Statements

Materiality

Information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity’s financial statements prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity.

Balance between Benefit and Cost

The balance between benefit and cost is a pervasive constraint. The benefits derived from information should justify the cost of providing it. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment because it is often not possible to identify and/or quantify all the costs and all the benefits of information included in financial statements.

The costs of providing information include the costs of collecting and processing the information, the costs of verifying it and/or presenting the assumptions and methodologies that support it, and the costs of disseminating it. Users incur the costs of analysis and interpretation.

Preparers expend the majority of the effort to provide information in financial statements. However, service recipients and resource providers ultimately bear the cost of those efforts—because resources are redirected from service delivery activities to preparation of information for inclusion in financial statements. Users reap the majority of benefits from the information provided by financial statements. However, information prepared for financial statements may also be used internally by management and result in better decision-making by management.

In developing IPSAS, the IPSASB considers information from preparers, users, academics, and others about the expected nature and quantity of the benefits and costs of the proposed requirements. Disclosure and other requirements which result in the presentation of information useful to users of financial statements for accountability and decision-making purposes and satisfy the qualitative characteristics are prescribed by IPSAS when the benefits of compliance with those disclosures and other requirements are assessed by the IPSASB to justify their costs.

Balance between Qualitative Characteristics

The qualitative characteristics work together to contribute to the usefulness of information. In some cases, a balancing or trade-off between qualitative characteristics may be necessary to achieve the objectives of financial reporting. The relative importance of the qualitative characteristics in each situation is a matter of professional judgment. The aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial reporting.