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INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

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IPSAS 39—EMPLOYEE BENEFITS

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) is drawn primarily from International Accounting Standard (IAS) 19, *Employee Benefits* published by the International Accounting Standards Board (IASB). Extracts from IAS 19 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards Foundation.

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IPSAS 39—EMPLOYEE BENEFITS

History of IPSAS

This version includes amendments resulting from IPSASs issued up to January 31, 2018.

IPSAS 39, *Employee Benefits* was issued in July 2016.

IPSAS 39—EMPLOYEE BENEFITS

CONTENTS

International Public Sector Accounting Standard 39, *Employee Benefits*, is set out in paragraphs 1–178. All the paragraphs have equal authority. IPSAS 39 should be read in the context of its objective, the Basis for Conclusions, the *Preface to International Public Sector Accounting Standards,* and the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. The Standard requires an entity to recognize:

   (a) A liability when an employee has provided service in exchange for employee benefits to be paid in the future; and

   (b) An expense when the entity consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

Scope

2. **This Standard shall be applied by an employer in accounting for all employee benefits, except share-based transactions (see the relevant international or national accounting standard dealing with share-based transactions).**

3. This Standard does not deal with reporting by employee retirement benefit plans (see the relevant international or national accounting standard dealing with employee retirement benefit plans). This Standard does not deal with benefits provided by composite social security programs that are not consideration in exchange for service rendered by employees or past employees of public sector entities.

4. The employee benefits to which this Standard applies include those provided:

   (a) Under formal plans or other formal agreements between an entity and individual employees, groups of employees, or their representatives;

   (b) Under legislative requirements, or through industry arrangements, whereby entities are required to contribute to national, state, industry, or other multi-employer plans, or where entities are required to contribute to the composite social security program; or

   (c) By those informal practices that give rise to a constructive obligation. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

5. Employee benefits include:

   (a) Short-term employee benefits, such as the following, if expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related services:

      (i) Wages, salaries and social security contributions;

(ii) Paid annual leave and paid sick leave;

(iii) Profit-sharing and bonuses; and

(iv) Non-monetary benefits (such as medical care, housing, cars and free or subsidized goods or services) for current employees;

(b) Post-employment benefits, such as the following:

(i) Retirement benefits (e.g., pensions and lump sum payments on retirement); and

(ii) Other post-employment benefits, such as post-employment life insurance and post-employment medical care;

(c) Other long-term employee benefits, such as the following:

(i) Long-term paid absences such as long-service leave or sabbatical leave;

(ii) Jubilee or other long-service benefits; and

(iii) Long-term disability benefits; and

(d) Termination benefits.

6. Employee benefits include benefits provided either to employees or to their dependants, and may be settled by payments (or the provision of goods or services) made either directly to the employees, to their spouses, children, or other dependants, or to others, such as insurance companies.

7. An employee may provide services to an entity on a full-time, part-time, permanent, casual, or temporary basis. For the purpose of this Standard, employees include key management personnel as defined in IPSAS 20, *Related Party Disclosures*.

Definitions

8. **The following terms are used in this Standard with the meanings specified:**

Definitions of Employee Benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment.

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service.

<u>Post-employment benefits</u> are employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment.

<u>Other long-term employee benefits</u> are all employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.

<u>Termination benefits</u> are employee benefits provided in exchange for the termination of an employee's employment as a result of either:

(a) **An entity's decision to terminate an employee's employment before the normal retirement date; or**

(b) **An employee's decision to accept an offer of benefits in exchange for the termination of employment.**

Definitions Relating to Classification of Plans

<u>Post-employment benefit plans</u> are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

<u>Defined contribution plans</u> are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

<u>Defined benefit plans</u> are post-employment benefit plans other than defined contribution plans.

<u>Multi-employer plans</u> are defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:

(a) **Pool the assets contributed by various entities that are not under common control; and**

(b) **Use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.**

<u>State plans</u> are plans established by legislation that operate as if they are multi-employer plans for all entities in economic categories laid down in legislation.

Definitions Relating to the Net Defined Benefit Liability (Asset)

The net defined benefit liability (asset) is the deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

The deficit or surplus is:

(a) **The present value of the defined benefit obligation less**

(b) **The fair value of plan assets (if any).**

The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

Plan assets comprise:

(a) **Assets held by a long-term employee benefit fund; and**

(b) **Qualifying insurance policies.**

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that:

(a) **Are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and**

(b) **Are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in bankruptcy), and cannot be returned to the reporting entity, unless either:**

    (i) **The remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or**

    (ii) **The assets are returned to the reporting entity to reimburse it for employee benefits already paid.**

A qualifying insurance policy is an insurance policy[1] issued by an insurer that is not a related party (as defined in IPSAS 20) of the reporting entity, if the proceeds of the policy:

(a) **Can be used only to pay or fund employee benefits under a defined benefit plan; and**

(b) **Are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either:**

  (i) **The proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or**

  (ii) **The proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.**

Definitions Relating to Defined Benefit Cost

Service cost comprises:

(a) **Current service cost, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period;**

(b) **Past service cost, which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan); and**

(c) **Any gain or loss on settlement.**

Net interest on the net defined benefit liability (asset) is the change during the period in the net defined benefit liability (asset) that arises from the passage of time.

Remeasurements of the net defined benefit liability (asset) comprise:

(a) **Actuarial gains and losses;**

(b) **The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and**

[1] A qualifying insurance policy is not necessarily an insurance contract (see the relevant international or national standard dealing with insurance contracts).

(c) **Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).**

<u>Actuarial gains and losses</u> are changes in the present value of the defined benefit obligation resulting from:

(a) **Experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and**

(b) **The effects of changes in actuarial assumptions.**

The <u>return on plan assets</u> is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realized and unrealized gains or losses on the plan assets, less:

(a) **Any costs of managing the plan assets; and**

(b) **Any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.**

A <u>settlement</u> is a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

Short-Term Employee Benefits

9. Short-term employee benefits include items such as the following, if expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related services:

(a) Wages, salaries, and social security contributions;

(b) Paid annual leave and paid sick leave;

(c) Profit-sharing and bonuses; and

(d) Nonmonetary benefits (such as medical care, housing, cars, and free or subsidized goods or services) for current employees.

10. An entity need not reclassify a short-term employee benefit if the entity's expectations of the timing of settlement change temporarily. However, if the characteristics of the benefit change (such as a change from a non-accumulating benefit to an accumulating benefit) or if a change in expectations of the timing of settlement is not temporary, then the entity considers whether the benefit still meets the definition of short-term employee benefits.

Recognition and Measurement

All Short-Term Employee Benefits

11. **When an employee has rendered service to an entity during an accounting period, the entity shall recognize the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:**

    (a) **As a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.**

    (b) **As an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset (see, for example, IPSAS 12, *Inventories*, and IPSAS 17, *Property, Plant, and Equipment*).**

12. **Paragraphs 13, 16, and 19 explain how an entity shall apply paragraph 11 to short-term employee benefits in the form of paid absences and profit-sharing and bonus plans.**

Short-Term Paid Absences

13. **An entity shall recognize the expected cost of short-term employee benefits in the form of paid absences under paragraph 11 as follows:**

    (a) **In the case of accumulating paid absences, when the employees render service that increases their entitlement to future paid absences; and**

    (b) **In the case of non-accumulating paid absences, when the absences occur.**

14. An entity may pay employees for absence for various reasons, including holidays, sickness and short-term disability, maternity or paternity, jury service, and military service. Entitlement to paid absences falls into two categories:

    (a) Accumulating; and

    (b) Non-accumulating.

15. Accumulating paid absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. Accumulating paid absences may be either vesting (in other words, employees are entitled to a cash payment for unused entitlement on leaving the entity) or non-vesting (when employees are not entitled to a cash payment for unused entitlement on leaving). An obligation arises as employees render service that increases their entitlement to future paid absences. The obligation

exists, and is recognized, even if the paid absences are nonvesting, although the possibility that employees may leave before they use an accumulated nonvesting entitlement affects the measurement of that obligation.

16. **An entity shall measure the expected cost of accumulating paid absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.**

17. The method specified in the previous paragraph measures the obligation at the amount of the additional payments that are expected to arise solely from the fact that the benefit accumulates. In many cases, an entity may not need to make detailed computations to estimate that there is no material obligation for unused paid absences. For example, a sick leave obligation is likely to be material only if there is a formal or informal understanding that unused paid sick leave may be taken as paid annual leave.

18. Non-accumulating paid absences do not carry forward; they lapse if the current period's entitlement is not used in full and do not entitle employees to a cash payment for unused entitlement on leaving the entity. This is commonly the case for sick pay (to the extent that unused past entitlement does not increase future entitlement), maternity or paternity leave, and paid absences for jury service or military service. An entity recognizes no liability or expense until the time of the absence, because employee service does not increase the amount of the benefit.

Profit-Sharing and Bonus Plans

19. **An entity shall recognize the expected cost of profit-sharing and bonus payments under paragraph 11 when, and only when:**

    (a) **The entity has a present legal or constructive obligation to make such payments as a result of past events; and**

    (b) **A reliable estimate of the obligation can be made.**

    A present obligation exists when, and only when, the entity has no realistic alternative but to make the payments.

20. In the public sector, some entities have bonus plans that are related to service delivery objectives or aspects of financial performance. Under such plans, employees receive specified amounts, dependent on an assessment of their contribution to the achievement of the objectives of the entity or a segment of the entity. In some cases, such plans may be for groups of employees, such as when performance is evaluated for all or some employees in a particular segment, rather than on an individual basis. Because of the objectives of public sector entities, profit-sharing plans are far less common in the public sector than for profit-oriented entities. However, they are likely to be an aspect of employee remuneration in segments of public sector entities that operate on a

commercial basis. Some public sector entities may not operate profit-sharing schemes, but may evaluate performance against financially based measures such as the generation of revenue streams and the achievement of budgetary targets. Some bonus plans may entail payments to all employees who rendered employment services in a reporting period, even though they may have left the entity before the end of the reporting period. However, under other bonus plans, employees receive payments only if they remain with the entity for a specified period, for example, a requirement that employees render services for the whole of the reporting period. Such plans create a constructive obligation as employees render service that increases the amount to be paid if they remain in service until the end of the specified period. The measurement of such constructive obligations reflects the possibility that some employees may leave without receiving profit-sharing payments. Paragraph 22 provides further conditions that are to be satisfied before an entity can recognize the expected cost of performance-related payments, bonus payments, and profit-sharing payments.

21. An entity may have no legal obligation to pay a bonus. Nevertheless, in some cases, an entity has a practice of paying bonuses. In such cases, the entity has a constructive obligation because the entity has no realistic alternative but to pay the bonus. The measurement of the constructive obligation reflects the possibility that some employees may leave without receiving a bonus.

22. An entity can make a reliable estimate of its legal or constructive obligation under a performance-related payment scheme, bonus plan, or profit-sharing scheme when, and only when:

(a) The formal terms of the plan contain a formula for determining the amount of the benefit;

(b) The entity determines the amounts to be paid before the financial statements are authorized for issue; or

(c) Past practice gives clear evidence of the amount of the entity's constructive obligation.

23. An obligation under profit-sharing plans and bonus plans results from employee service and not from a transaction with the entity's owners. Therefore, an entity recognizes the cost of profit-sharing and bonus plans not as a distribution of profit but as an expense.

24. If profit-sharing and bonus payments are not expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service, those payments are other long-term employee benefits (see paragraphs 155–161).

Disclosure

25. Although this Standard does not require specific disclosures about short-term employee benefits, other Standards may require disclosures. For example, IPSAS 20 requires disclosures of the aggregate remuneration of key management personnel and IPSAS 1, *Presentation of Financial Statements* requires the disclosure of information about employee benefits expense.

Post-employment Benefits—Distinction between Defined Contribution Plans and Defined Benefit Plans

26. Post-employment benefits include items such as the following:

    (a) Retirement benefits (e.g., pensions and lump sum payments on retirement); and

    (b) Other post-employment benefits, such as post-employment life insurance, and post-employment medical care.

    Arrangements whereby an entity provides post-employment benefits are post-employment benefit plans. An entity applies this Standard to all such arrangements, whether or not they involve the establishment of a separate entity, such as a pension scheme, superannuation scheme, or retirement benefit scheme, to receive contributions and to pay benefits.

27. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan, as derived from its principal terms and conditions.

28. Under defined contribution plans the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions. In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall, in substance, on the employee.

29. Examples of cases where an entity's obligation is not limited to the amount that it agrees to contribute to the fund are when the entity has a legal or constructive obligation through:

    (a) A plan benefit formula that is not linked solely to the amount of contributions and requires the entity to provide further contributions if assets are insufficient to meet the benefits in the plan benefit formula;

    (b) A guarantee, either indirectly through a plan or directly, of a specified return on contributions; or

(c) Those informal practices that give rise to a constructive obligation. For example, a constructive obligation may arise where an entity has a history of increasing benefits for former employees to keep pace with inflation, even where there is no legal obligation to do so.

30. Under defined benefit plans:

(a) The entity's obligation is to provide the agreed benefits to current and former employees; and

(b) Actuarial risk (that benefits will cost more than expected) and investment risk fall, in substance, on the entity. If actuarial or investment experience are worse than expected, the entity's obligation may be increased.

31. Paragraphs 32–51 explain the distinction between defined contribution plans and defined benefit plans in the context of multi-employer plans, defined benefit plans that share risks between entities under common control, state plans, and insured benefits.

Multi-Employer Plans

32. **An entity shall classify a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).**

33. **If an entity participates in a multi-employer defined benefit plan, unless paragraph 34 applies, it shall:**

(a) **Account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan; and**

(b) **Disclose the information required by paragraphs 137–150 (excluding paragraph 150(d)).**

34. **When sufficient information is not available to use defined benefit accounting for a multi-employer defined benefit plan, an entity shall:**

(a) **Account for the plan in accordance with paragraphs 53 and 54 as if it were a defined contribution plan; and**

(b) **Disclose the information required by paragraph 150.**

35. One example of a multi-employer defined benefit plan is one where:

(a) The plan is financed on a pay-as-you-go basis: contributions are set at a level that is expected to be sufficient to pay the benefits falling due in the same period; and future benefits earned during the current period will be paid out of future contributions; and

(b) Employees' benefits are determined by the length of their service and the participating entities have no realistic means of withdrawing from the plan without paying a contribution for the benefits earned by employees up to the date of withdrawal. Such a plan creates actuarial risk for the entity: if the ultimate cost of benefits already earned at the end of the reporting period is more than expected, the entity will have to either increase its contributions or persuade employees to accept a reduction in benefits. Therefore, such a plan is a defined benefit plan.

36. Where sufficient information is available about a multi-employer defined benefit plan, an entity accounts for its proportionate share of the defined benefit obligation, plan assets, and post-employment benefit cost associated with the plan in the same way as for any other defined benefit plan. However, an entity may not be able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. This may occur if:

(a) The plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and cost to individual entities participating in the plan; or

(b) The entity does not have access to sufficient information about the plan that satisfies the requirements of this Standard.

In those cases, an entity accounts for the plan as if it were a defined contribution plan, and discloses the additional information required by paragraph 150.

37. There may be a contractual agreement between the multi-employer plan and its participants that determines how the surplus in the plan will be distributed to the participants (or the deficit funded). A participant in a multi-employer plan with such an agreement that accounts for the plan as a defined contribution plan in accordance with paragraph 34 shall recognize the asset or liability that arises from the contractual agreement, and the resulting revenue or expense in surplus or deficit.

38. Multi-employer plans are distinct from group administration plans. A group administration plan is merely an aggregation of single employer plans combined to allow participating employers to pool their assets for investment purposes and reduce investment management and administration costs, but the claims of different employers are segregated for the sole benefit of their own employees. Group administration plans pose no particular accounting problems because information is readily available to treat them in the same way as any other single employer plan and because such plans do not expose the participating entities to actuarial risks associated with the current and former employees of other entities. The definitions in this Standard require an entity to classify a group administration plan as a defined contribution plan or

a defined benefit plan in accordance with the terms of the plan (including any constructive obligation that goes beyond the formal terms).

39. **In determining when to recognize, and how to measure, a liability relating to the wind-up of a multi-employer defined benefit plan, or the entity's withdrawal from a multi-employer defined benefit plan, an entity shall apply IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.**

Defined Benefit Plans that Share Risks between Entities under Common Control

40. Defined benefit plans that share risks between various entities under common control, for example, controlling and controlled entities, are not multi-employer plans.

41. An entity participating in such a plan obtains information about the plan as a whole, measured in accordance with this Standard on the basis of assumptions that apply to the plan as a whole. If there is a contractual agreement, binding arrangement, or stated policy for charging the net defined benefit cost for the plan as a whole measured in accordance with this Standard to individual entities within the economic entity, the entity shall, in its separate or individual financial statements, recognize the net defined benefit cost so charged. If there is no such agreement, arrangement, or policy, the net defined benefit cost shall be recognized in the separate or individual financial statements of the entity that is legally the sponsoring employer for the plan. The other entities shall, in their separate or individual financial statements, recognize a cost equal to their contribution payable for the period.

42. There are cases in the public sector where a controlling entity and one or more controlled entities participate in a defined benefit plan. Unless there is a contractual agreement, binding arrangement, or stated policy, as specified in paragraph 41, the controlled entity accounts on a defined contribution basis and the controlling entity accounts on a defined benefit basis in its consolidated financial statements. The controlled entity also discloses that it accounts on a defined contribution basis in its separate financial statements. A controlled entity that accounts on a defined contribution basis also provides details of the controlling entity, and states that, in the controlling entity's consolidated financial statements, accounting is on a defined benefit basis. The controlled entity also makes the disclosures required in paragraph 151.

43. **Participation in such a plan is a related party transaction for each individual entity. An entity shall therefore, in its separate or individual financial statements, disclose the information required by paragraph 151.**

State Plans

44. **An entity shall account for a state plan in the same way as for a multi-employer plan (see paragraphs 32 and 39).**

45. State plans are established by legislation to cover all entities (or all entities in a particular category, for example, a specific industry) and are operated by national, state, or local government or by another body (for example, an agency created specifically for this purpose). This Standard deals only with employee benefits of the entity, and does not address accounting for any obligations under state plans related to employees and past employees of entities that are not controlled by the reporting entity. While governments may establish state plans and provide benefits to employees of private sector entities and/or self-employed individuals, obligations arising in respect of such plans are not addressed in this Standard. Some plans established by an entity provide both compulsory benefits, as a substitute for benefits that would otherwise be covered under a state plan, and additional voluntary benefits. Such plans are not state plans.

46. Many state plans are funded on a pay-as-you-go basis: contributions are set at a level that is expected to be sufficient to pay the required benefits falling due in the same period; future benefits earned during the current period will be paid out of future contributions. Entities covered by state plans account for those plans as either defined contribution or defined benefit plans. The accounting treatment depends upon whether the entity has a legal or constructive obligation to pay future benefits. If an entity's only obligation is to pay the contributions as they fall due, and the entity has no obligation to pay future benefits, it accounts for that state plan as a defined contribution plan.

47. A state plan may be classified as a defined contribution plan by a controlled entity. However, it is a rebuttable presumption that the state plan will be characterized as a defined benefit plan by the controlling entity. Where that presumption is rebutted the state plan is accounted for as a defined contribution plan.

Insured Benefits

48. **An entity may pay insurance premiums to fund a post-employment benefit plan. The entity shall treat such a plan as a defined contribution plan unless the entity will have (either directly, or indirectly through the plan) a legal or constructive obligation either:**

    (a) **To pay the employee benefits directly when they fall due; or**

    (b) **To pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.**

If the entity retains such a legal or constructive obligation, the entity shall treat the plan as a defined benefit plan.

49. The benefits insured by an insurance policy need not have a direct or automatic relationship with the entity's obligation for employee benefits. Post-employment benefit plans involving insurance policies are subject to the same distinction between accounting and funding as other funded plans.

50. Where an entity funds a post-employment benefit obligation by contributing to an insurance policy under which the entity (either directly, indirectly through the plan, through the mechanism for setting future premiums, or through a related party relationship with the insurer) retains a legal or constructive obligation, the payment of the premiums does not amount to a defined contribution arrangement. It follows that the entity:

(a) Accounts for a qualifying insurance policy as a plan asset (see paragraph 8); and

(b) Recognizes other insurance policies as reimbursement rights (if the policies satisfy the criteria in paragraph 118).

51. Where an insurance policy is in the name of a specified plan participant or a group of plan participants, and the entity does not have any legal or constructive obligation to cover any loss on the policy, the entity has no obligation to pay benefits to the employees, and the insurer has sole responsibility for paying the benefits. The payment of fixed premiums under such contracts is, in substance, the settlement of the employee benefit obligation, rather than an investment to meet the obligation. Consequently, the entity no longer has an asset or a liability. Therefore, an entity treats such payments as contributions to a defined contribution plan.

Post-Employment Benefits—Defined Contribution Plans

52. Accounting for defined contribution plans is straightforward because the reporting entity's obligation for each period is determined by the amounts to be contributed for that period. Consequently, no actuarial assumptions are required to measure the obligation or the expense~~,~~ and there is no possibility of any actuarial gain or loss. Moreover, the obligations are measured on an undiscounted basis, except where they are not expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service.

Recognition and Measurement

53. **When an employee has rendered service to an entity during a period, the entity shall recognize the contribution payable to a defined contribution plan in exchange for that service:**

(a) **As a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, an entity shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and**

(b) **As an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset (see, for example, IPSAS 12 and IPSAS 17).**

54. **When contributions to a defined contribution plan are not expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service, they shall be discounted using the discount rate specified in paragraph 85.**

Disclosure

55. **An entity shall disclose the amount recognized as an expense for defined contribution plans.**

56. Where required by IPSAS 20, an entity discloses information about contributions to defined contribution plans for key management personnel.

Post-Employment Benefits—Defined Benefit Plans

57. Accounting for defined benefit plans is complex, because actuarial assumptions are required to measure the obligation and the expense, and there is a possibility of actuarial gains and losses. Moreover, the obligations are measured on a discounted basis, because they may be settled many years after the employees render the related service.

Recognition and Measurement

58. Defined benefit plans may be unfunded, or they may be wholly or partly funded by contributions by an entity, and sometimes its employees, into an entity, or fund, that is legally separate from the reporting entity and from which the employee benefits are paid. The payment of funded benefits when they fall due depends not only on the financial position and the investment performance of the fund but also on an entity's ability, and willingness, to make good any shortfall in the fund's assets. Therefore, the entity is, in substance, underwriting the actuarial and investment risks associated with the plan. Consequently, the expense recognized for a defined benefit plan is not necessarily the amount of the contribution due for the period.

59. Accounting by an entity for defined benefit plans involves the following steps:

(a) Determining the deficit or surplus. This involves:

(i) Using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods (see paragraphs 69–71). This requires an entity to determine how much benefit is attributable to the current and prior periods (see paragraphs 72–76), and to make estimates (actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will affect the cost of the benefit (see paragraphs 77–100);

(ii) Discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost (see paragraphs 69–71 and 85–88);

(iii) Deducting the fair value of any plan assets (see paragraphs 115–117) from the present value of the defined benefit obligation;

(b) Determining the amount of the net defined benefit liability (asset) as the amount of the deficit or surplus determined in (a), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling (see paragraph 66).

(c) Determining amounts to be recognized in surplus or deficit:

(i) Current service cost (see paragraphs 72–76).

(ii) Any past service cost and gain or loss on settlement (see paragraphs 101–114).

(iii) Net interest on the net defined benefit liability (asset) (see paragraphs 125–128).

(d) Determining the remeasurements of the net defined benefit liability (asset), to be recognized in net assets/equity, comprising:

(i) Actuarial gains and losses (see paragraphs 130 and 131);

(ii) Return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 132); and

(iii) Any change in the effect of the asset ceiling (see paragraph 66), excluding amounts included in net interest on the net defined benefit liability (asset).

Where an entity has more than one defined benefit plan, the entity applies these procedures for each material plan separately.

60. **An entity shall determine the net defined benefit liability (asset) with sufficient regularity that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting period.**

61. This Standard encourages, but does not require, an entity to involve a qualified actuary in the measurement of all material post-employment benefit obligations. For practical reasons, an entity may request a qualified actuary to carry out a detailed valuation of the obligation before the end of the reporting period. Nevertheless, the results of that valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the end of the reporting period.

62. In some cases, estimates, averages, and computational short cuts may provide a reliable approximation of the detailed computations illustrated in this Standard.

Accounting for the Constructive Obligation

63. **An entity shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.**

64. The formal terms of a defined benefit plan may permit an entity to terminate its obligation under the plan. Nevertheless, it is usually difficult for an entity to terminate its obligation under a plan (without payment) if employees are to be retained. Therefore, in the absence of evidence to the contrary, accounting for post-employment benefits assumes that an entity that is currently promising such benefits will continue to do so over the remaining working lives of employees.

Statement of Financial Position

65. **An entity shall recognize the net defined benefit liability (asset) in the statement of financial position**.

66. **When an entity has a surplus in a defined benefit plan, it shall measure the net defined benefit asset at the lower of:**

    (a) **The surplus in the defined benefit plan; and**

    (b) **The asset ceiling, determined using the discount rate specified in paragraph 85.**

67. A net defined benefit asset may arise where a defined benefit plan has been overfunded or where actuarial gains have arisen. An entity recognizes a net defined benefit asset in such cases because:

    (a) The entity controls a resource, which is the ability to use the surplus to generate future benefits;

    (b) That control is a result of past events (contributions paid by the entity and service rendered by the employee); and

    (c) Future economic benefits are available to the entity in the form of a reduction in future contributions or a cash refund, either directly to the entity or indirectly to another plan in deficit. The asset ceiling is the present value of those future benefits.

Recognition and Measurement—Present Value of Defined Benefit Obligations and Current Service Cost

68. The ultimate cost of a defined benefit plan may be influenced by many variables, such as final salaries, employee turnover and mortality, employee contributions and medical cost trends. The ultimate cost of the plan is uncertain and this uncertainty is likely to persist over a long period of time. In order to measure the present value of the post-employment benefit obligations and the related current service cost, it is necessary:

    (a) To apply an actuarial valuation method (see paragraphs 69–71);

    (b) To attribute benefit to periods of service (see paragraphs 72–76); and

    (c) To make actuarial assumptions (see paragraphs 77–100).

Actuarial Valuation Method

69. **An entity shall use the projected unit credit method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.**

70. The projected unit credit method (sometimes known as the accrued benefit method prorated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement (see paragraphs 72–76), and measures each unit separately to build up the final obligation (see paragraphs 77–100).

71. An entity discounts the whole of a post-employment benefit obligation, even if part of the obligation is expected to be settled before twelve months after the reporting period.

Attributing Benefit to Periods of Service

72. **In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an**

entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

(a) **The date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service) until**

(b) **The date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.**

73. The projected unit credit method requires an entity to attribute benefit to the current period (in order to determine current service cost) and the current and prior periods (in order to determine the present value of defined benefit obligations). An entity attributes benefit to periods in which the obligation to provide post-employment benefits arises. That obligation arises as employees render services in return for post-employment benefits that an entity expects to pay in future reporting periods. Actuarial techniques allow an entity to measure that obligation with sufficient reliability to justify recognition of a liability.

74. Employee service gives rise to an obligation under a defined benefit plan even if the benefits are conditional on future employment (in other words they are not vested). Employee service before the vesting date gives rise to a constructive obligation because, at the end of each successive reporting period, the amount of future service that an employee will have to render before becoming entitled to the benefit is reduced. In measuring its defined benefit obligation, an entity considers the probability that some employees may not satisfy any vesting requirements. Similarly, although some post-employment benefits, for example, post-employment medical benefits, become payable only if a specified event occurs when an employee is no longer employed, an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that the specified event will occur affects the measurement of the obligation, but does not determine whether the obligation exists.

75. The obligation increases until the date when further service by the employee will lead to no material amount of further benefits. Therefore, all benefit is attributed to periods ending on or before that date. Benefit is attributed to individual accounting periods under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity attributes benefit on a straight-line basis until the date when further service by the employee will lead to no material amount of further benefits. That is because the employee's service throughout the entire period will ultimately lead to benefit at that higher level.

76. Where the amount of a benefit is a constant proportion of final salary for each year of service, future salary increases will affect the amount required to settle the obligation that exists for service before the end of the reporting period, but do not create an additional obligation. Therefore:

(a) For the purpose of paragraph 72(b), salary increases do not lead to further benefits, even though the amount of the benefits is dependent on final salary; and

(b) The amount of benefit attributed to each period is a constant proportion of the salary to which the benefit is linked.

Actuarial Assumptions

77. Actuarial assumptions shall be unbiased and mutually compatible.

78. Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Actuarial assumptions comprise:

(a) Demographic assumptions about the future characteristics of current and former employees (and their dependants) who are eligible for benefits. Demographic assumptions deal with matters such as:

(i) Mortality (see paragraphs 83 and 84);

(ii) Rates of employee turnover, disability, and early retirement;

(iii) The proportion of plan members with dependants who will be eligible for benefits;

(iv) The proportion of plan members who will select each form of payment option available under the plan terms; and

(v) Claim rates under medical plans.

(b) Financial assumptions, dealing with items such as:

(i) The discount rate (see paragraphs 85–88);

(ii) Benefit levels, excluding any cost of the benefits to be met by employees, and future salary (see paragraphs 89–97);

(iii) In the case of medical benefits, future medical costs, including claim handling costs (i.e., the costs that will be incurred in processing and resolving claims, including legal and adjuster's fees) (see paragraphs 98–100); and

(iv) Taxes payable by the plan on contributions relating to service before the end of the reporting period or on benefits resulting from that service.

79. Actuarial assumptions are unbiased if they are neither imprudent nor excessively conservative.

80. Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, rates of salary increase, and discount rates. For example, all assumptions that depend on a particular inflation level (such as assumptions about interest rates and salary and benefit increases) in any given future period assume the same inflation level in that period.

81. An entity determines the discount rate and other financial assumptions in nominal (stated) terms, unless estimates in real (inflation-adjusted) terms are more reliable, for example, in a hyperinflationary economy (see IPSAS 10, *Financial Reporting in Hyperinflationary Economies*), or where the benefit is index-linked, and there is a deep market in index-linked bonds of the same currency and term.

82. **Financial assumptions shall be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled.**

Actuarial Assumptions: Mortality

83. **An entity shall determine its mortality assumptions by reference to its best estimate of the mortality of plan members both during and after employment.**

84. In order to estimate the ultimate cost of the benefit an entity takes into consideration expected changes in mortality, for example by modifying standard mortality tables with estimates of mortality improvements.

Actuarial Assumptions—Discount Rate

85. **The rate used to discount post-employment benefit obligations (both funded and unfunded) shall reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money shall be consistent with the currency and estimated term of the post-employment benefit obligations.**

86. One actuarial assumption that has a material effect is the discount rate. The discount rate reflects the time value of money but not the actuarial or investment risk. Furthermore, the discount rate does not reflect the entity-specific credit risk borne by the entity's creditors, nor does it reflect the risk that future experience may differ from actuarial assumptions.

87. The discount rate reflects the estimated timing of benefit payments. In practice, an entity often achieves this by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments, and the currency in which the benefits are to be paid.

88. An entity makes a judgment whether the discount rate that reflects the time value of money is best approximated by reference to market yields at the end of the reporting period on government bonds, high quality corporate bonds, or by another financial instrument. In some jurisdictions, market yields at the end of the reporting period on government bonds will provide the best approximation of the time value of money. However, there may be jurisdictions in which this is not the case, for example, jurisdictions where there is no deep market in government bonds, or in which market yields at the end of the reporting period on government bonds do not reflect the time value of money. In such cases, the reporting entity determines the rate by another method, such as by reference to market yields on high quality corporate bonds. There may also be circumstances where there is no deep market in government bonds or high quality corporate bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments. In such circumstances, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve. The total present value of a defined benefit obligation is unlikely to be particularly sensitive to the discount rate applied to the portion of benefits that is payable beyond the final maturity of the available financial instrument, such as government bonds or corporate bonds.

Actuarial Assumptions—Salaries, Benefits and Medical Costs

89. **An entity shall measure its defined benefit obligations on a basis that reflects:**

(a) **The benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the end of the reporting period;**

(b) **Any estimated future salary increases that affect the benefits payable;**

(c) **The effect of any limit on the employer's share of the cost of the future benefits;**

(d) **Contributions from employees or third parties that reduce the ultimate cost to the entity of those benefits; and**

(e) **Estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:**

(i) **Those changes were enacted before the end of the reporting period; or**

(ii) **Historical data, or other reliable evidence, indicate that those state benefits will change in some predictable manner,**

for example, in line with future changes in general price levels or general salary levels.

90. Actuarial assumptions reflect future benefit changes that are set out in the formal terms of a plan (or a constructive obligation that goes beyond those terms) at the end of the reporting period. This is the case if, for example:

    (a) The entity has a history of increasing benefits, for example, to mitigate the effects of inflation, and there is no indication that this practice will change in the future;

    (b) The entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants (see paragraph 110(c)); or

    (c) Benefits vary in response to a performance target or other criteria. For example, the terms of the plan may state that it will pay reduced benefits or require additional contributions from employees if the plan assets are insufficient. The measurement of the obligation reflects the best estimate of the effect of the performance target or other criteria.

91. Actuarial assumptions do not reflect future benefit changes that are not set out in the formal terms of the plan (or a constructive obligation) at the end of the reporting period. Such changes will result in:

    (a) Past service cost, to the extent that they change benefits for service before the change; and

    (b) Current service cost for periods after the change, to the extent that they change benefits for service after the change.

92. Estimates of future salary increases take account of inflation, seniority, promotion, and other relevant factors, such as supply and demand in the employment market.

93. Some defined benefit plans limit the contributions that an entity is required to pay. The ultimate cost of the benefits takes account of the effect of a limit on contributions. The effect of a limit on contributions is determined over the shorter of:

    (a) The estimated life of the entity; and

    (b) The estimated life of the plan.

94. Some defined benefit plans require employees or third parties to contribute to the cost of the plan. Contributions by employees reduce the cost of the benefits to the entity. An entity considers whether third-party contributions reduce the cost of the benefits to the entity, or are a reimbursement right as described in paragraph 118. Contributions by employees or third parties are either set out in the formal terms of the plan (or arise from a constructive

obligation that goes beyond those terms), or are discretionary. Discretionary contributions by employees or third parties reduce service cost upon payment of these contributions to the plan.

95. Contributions from employees or third parties set out in the formal terms of the plan either reduce service cost (if they are linked to service), or affect remeasurements of the net defined benefit liability (asset) (if they are not linked to service). An example of contributions that are not linked to service is when the contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses. If contributions from employees or third parties are linked to service, those contributions reduce the service cost as follows:

(a) If the amount of the contributions is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method required by paragraph 72 for the gross benefit (i.e., either using the plan's contribution formula or on a straight-line basis); or

(b) If the amount of the contributions is independent of the number of years of service, the entity is permitted to recognize such contributions as a reduction of the service cost in the period in which the related service is rendered. Examples of contributions that are independent of the number of years of service include those that are a fixed percentage of the employee's salary, a fixed amount throughout the service period or dependent on the employee's age.

Paragraph AG13 provides related application guidance.

96. For contributions from employees or third parties that are attributed to periods of service in accordance with paragraph 95(a), changes in the contributions result in:

(a) Current and past service cost (if those changes are not set out in the formal terms of a plan and do not arise from a constructive obligation); or

(b) Actuarial gains and losses (if those changes are set out in the formal terms of a plan, or arise from a constructive obligation).

97. Some post-employment benefits are linked to variables such as the level of benefit entitlements from social security pensions or state medical care. The measurement of such benefits reflects the best estimate of such variables, based on historical data and other reliable evidence.

98. **Assumptions about medical costs shall take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.**

99. Measurement of post-employment medical benefits requires assumptions about the level and frequency of future claims and the cost of meeting those claims. An entity estimates future medical costs on the basis of historical data about the entity's own experience, supplemented where necessary by historical data from other entities, insurance companies, medical providers, or other sources. Estimates of future medical costs consider the effect of technological advances, changes in health care utilization or delivery patterns, and changes in the health status of plan participants.

100. The level and frequency of claims is particularly sensitive to the age, health status, and gender of employees (and their dependants), and may be sensitive to other factors such as geographical location. Therefore, historical data are adjusted to the extent that the demographic mix of the population differs from that of the population used as a basis for the data. They are also adjusted where there is reliable evidence that historical trends will not continue.

Past Service Cost and Gains and Losses on Settlement

101. **Before determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability (asset) using the current fair value of plan assets and current actuarial assumptions (including current market interest rates and other current market prices) reflecting the benefits offered under the plan before the plan amendment, curtailment or settlement.**

102. An entity need not distinguish between past service cost resulting from a plan amendment, past service cost resulting from a curtailment and a gain or loss on settlement if these transactions occur together. In some cases, a plan amendment occurs before a settlement, such as when an entity changes the benefits under the plan and settles the amended benefits later. In those cases an entity recognizes past service cost before any gain or loss on settlement.

103. A settlement occurs together with a plan amendment and curtailment if a plan is terminated with the result that the obligation is settled and the plan ceases to exist. However, the termination of a plan is not a settlement if the plan is replaced by a new plan that offers benefits that are, in substance, the same.

Past Service Cost

104. Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment.

105. **An entity shall recognize past service cost as an expense at the earlier of the following dates:**

  (a) **When the plan amendment or curtailment occurs; and**

  (b) **When the entity recognizes related restructuring costs (see IPSAS 19) or termination benefits (see paragraph 168).**

106. A plan amendment occurs when an entity introduces, or withdraws, a defined benefit plan or changes the benefits payable under an existing defined benefit plan.

107. A curtailment occurs when an entity significantly reduces the number of employees covered by a plan. A curtailment may arise from an isolated event, such as the closing of a plant, discontinuance of an operation or termination or suspension of a plan.

108. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when benefits are withdrawn or changed so that the present value of the defined benefit obligation decreases).

109. Where an entity reduces benefits payable under an existing defined benefit plan and, at the same time, increases other benefits payable under the plan for the same employees, the entity treats the change as a single net change.

110. Past service cost excludes:

(a) The effect of differences between actual and previously assumed salary increases on the obligation to pay benefits for service in prior years (there is no past service cost because actuarial assumptions allow for projected salaries);

(b) Underestimates and overestimates of discretionary pension increases when an entity has a constructive obligation to grant such increases (there is no past service cost because actuarial assumptions allow for such increases);

(c) Estimates of benefit improvements that result from actuarial gains or from the return on plan assets that have been recognized in the financial statements if the entity is obliged, by either the formal terms of a plan (or a constructive obligation that goes beyond those terms) or legislation, to use any surplus in the plan for the benefit of plan participants, even if the benefit increase has not yet been formally awarded (there is no past service cost because the resulting increase in the obligation is an actuarial loss, see paragraph 90); and

(d) The increase in vested benefits (i.e., benefits that are not conditional on future employment, see paragraph 74) when, in the absence of new or improved benefits, employees complete vesting requirements (there is no past service cost because the entity recognized the estimated cost of benefits as current service cost as the service was rendered).

Gains and Losses on Settlement

111. The gain or loss on a settlement is the difference between:

(a) The present value of the defined benefit obligation being settled, as determined on the date of settlement; and

(b) The settlement price, including any plan assets transferred and any payments made directly by the entity in connection with the settlement.

112. **An entity shall recognize a gain or loss on the settlement of a defined benefit plan when the settlement occurs.**

113. A settlement occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan (other than a payment of benefits to, or on behalf of, employees in accordance with the terms of the plan and included in the actuarial assumptions). For example, a one-off transfer of significant employer obligations under the plan to an insurance company through the purchase of an insurance policy is a settlement; a lump sum cash payment, under the terms of the plan, to plan participants in exchange for their rights to receive specified post-employment benefits is not.

114. In some cases, an entity acquires an insurance policy to fund some or all of the employee benefits relating to employee service in the current and prior periods. The acquisition of such a policy is not a settlement if the entity retains a legal or constructive obligation (see paragraph 48) to pay further amounts if the insurer does not pay the employee benefits specified in the insurance policy. Paragraphs 118–121 deal with the recognition and measurement of reimbursement rights under insurance policies that are not plan assets.

Recognition and Measurement—Plan Assets

Fair Value of Plan Assets

115. The fair value of any plan assets is deducted from the present value of the defined benefit obligation in determining the deficit or surplus.

116. Plan assets exclude unpaid contributions due from the reporting entity to the fund, as well as any non-transferable financial instruments issued by the entity and held by the fund. Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits, for example, trade and other payables and liabilities resulting from derivative financial instruments.

117. Where plan assets include qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance policies is deemed to be the present value of the related obligations (subject to any reduction required if the amounts receivable under the insurance policies are not recoverable in full).

Reimbursements

118. **When, and only when, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, an entity shall:**

(a) **Recognize its right to reimbursement as a separate asset. The entity shall measure the asset at fair value.**

(b) **Disaggregate and recognize changes in the fair value of its right to reimbursement in the same way as for changes in the fair value of plan assets (see paragraphs 126 and 128). The components of defined benefit cost recognized in accordance with paragraph 122 may be recognized net of amounts relating to changes in the carrying amount of the right to reimbursement.**

119. Sometimes, an entity is able to look to another party, such as an insurer, to pay part or all of the expenditure required to settle a defined benefit obligation. Qualifying insurance policies, as defined in paragraph 8, are plan assets. An entity accounts for qualifying insurance policies in the same way as for all other plan assets, and paragraph 118 is not relevant (see paragraphs 48–51 and 117).

120. When an insurance policy held by an entity is not a qualifying insurance policy, that insurance policy is not a plan asset. Paragraph 118 is relevant to such cases: the entity recognizes its right to reimbursement under the insurance policy as a separate asset, rather than as a deduction in determining the defined benefit deficit or surplus. Paragraph 142(b) requires the entity to disclose a brief description of the link between the reimbursement right and the related obligation.

121. If the right to reimbursement arises under an insurance policy or a legally binding agreement that exactly matches the amount and timing of some or all of the benefits payable under a defined benefit plan, the fair value of the reimbursement right is deemed to be the present value of the related obligation (subject to any reduction required if the reimbursement is not recoverable in full).

Components of Defined Benefit Cost

122. **An entity shall recognize the components of defined benefit cost, except to the extent that another IPSAS requires or permits their inclusion in the cost of an asset, as follows:**

(a) **Service cost (see paragraphs 68–114) in surplus or deficit;**

(b) **Net interest on the net defined benefit liability (asset) (see paragraphs 125–128) in surplus or deficit; and**

(c) **Remeasurements of the net defined benefit liability (asset) (see paragraphs 129–132) in net assets/equity.**

123. Other IPSASs require the inclusion of some employee benefit costs within the cost of assets, such as inventories and property, plant and equipment (see IPSAS 12 and IPSAS 17). Any post-employment benefit costs included in the cost of such assets include the appropriate proportion of the components listed in paragraph 122.

124. **Remeasurements of the net defined benefit liability (asset) recognized in net assets/equity shall not be reclassified to surplus or deficit in a subsequent period. However, the entity may transfer those amounts recognized in net assets/equity within net assets/equity.**

Net Interest on the Net Defined Benefit Liability (Asset)

125. **Net interest on the net defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) by the discount rate specified in paragraph 85, both as determined at the start of the reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.**

126. Net interest on the net defined benefit liability (asset) can be viewed as comprising interest revenue on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling mentioned in paragraph 66.

127. Interest revenue on plan assets is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the discount rate specified in paragraph 85, both as determined at the start of the reporting period, taking account of any changes in the plan assets held during the period as a result of contributions and benefit payments. The difference between the interest revenue on plan assets and the return on plan assets is included in the remeasurement of the net defined benefit liability (asset).

128. Interest on the effect of the asset ceiling is part of the total change in the effect of the asset ceiling, and is determined by multiplying the effect of the asset ceiling by the discount rate specified in paragraph 85, both as determined at the start of the reporting period. The difference between that amount and the total change in the effect of the asset ceiling is included in the remeasurement of the net defined benefit liability (asset).

Remeasurements of the Net Defined Benefit Liability (Asset)

129. Remeasurements of the net defined benefit liability (asset) comprise:

(a) Actuarial gains and losses (see paragraphs 130 and 131);

(b) The return on plan assets (see paragraph 132), excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 127); and

(c) Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset) (see paragraph 128).

130. Actuarial gains and losses result from increases or decreases in the present value of the defined benefit obligation because of changes in actuarial assumptions and experience adjustments. Causes of actuarial gains and losses include, for example:

(a) Unexpectedly high or low rates of employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs;

(b) The effect of changes to assumptions concerning benefit payment options;

(c) The effect of changes in estimates of future employee turnover, early retirement or mortality or of increases in salaries, benefits (if the formal or constructive terms of a plan provide for inflationary benefit increases) or medical costs; and

(d) The effect of changes in the discount rate.

131. Actuarial gains and losses do not include changes in the present value of the defined benefit obligation because of the introduction, amendment, curtailment or settlement of the defined benefit plan, or changes to the benefits payable under the defined benefit plan. Such changes result in past service cost or gains or losses on settlement.

132. In determining the return on plan assets, an entity deducts the costs of managing the plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the defined benefit obligation (paragraph 78). Other administration costs are not deducted from the return on plan assets.

Presentation

Offset

133. **An entity shall offset an asset relating to one plan against a liability relating to another plan when, and only when, the entity:**

(a) **Has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan; and**

(b) **Intends either to settle the obligations on a net basis, or to realize the surplus in one plan and settle its obligation under the other plan simultaneously.**

134. The offsetting criteria are similar to those established for financial instruments in IPSAS 28, *Financial Instruments: Presentation*.

Current/Non-Current Distinction

135. Some entities distinguish current assets and liabilities from noncurrent assets and liabilities. This Standard does not specify whether an entity should distinguish current and noncurrent portions of assets and liabilities arising from post-employment benefits.

Components of Defined Benefit Cost

136. Paragraph 122 requires an entity to recognize service cost and net interest on the net defined benefit liability (asset) in surplus or deficit. This Standard does not specify how an entity should present service cost and net interest on the net defined benefit liability (asset). An entity presents those components in accordance with IPSAS 1.

Disclosure

137. **An entity shall disclose information that:**

(a) **Explains the characteristics of its defined benefit plans and risks associated with them (see paragraph 141);**

(b) **Identifies and explains the amounts in its financial statements arising from its defined benefit plans (see paragraphs 142–146); and**

(c) **Describes how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows (see paragraphs 147–149).**

138. To meet the objectives in paragraph 137, an entity shall consider all the following:

(a) The level of detail necessary to satisfy the disclosure requirements;

(b) How much emphasis to place on each of the various requirements;

(c) How much aggregation or disaggregation to undertake; and

(d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

139. If the disclosures provided in accordance with the requirements in this Standard and other IPSASs are insufficient to meet the objectives in paragraph 137, an entity shall disclose additional information necessary to meet those

objectives. For example, an entity may present an analysis of the present value of the defined benefit obligation that distinguishes the nature, characteristics and risks of the obligation. Such a disclosure could distinguish:

(a) Between amounts owing to active members, deferred members, and pensioners.

(b) Between vested benefits and accrued but not vested benefits.

(c) Between conditional benefits, amounts attributable to future salary increases and other benefits.

140. An entity shall assess whether all or some disclosures should be disaggregated to distinguish plans or groups of plans with materially different risks. For example, an entity may disaggregate disclosure about plans showing one or more of the following features:

(a) Different geographical locations.

(b) Different characteristics such as flat salary pension plans, final salary pension plans or post-employment medical plans.

(c) Different regulatory environments.

(d) Different reporting segments.

(e) Different funding arrangements (e.g., wholly unfunded, wholly or partly funded).

Characteristics of Defined Benefit Plans and Risks Associated with Them

141. An entity shall disclose:

(a) Information about the characteristics of its defined benefit plans, including:

    (i) The nature of the benefits provided by the plan (e.g., final salary defined benefit plan or contribution-based plan with guarantee).

    (ii) A description of the regulatory framework in which the plan operates, for example the level of any minimum funding requirements, and any effect of the regulatory framework on the plan, such as the asset ceiling (see paragraph 66).

    (iii) A description of any other entity's responsibilities for the governance of the plan, for example responsibilities of trustees or of management of the plan.

(b) A description of the risks to which the plan exposes the entity, focused on any unusual, entity-specific or plan-specific risks, and of any significant concentrations of risk. For example, if plan assets are invested primarily in one class of investments, e.g., property, the plan may expose the entity to a concentration of property market risk.

(c) A description of any plan amendments, curtailments and settlements.

(d) The basis on which the discount rate has been determined.

Explanation of Amounts in the Financial Statements

142. An entity shall provide a reconciliation from the opening balance to the closing balance for each of the following, if applicable:

(a) The net defined benefit liability (asset), showing separate reconciliations for:

(i) Plan assets.

(ii) The present value of the defined benefit obligation.

(iii) The effect of the asset ceiling.

(b) Any reimbursement rights. An entity shall also describe the relationship between any reimbursement right and the related obligation.

143. Each reconciliation listed in paragraph 142 shall show each of the following, if applicable:

(a) Current service cost.

(b) Interest revenue or expense.

(c) Remeasurements of the net defined benefit liability (asset), showing separately:

(i) The return on plan assets, excluding amounts included in interest in (b).

(ii) Actuarial gains and losses arising from changes in demographic assumptions (see paragraph 78(a)).

(iii) Actuarial gains and losses arising from changes in financial assumptions (see paragraph 78(b)).

(iv) Changes in the effect of limiting a net defined benefit asset to the asset ceiling, excluding amounts included in interest in (b). An entity shall also disclose how it determined the maximum economic benefit available, i.e., whether those benefits would be in the form of refunds, reductions in future contributions or a combination of both.

(d) Past service cost and gains and losses arising from settlements. As permitted by paragraph 102, past service cost and gains and losses arising from settlements need not be distinguished if they occur together.

(e) The effect of changes in foreign exchange rates.

(f) Contributions to the plan, showing separately those by the employer and by plan participants.

(g) Payments from the plan, showing separately the amount paid in respect of any settlements.

(h) The effects of public sector combinations and disposals.

144. An entity shall disaggregate the fair value of the plan assets into classes that distinguish the nature and risks of those assets, subdividing each class of plan asset into those that have a quoted market price in an active market and those that do not. For example, and considering the level of disclosure discussed in paragraph 138, an entity could distinguish between:

(a) Cash and cash equivalents;

(b) Equity instruments (segregated by industry type, company size, geography etc.);

(c) Debt instruments (segregated by type of issuer, credit quality, geography etc.);

(d) Real estate (segregated by geography etc.);

(e) Derivatives (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, credit contracts, longevity swaps etc.);

(f) Investment funds (segregated by type of fund);

(g) Asset-backed securities; and

(h) Structured debt.

145. An entity shall disclose the fair value of the entity's own transferable financial instruments held as plan assets, and the fair value of plan assets that are property occupied by, or other assets used by, the entity.

146. An entity shall disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation (see paragraph 78). Such disclosure shall be in absolute terms (e.g., as an absolute percentage, and not just as a margin between different percentages and other variables). When an entity provides disclosures in total for a grouping of plans, it shall provide such disclosures in the form of weighted averages or relatively narrow ranges.

Amount, Timing and Uncertainty of Future Cash Flows

147. An entity shall disclose:

(a) A sensitivity analysis for each significant actuarial assumption (as disclosed under paragraph 146) as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date.

(b) The methods and assumptions used in preparing the sensitivity analyses required by (a) and the limitations of those methods.

(c) Changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.

148. An entity shall disclose a description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk.

149. To provide an indication of the effect of the defined benefit plan on the entity's future cash flows, an entity shall disclose:

(a) A description of any funding arrangements and funding policy that affect future contributions.

(b) The expected contributions to the plan for the next reporting period.

(c) Information about the maturity profile of the defined benefit obligation. This will include the weighted average duration of the defined benefit obligation and may include other information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments.

Multi-Employer Plans

150. If an entity participates in a multi-employer defined benefit plan, it shall disclose:

(a) A description of the funding arrangements, including the method used to determine the entity's rate of contributions and any minimum funding requirements.

(b) A description of the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan.

(c) A description of any agreed allocation of a deficit or surplus on:

(i) Wind-up of the plan; or

(ii) The entity's withdrawal from the plan.

(d) If the entity accounts for that plan as if it were a defined contribution plan in accordance with paragraph 34, it shall disclose the following, in addition to the information required by (a)–(c) and instead of the information required by paragraphs 141–149:

(i) The fact that the plan is a defined benefit plan.

(ii) The reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan.

(iii) The expected contributions to the plan for the next reporting period.

(iv) Information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the entity.

(v) An indication of the level of participation of the entity in the plan compared with other participating entities. Examples of measures that might provide such an indication include the entity's proportion of the total contributions to the plan or the entity's proportion of the total number of active members, retired members, and former members entitled to benefits, if that information is available.

Defined Benefit Plans that Share Risks Between Entities under Common Control

151. If an entity participates in a defined benefit plan that shares risks between entities under common control, it shall disclose:

(a) The contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy.

(b) The policy for determining the contribution to be paid by the entity.

(c) If the entity accounts for an allocation of the net defined benefit cost as noted in paragraph 41, all the information about the plan as a whole required by paragraphs 137–149.

(d) If the entity accounts for the contribution payable for the period as noted in paragraph 41, the information about the plan as a whole required by paragraphs 137–139, 141, 144–146 and 149(a) and (b).

152. The information required by paragraph 151(c) and (d) can be disclosed by cross-reference to disclosures in another group entity's financial statements if:

(a) That group entity's financial statements separately identify and disclose the information required about the plan; and

(b) That group entity's financial statements are available to users of the financial statements on the same terms as the financial statements of the entity and at the same time as, or earlier than, the financial statements of the entity.

Disclosure Requirements in Other IPSASs

153. Where required by IPSAS 20, an entity discloses information about:

(a) Related party transactions with post-employment benefit plans; and

(b) Post-employment benefits for key management personnel.

154. Where required by IPSAS 19, an entity discloses information about contingent liabilities arising from post-employment benefit obligations.

Other Long-Term Employee Benefits

155. Other long-term employee benefits include items such as the following, if not expected to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service:

(a) Long-term paid absences such as long service or sabbatical leave;

(b) Jubilee or other long service benefits;

(c) Long-term disability benefits;

(d) Profit sharing and bonuses;

(e) Deferred remuneration; and

(f) Compensation payable by the entity until an individual enters new employment.

156. The measurement of other long-term employee benefits is not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. For this reason, this Standard requires a simplified method of accounting for other long-term employee benefits. Unlike the accounting required for post-employment benefits, this method does not recognize remeasurements in net assets/equity.

157. This Standard includes a rebuttable presumption that long-term disability payments are not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. Where this presumption is rebutted, the entity considers whether some or all long-term disability payments should be accounted for in accordance with paragraphs 57–154.

Recognition and Measurement

158. **In recognizing and measuring the surplus or deficit in another long-term employee benefit plan, an entity shall apply paragraphs 58–100 and 115–117. An entity shall apply paragraphs 118–121 in recognizing and measuring any reimbursement right.**

159. **For other long-term employee benefits, an entity shall recognize the net total of the following amounts in surplus or deficit, except to the extent**

that another IPSAS requires or permits their inclusion in the cost of an asset:

(a) **Service cost (see paragraphs 68–114);**

(b) **Net interest on the net defined benefit liability (asset) (see paragraphs 125-128); and**

(c) **Remeasurements of the net defined benefit liability (asset) (see paragraphs 129–132).**

160. One form of other long-term employee benefit is long-term disability benefit. If the level of benefit depends on the length of service, an obligation arises when the service is rendered. Measurement of that obligation reflects the probability that payment will be required, and the length of time for which payment is expected to be made. If the level of benefit is the same for any disabled employee regardless of years of service, the expected cost of those benefits is recognized when an event occurs that causes a long-term disability.

Disclosure

161. Although this Standard does not require specific disclosures about other long-term employee benefits, other IPSASs may require disclosures. For example, IPSAS 20 requires disclosures about employee benefits for key management personnel. IPSAS 1 requires disclosure of employee benefits expense.

Termination Benefits

162. This Standard deals with termination benefits separately from other employee benefits, because the event that gives rise to an obligation is the termination of employment rather than employee service. Termination benefits result from either an entity's decision to terminate the employment or an employee's decision to accept an entity's offer of benefits in exchange for termination of employment.

163. Termination benefits do not include employee benefits resulting from termination of employment at the request of the employee without an entity's offer, or as a result of mandatory retirement requirements, because those benefits are post-employment benefits. Some entities provide a lower level of benefit for termination of employment at the request of the employee (in substance, a post-employment benefit) than for termination of employment at the request of the entity. The difference between the benefit provided for termination of employment at the request of the employee and a higher benefit provided at the request of the entity is a termination benefit.

164. The form of the employee benefit does not determine whether it is in exchange provided for service or in exchange for termination of the employee's employment. Termination benefits are typically lump sum payments, but sometimes also include:

(a) Enhancement of post-employment benefits, either indirectly through an employee benefit plan or directly.

(b) Salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

165. Indicators that an employee benefit is provided in exchange for services include the following:

(a) The benefit is conditional on future service being provided (including benefits that increase if further service is provided).

(b) The benefit is provided in accordance with the terms of an employee benefit plan.

166. Some termination benefits are provided in accordance with the terms of an existing employee benefit plan. For example, they may be specified by statute, employment contract or union agreement, or may be implied as a result of the employer's past practice of providing similar benefits. As another example, if an entity makes an offer of benefits available for more than a short period, or there is more than a short period between the offer and the expected date of actual termination, the entity considers whether it has established a new employee benefit plan and hence whether the benefits offered under that plan are termination benefits or post-employment benefits. Employee benefits provided in accordance with the terms of an employee benefit plan are termination benefits if they both result from an entity's decision to terminate an employee's employment and are not conditional on future service being provided.

167. Some employee benefits are provided regardless of the reason for the employee's departure. The payment of such benefits is certain (subject to any vesting or minimum service requirements) but the timing of their payment is uncertain. Although such benefits are described in some jurisdictions as termination indemnities or termination gratuities, they are post-employment benefits rather than termination benefits, and an entity accounts for them as post-employment benefits.

Recognition

168. **An entity shall recognize a liability and expense for termination benefits at the earlier of the following dates:**

(a) **When the entity can no longer withdraw the offer of those benefits; and**

(b) **When the entity recognizes costs for a restructuring that is within the scope of IPSAS 19 and involves the payment of termination benefits.**

169. For termination benefits payable as a result of an employee's decision to accept an offer of benefits in exchange for the termination of employment, the time when an entity can no longer withdraw the offer of termination benefits is the earlier of:

   (a) When the employee accepts the offer; and

   (b) When a restriction (e.g., a legal, regulatory or contractual requirement or other restriction) on the entity's ability to withdraw the offer takes effect. This would be when the offer is made, if the restriction existed at the time of the offer.

170. For termination benefits payable as a result of an entity's decision to terminate an employee's employment, the entity can no longer withdraw the offer when the entity has communicated to the affected employees a plan of termination meeting all of the following criteria:

   (a) Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made.

   (b) The plan identifies the number of employees whose employment is to be terminated, their job classifications or functions and their locations (but the plan need not identify each individual employee) and the expected completion date.

   (c) The plan establishes the termination benefits that employees will receive in sufficient detail that employees can determine the type and amount of benefits they will receive when their employment is terminated.

171. When an entity recognizes termination benefits, the entity may also have to account for a plan amendment or a curtailment of other employee benefits (see paragraph 105).

Measurement

172. **An entity shall measure termination benefits on initial recognition, and shall measure and recognize subsequent changes, in accordance with the nature of the employee benefit, provided that if the termination benefits are an enhancement to post-employment benefits, the entity shall apply the requirements for post-employment benefits. Otherwise:**

   (a) **If the termination benefits are expected to be settled wholly before twelve months after the end of the reporting period in which the termination benefit is recognized, the entity shall apply the requirements for short-term employee benefits.**

   (b) **If the termination benefits are not expected to be settled wholly before twelve months after the end of the reporting period, the entity shall apply the requirements for other long-term employee benefits.**

173. Because termination benefits are not provided in exchange for service, paragraphs 72–76 relating to the attribution of the benefit to periods of service are not relevant.

Disclosure

174. Although this Standard does not require specific disclosures about termination benefits, other IPSASs may require disclosures. For example, IPSAS 20 requires disclosures about employee benefits for key management personnel. IPSAS 1 requires disclosure of employee benefits expense.

Transitional Provisions

175. **An entity shall apply this Standard retrospectively, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, except that:**

   (a) **An entity need not adjust the carrying amount of assets outside the scope of this Standard for changes in employee benefit costs that were included in the carrying amount before the date of initial application. The date of initial application is the beginning of the earliest prior period presented in the first financial statements in which the entity adopts this Standard.**

   (b) **In financial statements for periods beginning before January 1, 2018, an entity need not present comparative information for the disclosures required by paragraph 147 about the sensitivity of the defined benefit obligation.**

Effective Date

176. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2018. Earlier adoption is encouraged. If an entity applies this Standard for a period beginning before January 1, 2018, it shall disclose that fact.**

177. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSASs.

Withdrawal and Replacement of IPSAS 25 (2008)

178. This Standard supersedes IPSAS 25, *Employee Benefits* (2008). IPSAS 25 remains applicable until IPSAS 39 is applied or becomes effective, whichever is earlier.

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 39.

Example Illustrating Paragraph 19: Accounting for Performance-Related Bonus Plan

AG1. A performance-related bonus plan requires a government printing unit to pay a specified proportion of its surplus for the year to employees who meet predetermined performance targets and serve throughout the year, i.e., are in post on both the first and last day of the reporting period. If no employees leave during the year, the total bonus payments for the year will be 3% of actual surplus. The entity determines that staff turnover will reduce the payments to 2.5% of actual surplus.

The entity recognizes a liability and an expense of 2.5% of actual surplus.

Example Illustrating Paragraph 37: Accounting for a Multi-Employer Plan

AG2. Along with similar entities in State X, Local Government Unit A participates in a multi-employer defined benefit plan. Because the plan exposes the participating entities to actuarial risks associated with the current and former employees of other local government units participating in the plan, there is no consistent and reliable basis for allocating the obligation, plan assets, and cost to individual local government units participating in the plan. Local Government Unit A therefore accounts for the plan as if it were a defined contribution plan. A funding valuation, which is not drawn up on the basis of assumptions compatible with the requirements of this Standard, shows a deficit of CU480 million[a] in the plan. The plan has agreed, under a binding arrangement, a schedule of contributions with the participating employers in the plan that will eliminate the deficit over the next five years. Local Government Unit A's total contributions under the contract are CU40 million.

The entity recognizes a liability for the contributions adjusted for the time value of money and an equal expense in surplus or deficit.

(a) In this Standard monetary amounts are denominated in "currency units (CU)".

Example Illustrating Paragraph 70: Projected Unit Credit Method

AG3. A lump sum benefit is payable on termination of service and equal to 1% of final salary for each year of service. The salary in year 1 is CU10,000 and is assumed to increase at 7% (compound) each year. The discount rate used is 10% per annum. The following table shows how the obligation builds up for an employee who is expected to leave at the end of year five, assuming that there are no changes in actuarial assumptions. For simplicity, this example ignores the additional adjustment needed to reflect the probability that the employee may leave the entity at an earlier or later date.

Year	*1*	*2*	*3*	*4*	*5*
Benefit attributed to:					
– prior years	*0*	*131*	*262*	*393*	*524*
– current year (1% of final salary)	*131*	*131*	*131*	*131*	*131*
– current and prior years	*131*	*262*	*393*	*524*	*655*
Year	*1*	*2*	*3*	*4*	*5*
Opening obligation	*–*	*89*	*196*	*324*	*476*
Interest at 10%	*–*	*9*	*20*	*33*	*48*
Current service cost	*89*	*98*	*108*	*119*	*131*
Closing obligation	*89*	*196*	*324*	*476*	*655*

Note:

1. *The opening obligation is the present value of benefit attributed to prior years.*
2. *The current service cost is the present value of benefit attributed to the current year.*
3. *The closing obligation is the present value of benefit attributed to current and prior years.*

Examples Illustrating Paragraph 73: Attributing Benefit to Years of Service

AG4. A defined benefit plan provides a lump sum benefit of CU100 payable on retirement for each year of service.

A benefit of CU100 is attributed to each year. The current service cost is the present value of CU100. The present value of the defined benefit obligation is the present value of CU100, multiplied by the number of years of service up to the end of the reporting period.

If the benefit is payable immediately when the employee leaves the entity, the current service cost and the present value of the defined benefit obligation reflect the date at which the employee is expected to leave. Thus, because of the effect of discounting, they are less than the amounts that would be determined if the employee left at the end of the reporting period.

AG5. A plan provides a monthly pension of 0.2% of final salary for each year of service. The pension is payable from the age of 65.

Benefit equal to the present value, at the expected retirement date, of a monthly pension of 0.2% of the estimated final salary payable from the expected retirement date until the expected date of death is attributed to each year of service. The current service cost is the present value of that benefit. The present value of the defined benefit obligation is the present value of monthly pension payments of 0.2% of final salary, multiplied by the number of years of service up to the end of the reporting period. The current service cost and the present value of the defined benefit obligation are discounted, because pension payments begin at the age of 65.

Examples Illustrating Paragraph 74: Vesting and Non-Vesting Benefits

AG6. A plan pays a benefit of CU100 for each year of service. The benefits vest after 10 years of service.

A benefit of CU100 is attributed to each year. In each of the first 10 years, the current service cost and the present value of the obligation reflect the probability that the employee may not complete 10 years of service.

AG7. A plan pays a benefit of CU100 for each year of service, excluding service before the age of 25. The benefits vest immediately.

No benefit is attributed to service before the age of 25 because service before that date does not lead to benefits (conditional or unconditional). A benefit of CU100 is attributed to each subsequent year.

Examples Illustrating Paragraph 75: Attributing Benefits to Accounting Periods

AG8. A plan pays a lump sum benefit of CU1,000 that vests after 10 years of service. The plan provides no further benefit for subsequent service.

A benefit of CU100 (CU1,000 divided by 10) is attributed to each of the first 10 years. The current service cost in each of the first 10 years reflects the probability that the employee may not complete 10 years of service. No benefit is attributed to subsequent years.

AG9. A plan pays a lump sum retirement benefit of CU2,000 to all employees who are still employed at the age of 55 after 20 years of service, or who are still employed at the age of 65, regardless of their length of service.

For employees who join before the age of 35, service first leads to benefits under the plan at the age of 35 (an employee could leave at the age of 30 and return at the age of 33, with no effect on the amount or timing of benefits). Those benefits are conditional on further service. Also, service beyond the age of 55 will lead to no material amount of further benefits. For these employees, the entity attributes benefit of CU100 (CU2,000 divided by 20) to each year from the age of 35 to the age of 55.

For employees who join between the ages of 35 and 45, service beyond twenty years will lead to no material amount of further benefits. For these employees, the entity attributes benefit of 100 (CU2,000 divided by 20) to each of the first 20 years.

For an employee who joins at the age of 55, service beyond 10 years will lead to no material amount of further benefits. For this employee, the entity attributes benefit of CU200 (CU2,000 divided by 10) to each of the first 10 years.

For all employees, the current service cost and the present value of the obligation reflect the probability that the employee may not complete the necessary period of service.

AG10. A post-employment medical plan reimburses 40% of an employee's post-employment medical costs if the employee leaves after more than 10 and less than 20 years of service, and 50% of those costs if the employee leaves after 20 or more years of service.

Under the plan's benefit formula, the entity attributes 4% of the present value of the expected medical costs (40% divided by 10) to each of the first ten years and 1% (10% divided by 10) to each of the second 10 years. The current service cost in each year reflects the probability that the employee may not complete the necessary period of service to earn part or all of the benefits. For employees expected to leave within 10 years, no benefit is attributed.

AG11. A post-employment medical plan reimburses 10% of an employee's post-employment medical costs if the employee leaves after more than 10 and less than 20 years of service, and 50% of those costs if the employee leaves after 20 or more years of service.

Service in later years will lead to a materially higher level of benefit than in earlier years. Therefore, for employees expected to leave after 20 or more years, the entity attributes benefit on a straight-line basis under paragraph 73. Service beyond 20 years will lead to no material amount of further benefits. Therefore, the benefit attributed to each of the first 20 years is 2.5% of the present value of the expected medical costs (50% divided by 20).

For employees expected to leave between 10 and 20 years, the benefit attributed to each of the first 10 years is 1% of the present value of the expected medical costs. For these employees, no benefit is attributed to service between the end of the 10th year and the estimated date of leaving.

For employees expected to leave within 10 years, no benefit is attributed.

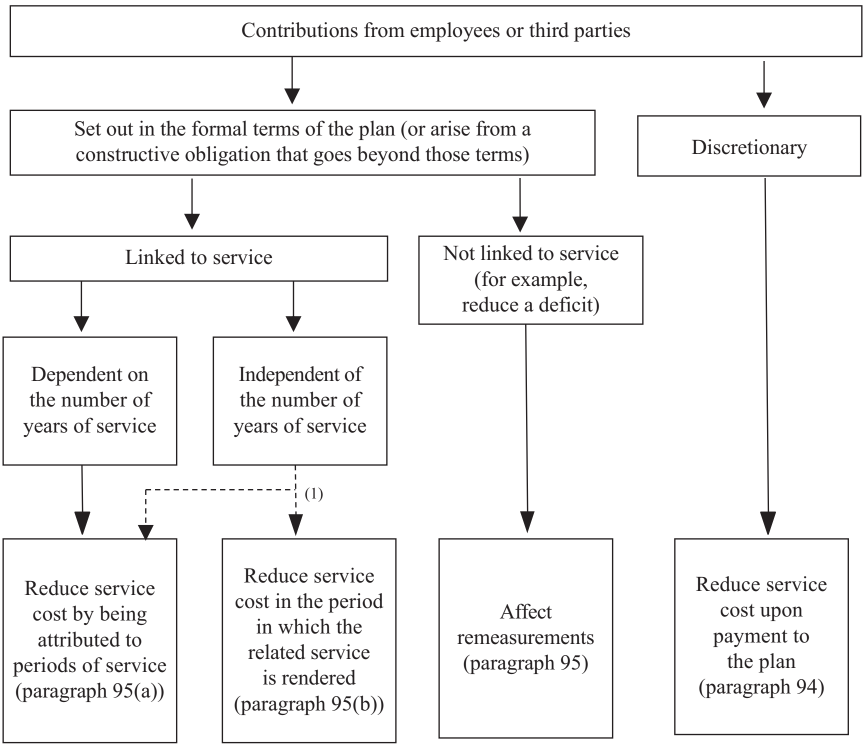
Example Illustrating Paragraph 76: Attributing Benefits to Accounting Periods

AG12. Employees are entitled to a benefit of 3% of final salary for each year of service before the age of 55.

Benefit of 3% of estimated final salary is attributed to each year up to the age of 55. This is the date when further service by the employee will lead to no material amount of further benefits under the plan. No benefit is attributed to service after that age.

Example Illustrating Paragraphs 94 and 95: Contributions from employees or third parties

AG13. The accounting requirements for contributions from employees or third parties are illustrated in the diagram below.



(1) This dotted arrow means that an entity is permitted to choose either accounting

Example Illustrating Paragraphs 162-173: Termination Benefits

AG14. Background

As a result of a recent acquisition, an entity plans to close a factory in 10 months and, at that time, terminate the employment of all of the remaining employees at the factory. Because the entity needs the expertise of the employees at the factory to complete some contracts, it announces a plan of termination as follows.

Each employee who stays and renders service until the closure of the factory will receive on the termination date a cash payment of CU30,000. Employees leaving before closure of the factory will receive CU10,000.

There are 120 employees at the factory. At the time of announcing the plan, the entity expects 20 of them to leave before closure. Therefore, the total expected cash outflows under the plan are CU3,200,000 (i.e., 20 × CU10,000 + 100 × CU30,000). As required by paragraph 163, the entity accounts for benefits provided for termination of employment as termination benefits and accounts for benefits provided for services as short-term employee benefits.

Termination benefits

The benefit provided for termination of employment is CU10,000. This is the amount that an entity would have to pay for terminating the employment regardless of whether the employees stay and render service until closure of the factory or they leave before closure. Even though the employees can leave before closure, the termination of all employees' employment is a result of the entity's decision to close the factory and terminate their employment (i.e., all employees will leave employment when the factory closes). Therefore the entity recognizes a liability of CU1,200,000 (i.e., 120 × CU10,000) for the termination benefits provided in accordance with the employee benefit plan at the earlier of when the plan of termination is announced and when the entity recognizes the restructuring costs associated with the closure of the factory.

Benefits provided for service

The incremental benefits that employees will receive if they provide services for the full ten-month period are for services provided over that period. The entity accounts for them as short-term employee benefits because the entity expects to settle them before twelve months after the end of the reporting period. In this example, discounting is not required, so an expense of CU200,000 (i.e., CU2,000,000 ÷ 10) is recognized in each month during the service period of 10 months, with a corresponding increase in the carrying amount of the liability.

Appendix B

Amendments to Other IPSASs

[Deleted]

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 39.

Objective

BC1. IPSAS 25 (2008), Employee Benefits, was drawn primarily from International Accounting Standard (IAS) 19 (2004), Employee Benefits, issued by the International Accounting Standards Board (IASB). The IASB made a number of amendments to IAS 19 in the 2011-2015 period.

BC2. In order to update IPSAS 25, the IPSASB approved a limited scope review of IPSAS 25 to converge with the revised IAS 19. The IPSASB decided not to reopen the public sector specific requirements in IPSAS 25, except for the section on Composite Social Security Programs (see paragraphs BC5 and BC6 below).

BC3. In January 2016, the IPSASB issued Exposure Draft (ED) 59, *Amendments to IPSAS 25, Employee Benefits*. ED 59 proposed amendments to maintain convergence with IAS 19. The proposed amendments made a large number of changes to the text of IPSAS 25. A number of respondents expressed reservations that the scale of these changes impaired the understandability of IPSAS 25. The IPSASB therefore decided to issue a new IPSAS 39, *Employee Benefits*, rather than a revised IPSAS 25, in order to help preparers.

BC4. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 39, *Employee Benefits*. With the exception of Composite Social Security Programs, the Basis for Conclusions only considers those areas where IPSAS 39 departs from the main requirements of IAS 19 (amended in 2011 onwards), or where the IPSASB considered such departures.

Composite Social Security Programs

BC5. ED 59 indicated that the IPSASB was considering the deletion of the section on Composite Social Security Programs, because the IPSASB was not aware that it had been applied in any jurisdiction. The IPSASB specifically asked for comments on this issue.

BC6. No respondent to ED 59 identified a jurisdiction where entities applied these requirements. The majority of respondents supported the deletion of the section on Composite Social Security Programs. As the IPSASB did not identify a new and compelling reason to retain the section, the IPSASB decided not to include it in IPSAS 39.

State Plans

BC7. This Standard retains the requirement in IAS 19 that an entity accounts for a state plan in the same way as for a multi-employer plan. The IPSASB concluded that it should provide further commentary to clarify the approach to accounting for state plans by public sector entities as in IPSAS 25. Paragraph 47 provides a rebuttable presumption that the state plan will be characterized as a defined benefit plan by the controlling entity. Only where that presumption is rebutted is the state plan accounted for as a defined contribution plan.

Defined Benefit Plans with Participating Entities under Common Control

BC8. In the public sector, there are likely to be many cases where entities under common control participate in defined benefit plans. IAS 19 includes commentary on defined benefit plans that share risks between entities under common control. The IPSASB considered that the requirements in IAS 19 are appropriate in the public sector. The IPSASB also considered it appropriate to emphasize that, unless there is a contractual agreement, binding arrangement, or stated policy for charging the net defined benefit cost for the plan as a whole to an individual entity, it is inappropriate for controlled entities to account on a defined benefit basis as in IPSAS 25. In such cases, the controlling entity should account for such plans on a defined benefit basis in its consolidated financial statements. Controlled entities (a) account on a defined contribution basis, (b) identify the controlling entity, and (c) disclose that the controlling entity is accounting on a defined benefit basis in its consolidated financial statements. This is reflected in paragraph 42. Controlled entities also make the disclosures specified in paragraph 151.

Discount Rates

BC9. IAS 19 requires adoption of a discount rate based on the market yields at the end of the reporting period on high quality corporate bonds. The IPSASB decided that the discount rate should reflect the time value of money, and considered that entities should be left to determine the rate that best achieves that objective in the same way as in IPSAS 25. The IPSASB considered that the time value of money may be best reflected by reference to market yields on government bonds, high quality corporate bonds, or any other financial instrument. The discount rate used is not intended to incorporate the risk associated with defined benefit obligations or entity-specific credit risk. There is an additional disclosure requirement at paragraph 141(d) informing users of the basis on which the discount rate has been determined.

BC10. The IPSASB considered whether it should provide guidance to assist entities operating in jurisdictions where there is neither a deep market in government bonds nor a deep market in high quality corporate bonds to determine a discount rate that reflects the time value of money. The IPSASB acknowledges that determination of an appropriate discount rate is likely to be a difficult issue for entities operating in such jurisdictions, and that such entities may be in the process of migrating, or have recently migrated, to the accrual basis of accounting. However, the IPSASB concluded that this is not an issue that applies only in the public sector, and that there is an insufficiently clear public sector-specific reason to provide such guidance.

Other Long-Term Employee Benefits: Long-Term Disability Benefits

BC11. IAS 19 lists long-term disability benefits as an example of an "other long-term employee benefit." IAS 19 states that "the measurement of other long-term employee benefits is not usually subject to the same degree of uncertainty as the measurement of post-employment benefits." In the public sector, disability benefits related to certain areas of service provision, such as the military, may be financially highly significant, and related actuarial gains or losses volatile.

BC12. Therefore, IPSAS 39 retains the rebuttable presumption included in IPSAS 25 that long-term disability payments are not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. Where this presumption is rebutted, the entity considers whether some or all long-term disability payments should be accounted for using the same requirements as for post-employment benefits.

Other Long-Term Employee Benefits: Compensation Payable by the Reporting Entity until an Individual Enters New Employment

BC13. Although it does not consider it likely that such circumstances are widespread, the IPSASB acknowledged that there may be cases where a reporting entity is contractually bound to make compensation payments separate from a termination benefit to a past employee until he/she enters new employment. The list of other long-term benefits in paragraph 155 was therefore amended to include such circumstances, as in IPSAS 25.

Remeasurements

BC14. IAS 19 (amended in 2011) recognizes remeasurements of the net defined liability (asset) in other comprehensive income rather than in profit or loss. The IPSASB noted that *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* does not acknowledge "other comprehensive income", and that "other comprehensive income" is not a defined term in IPSAS 1, *Presentation of Financial Statements*. The IPSASB considered that recognizing remeasurements in net assets/equity would have the same accounting outcome as IAS 19 in not impacting surplus or deficit with components of defined benefit cost that have different predictive values. Therefore, the IPSASB decided to recognize remeasurements in net assets/equity rather than surplus or deficit.

BC15. The IPSASB noted that paragraph 45 of IPSAS 1 requires an entity to present each material class of similar items separately in the financial statements. Items of a dissimilar nature or function are presented separately, unless they are immaterial. Therefore, the IPSASB considered that a separate presentation of remeasurements of post-employment benefits may be required in the statement of changes in net assets/equity, if it is material.

Requirements of Government Finance Statistics Reporting Guidelines

BC16. The IPSASB considered the requirements of Government Finance Statistics (GFS) reporting guidelines on the classification, presentation, recognition, measurement and disclosure of employee benefits and identified some differences with both the revised IAS 19 and with IPSAS 39.

BC17. GFS reporting guidelines do not apply the net interest approach, but rather recognize the proceeds of fund assets and interest on fund liabilities according to the economic nature of these revenues and expenses. GFS then attributes the property income and the increase in the liability for benefit entitlements due to the passage of time through an entry in "property expense for investment income disbursements". In IPSAS 39 equivalent entries are presented in surplus or deficit.

BC18. For autonomous funds recognized outside the employer's accounts, GFS recognizes a claim of the pension fund on the pension manager for deficits of the pension fund in specific circumstances. In these cases, GFS does not require the recognition of an interest expense in the employers' accounts due to the passage of time in recognizing that claim.

BC19. In GFS, the plan assets are generally measured on the same basis as other assets, which is normally market value. Therefore, unlike IPSAS 39, no additional calculation to include the discount rate in the plan assets as a whole is necessary to estimate present value. However, in GFS some assets are not measured at market value. This may give rise to different valuations between IPSAS 39 and GFS (for example: loans are measured at nominal value in GFS and usually at amortized cost in IPSAS).

BC20. In GFS, any changes in the volume or value of assets that do not result from transactions are recorded in the Statement of Other Economic Flows, which includes the effect of the passage of time. In GFS, the pension fund only records actual revenue from transactions such as interest, dividends and rents in the Statement of Operations.

BC21. GFS does not disaggregate employee benefits into short-term and long-term employee benefits and does not require specific disclosures on employee benefits, except for the supplementary table on pension schemes in social insurance specified in the System of National Accounts 2008.

BC22. The IPSASB concluded that these differences are due to the different objectives and presentational frameworks of IPSAS and GFS. They do not constitute public sector specific reasons that warrant departure from IAS 19.

Comparison with IAS 19

IPSAS 39 is drawn primarily from IAS 19 (issued in 2011, including amendments up to December 31, 2015). The main differences between IPSAS 39 and IAS 19 are as follows:

- IPSAS 39 contains additional guidance on public sector bonus plans.
- For discounting post-employment obligations, IAS 19 requires entities to apply a discount rate based on yields on high quality corporate bonds consistent with the currency and estimated term of the post-employment benefit obligations. The requirement in IPSAS 39 is that entities apply a rate that reflects the time value of money. IPSAS 39 also contains a requirement that entities disclose the basis on which the discount rate has been determined.
- IPSAS 39 includes a rebuttable presumption that long-term disability payments are not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. Where this presumption is rebutted, the entity considers whether some or all long-term disability payments should be accounted for in the same way as for post-employment benefits. IAS 19 does not include such a rebuttable presumption.
- IPSAS 39 recognizes remeasurements of the net defined benefit liability (asset) in net assets/equity. IAS 19 recognizes them in other comprehensive income.
- IPSAS 39 uses different terminology, in certain instances, from IAS 19. The most significant examples are the use of the terms "revenue", "controlling" and "controlled entities". The equivalent terms in IAS 19 are "income", "parent" and "subsidiaries".

IPSAS 40—PUBLIC SECTOR COMBINATIONS

Acknowledgment

The acquisition accounting requirements of this International Public Sector Accounting Standard (IPSAS) draw upon International Financial Reporting Standard (IFRS) 3, *Business Combinations,* published by the International Accounting Standards Board (IASB). Extracts from IFRS 3 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards Foundation.

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IPSAS 40—PUBLIC SECTOR COMBINATIONS

History of IPSAS

This version includes amendments resulting from IPSASs issued up to January 31, 2018.

IPSAS 40, *Public Sector Combinations* was issued in January 2017.

IPSAS 40—PUBLIC SECTOR COMBINATIONS

CONTENTS

International Public Sector Accounting Standard 40, *Public Sector Combinations*, is set out in paragraphs 1–62. All the paragraphs have equal authority. IPSAS 40 should be read in the context of its objective, the Basis for Conclusions, the Preface to *International Public Sector Accounting Standards, and the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about a public sector combination and its effects. To accomplish that, this Standard establishes principles and requirements for how:

   (a) A reporting entity classifies a public sector combination as an amalgamation or an acquisition;

   (b) A resulting entity recognizes and measures in its financial statements the identifiable assets received, the liabilities assumed and any non-controlling interest in an amalgamation;

   (c) A resulting entity recognizes and measures components of net assets/equity and other adjustments recognized in an amalgamation;

   (d) An acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation;

   (e) An acquirer recognizes and measures the goodwill acquired in, or the gain or loss arising from, an acquisition; and

   (f) A reporting entity determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of a public sector combination.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for public sector combinations.**

3. **This Standard applies to a transaction or other event that meets the definition of a public sector combination. This Standard does not apply to:**

   (a) **The accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.**

   (b) **The acquisition or receipt of an asset or a group of assets (and any related liabilities) that does not constitute an operation. In such cases an entity shall identify and recognize the individual identifiable assets acquired or received (including those assets that meet the definition of, and recognition criteria for, intangible assets in IPSAS 31, *Intangible Assets*) and liabilities assumed. Such a transaction or event does not give rise to goodwill.**

(c) **The assumption of a liability or a group of liabilities that does not constitute an operation. In such cases an entity shall identify and recognize the individual liabilities assumed.**

4. **The requirements of this Standard do not apply to the acquisition by an investment entity, as defined in IPSAS 35, *Consolidated Financial Statements*, of an investment in a controlled entity that is required to be measured at fair value through surplus or deficit.**

Definitions

5. **The following terms are used in this Standard with the meanings specified:**

A <u>public sector combination</u> is the bringing together of separate operations into one public sector entity.

General Definitions Related to All Public Sector Combinations

For the purposes of this Standard, <u>equity interests</u> is used broadly to mean ownership interests of investor-owned entities and owner, member or participant interests of mutual entities.

An asset is <u>identifiable</u> if it either:

(a) **Is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related binding arrangement, identifiable asset or liability, regardless of whether the entity intends to do so; or**

(b) **Arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.**

A <u>mutual entity</u> is an entity, other than an investor-owned entity, that provides dividends, lower costs or other economic benefits directly to its owners, members or participants. For example, a mutual insurance company, a credit union and a co-operative entity are all mutual entities.

An <u>operation</u> is an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives, by providing goods and/or services.

For the purposes of this Standard, <u>owners</u> is used broadly to include any party with quantifiable ownership interests in an operation. This includes, but is not limited to, holders of equity interests of investor-owned entities and owners or members of, or participants in, mutual entities.

A public sector combination under common control is a public sector combination in which all of the entities or operations involved are ultimately controlled by the same entity both before and after the public sector combination.

Definitions Related to Amalgamations

An amalgamation gives rise to a resulting entity and is either:

(a) **A public sector combination in which no party to the combination gains control of one or more operations; or**

(b) **A public sector combination in which one party to the combination gains control of one or more operations, and in which there is evidence that the combination has the economic substance of an amalgamation.**

(Paragraph AG1 provides additional guidance.)

The amalgamation date is the date on which the resulting entity obtains control of the combining operations.

A combining operation is an operation that combines with one or more other operations to form the resulting entity in an amalgamation.

A resulting entity is the entity that is the result of two or more operations combining in an amalgamation (paragraph AG1 provides additional guidance).

Definitions Relating to Acquisitions

An acquired operation is the operation that the acquirer gains control of in an acquisition.

An acquirer is the entity that gains control of one or more operations in an acquisition.

An acquisition is a public sector combination in which one party to the combination gains control of one or more operations, and there is evidence that the combination is not an amalgamation.

The acquisition date is the date on which the acquirer gains control of the acquired operation.

Contingent consideration is usually an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquired operation as part of the exchange for control of the acquired operation if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.

Goodwill is an asset representing the future economic benefits arising from other assets acquired in an acquisition that are not individually identified and separately recognized.

Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Identifying a Public Sector Combination

6. **An entity shall determine whether a transaction or other event is a public sector combination by applying the definitions in this Standard, which requires that the assets and liabilities constitute an operation. If the assets and liabilities do not constitute an operation, the entity shall account for the transaction or other event in accordance with other IPSASs. Paragraphs AG2–AG9 provide guidance on identifying a public sector combination.**

Classification of Public Sector Combinations

7. **If no party to a public sector combination gains control of one or more operations as a result of the combination, the combination shall be classified as an amalgamation. Paragraphs AG10–AG18 provide guidance on determining whether one party to a public sector combination gains control of one or more operations as a result of that combination.**

8. **If one party to a public sector combination gains control of one or more operations as a result of the combination, an entity shall consider the economic substance of the combination in classifying the combination as either an amalgamation or an acquisition. A combination in which one party gains control of one or more operations shall be classified as an acquisition, unless it has the economic substance of an amalgamation.**

9. **In determining the classification of the public sector combination, an entity considers whether the resulting accounting treatment of the combination provides information that meets the objectives of financial reporting and that satisfies the qualitative characteristics (QCs).To assess the economic substance of the combination, an entity considers the indicators relating to consideration and to the decision-making process in paragraphs 12–13. These indicators, individually or in combination, will usually provide evidence that the economic substance of the combination is that of an amalgamation. A combination does not need to satisfy both of these indicators to be classified as an amalgamation. Paragraphs AG19–AG39 provide additional guidance.**

10. An analysis of the indicators relating to consideration and to the decision-making process in paragraphs 12–13 will usually produce a conclusive result and provide sufficient evidence about the economic substance of the public

sector combination to determine whether the combination is an amalgamation. In such circumstances, the resulting classification and the associated accounting treatment will ensure that users have access to information that meets the objectives of financial reporting and that satisfies the QCs.

11. In exceptional circumstances, after applying the indicators in paragraphs 12–13, the results may be inconclusive or may not provide sufficient evidence about the economic substance of the public sector combination. In such circumstances, an entity also considers which classification would provide information that best meets the objectives of financial reporting and that best satisfies the QCs, having regard to paragraph 14. Paragraphs AG40–AG41 provide additional guidance.

Indicators that May Provide Evidence that the Combination is an Amalgamation

Indicators Relating to Consideration

12. The following indicators may provide evidence that the combination is an amalgamation:

    (a) Consideration is paid for reasons other than to compensate those with an entitlement to the net assets of a transferred operation for giving up that entitlement (paragraphs AG27–AG28 provide additional guidance);

    (b) Consideration is not paid to those with an entitlement to the net assets of a transferred operation (paragraphs AG29–AG30 provide additional guidance); or

    (c) Consideration is not paid because there is no-one (whether an individual or an entity) with an entitlement to the net assets of a transferred entity (paragraph AG31 provides additional guidance).

Indicators Relating to the Decision-Making Process

13. The following indicators may provide evidence that the combination is an amalgamation:

    (a) A public sector combination is imposed by a third party without any party to the combination being involved in the decision-making process (paragraphs AG32–AG35 provide additional guidance);

    (b) A public sector combination is subject to approval by each party's citizens through referenda (paragraph AG36 provides additional guidance); or

    (c) A public sector combination under common control occurs (paragraphs AG37–AG39 provide additional guidance).

Additional matters to be taken into account where the indicators relating to consideration and the decision-making process do not provide sufficient evidence to determine whether the combination is an amalgamation

14. The analysis of the indicators relating to consideration and the decision-making process may, in exceptional circumstances, produce inconclusive results or not provide sufficient evidence to determine whether the combination is an amalgamation, based on the economic substance of the public sector combination and the indicators in paragraphs 12–13. In such circumstances, an entity considers which classification and resulting accounting treatment would provide information that best meets the objectives of financial reporting. Paragraphs AG42–AG46 provide additional guidance. An entity also considers which classification and resulting accounting treatment would provide information that best satisfies the QCs of relevance, faithful representation, understandability, timeliness, comparability and verifiability. Paragraphs AG47–AG50 provide additional guidance.

Accounting for Amalgamations

15. **A resulting entity shall account for each amalgamation by applying the modified pooling of interests method of accounting.**

The Modified Pooling of Interests Method of Accounting

16. Applying the modified pooling of interests method of accounting requires:

    (a) Identifying the resulting entity;

    (b) Determining the amalgamation date;

    (c) Recognizing and measuring the identifiable assets received, the liabilities assumed and any non-controlling interest in the combining operations, consistent with the requirements in IPSASs; and

    (d) Recognizing and measuring the components of net assets/equity and other adjustments from an amalgamation.

Identifying the Resulting Entity

17. **For each amalgamation, a resulting entity shall be identified.**

18. Paragraph 5 of this Standard defines a resulting entity as "the entity that is the result of two or more operations combining in an amalgamation." The resulting entity shall thereafter be identified as the entity that obtains control of the combining operations as a result of the amalgamation.

Determining the Amalgamation Date

19. **The resulting entity shall identify the amalgamation date, which is the date on which it obtains control of the combining operations.**

20. The date on which the resulting entity obtains control of the combining operations may be the date on which the resulting entity receives the assets and assumes the liabilities of the combining operations. It is possible that the resulting entity will not receive legal title to the assets or assume legal responsibility for the liabilities of the combining operations. In these circumstances, the resulting entity will often obtain control of the assets and liabilities of the combining operations on the date on which responsibility for the assets and liabilities is formally delegated to the resulting entity. However, the resulting entity might obtain control on a different date. For example, legislation or a written agreement may provide that the resulting entity obtains control of the assets and liabilities of the combining operations on a specified date. A resulting entity shall consider all pertinent facts and circumstances in identifying the amalgamation date.

Recognizing and Measuring the Identifiable Assets, Liabilities Assumed and any Non-Controlling Interests in the Combining Operations

Recognition Principle

21. **As of the amalgamation date, the resulting entity shall recognize the identifiable assets, liabilities and any non-controlling interests that are recognized in the financial statements of the combining operations as of the amalgamation date. Recognition of identifiable assets and liabilities received is subject to the conditions specified in paragraphs 22–23.**

Recognition Conditions

22. **The effects of all transactions between the combining operations are eliminated in preparing the financial statements of the resulting entity (paragraphs AG51–AG52 provide related application guidance).**

23. To qualify for recognition as part of applying the modified pooling of interests method, the identifiable assets and liabilities must meet the definitions of assets and liabilities in the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* at the amalgamation date. For example, costs that the resulting entity expects, but is not obliged, to incur in the future to effect its plan to exit an activity of a combining operation or to terminate the employment of or relocate a combining operation's employees are not liabilities at the amalgamation date. Therefore, the resulting entity does not recognize those costs as part of applying the modified pooling of interests method. Instead, the resulting entity recognizes those costs in its post-combination financial statements in accordance with other IPSASs.

Classifying or Designating Assets and Liabilities in an Amalgamation

24. **At the amalgamation date, the resulting entity shall classify or designate the assets and liabilities received in an amalgamation using the classifications or designations previously applied by the combining**

operations. A resulting entity shall not adopt different classifications or designations on initial recognition, even if this is permitted by other IPSASs.

25. In some situations, IPSASs provide for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the resulting entity shall make on the basis of the classifications or designations previously applied by the combining operations include but are not limited to:

    (a) Classification of particular financial assets and liabilities as measured at fair value or at amortized cost, in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement*;

    (b) Designation of a derivative instrument as a hedging instrument in accordance with IPSAS 29; and

    (c) Assessment of whether an embedded derivative should be separated from a host contract in accordance with IPSAS 29 (which is a matter of 'classification' as this Standard uses that term).

Measurement Principle

26. **The resulting entity shall measure the identifiable assets and liabilities of the combining operations at their carrying amounts in the financial statements of the combining operations as of the amalgamation date, subject to the requirements of paragraph 27 (paragraphs AG53–AG54 provide related application guidance).**

27. **As of the amalgamation date, the resulting entity shall adjust the carrying amounts of the identifiable assets and liabilities of the combining operations where required to conform to the resulting entity's accounting policies.**

28. The modified pooling of interests method results in a single combined resulting entity. A single uniform set of accounting policies, consistent with the requirements of IPSASs, is adopted by that entity, and the carrying amounts of the identifiable assets and liabilities of the combining operations are adjusted, where required, to conform to those accounting policies.

29. The resulting entity shall measure any non-controlling interests in a combining operation at their carrying amounts in the financial statements of that combining operation as of the amalgamation date, adjusted for the non-controlling interests' proportionate share of the adjustments made in accordance with paragraph 27.

30. Paragraphs 33–35 specify the types of identifiable assets and liabilities that include items for which this Standard provides limited exceptions to the measurement principle.

Exceptions to the Recognition or Measurement Principles

31. This Standard provides limited exceptions to its recognition and measurement principles. Paragraphs 32–35 specify both the particular items for which exceptions are provided and the nature of those exceptions. The resulting entity shall account for those items by applying the requirements in paragraphs 32–35, which will result in some items being:

    (a) Recognized either by applying recognition conditions in addition to those in paragraphs 22–23 or by applying the requirements of other IPSASs, with results that differ from applying the recognition principle and conditions.

    (b) Measured at an amount other than their amalgamation date carrying amounts.

Exception to the Recognition Principle

Licenses and similar rights previously granted by one combining operation to another combining operation

32. A license or similar right, previously granted by one combining operation to another combining operation and recognized as an intangible asset by the recipient combining operation shall be recognized by the resulting entity as an intangible asset. The license or similar right shall not be eliminated in accordance with paragraph 22 (paragraphs AG55–AG56 provide related application guidance).

Exceptions to Both the Recognition and Measurement Principles

Income Taxes (Where Included in the Terms of the Amalgamation)

33. Amalgamations involving public sector entities may result in a tax authority forgiving amounts of tax due as part of the terms of the amalgamation. The resulting entity shall not recognize any taxation items that are forgiven as a result of the terms of the amalgamation (paragraphs AG57–AG58 provide related application guidance).

34. The resulting entity shall recognize and measure any remaining taxation items included in or arising from an amalgamation in accordance with the relevant international or national accounting standard dealing with income taxes. The resulting entity shall recognize and measure any remaining revenue from taxation included in or arising from an amalgamation in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

Employee Benefits

35. The resulting entity shall recognize and measure a liability (or asset, if any) related to the combining operation's employee benefit arrangements in accordance with IPSAS 39, *Employee Benefits*.

Recognizing and Measuring Components of Net Assets/Equity Arising as a Result of an Amalgamation

36. **An amalgamation does not give rise to goodwill (paragraphs AG59–AG60 provide related application guidance).**

37. **The resulting entity shall recognize within net assets/equity amounts equal and opposite to the following items:**

    (a) **The carrying amounts of the combining operations' assets**;

    (b) **The carrying amounts of the combining operations' liabilities; and**

    (c) **The carrying amounts of the combining operations' non-controlling interests.**

38. **The resulting entity shall recognize within net assets/equity the corresponding adjustments in respect of:**

    (a) **The elimination of transactions between combining operations in accordance with paragraph 22;**

    (b) **Adjustments made to the carrying amounts of the identifiable assets and liabilities of the combining operations where required to conform to the resulting entity's accounting policies, in accordance with paragraph 27; and**

    (c) **Adjustments made in respect of the exceptions to the recognition and/or measurement principles, in accordance with paragraphs 32–35.**

39. **The resulting entity may present the amounts recognized within net assets/equity in accordance with paragraphs 37 and 38 as either:**

    (a) **A single opening balance; or**

    (b) **As separate components of net assets/equity.**

Measurement Period

40. **If the initial accounting for an amalgamation is incomplete by the end of the reporting period in which the amalgamation occurs, the resulting entity shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the resulting entity shall retrospectively adjust the provisional amounts recognized at the amalgamation date to reflect new information obtained about facts and circumstances that existed as of the amalgamation date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the resulting entity shall also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the amalgamation date and, if known,**

would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the resulting entity receives the information it was seeking about facts and circumstances that existed as of the amalgamation date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the amalgamation date.

41. The measurement period is the period after the amalgamation date during which the resulting entity may adjust the provisional amounts recognized for an amalgamation. The measurement period provides the resulting entity with a reasonable time to obtain the information necessary to identify and measure the identifiable assets, liabilities and any non-controlling interest in the combining operations as of the amalgamation date in accordance with the requirements of this Standard. The information necessary to identify and measure the identifiable assets, liabilities and any non-controlling interest in the combining operations will generally be available at the amalgamation date. However, this may not be the case where combining operations have previously prepared their financial statements using different accounting policies.

42. The resulting entity recognizes an increase (decrease) in the provisional amount recognized for an identifiable asset (liability) by adjusting components of net assets/equity recognized in accordance with paragraphs 37–38. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability. For example, the resulting entity might have assumed a liability to pay damages related to an accident in one of the combining operation's facilities, part or all of which are covered by the combining operation's liability insurance policy. If the resulting entity obtains new information during the measurement period about the carrying amount of that liability, the adjustment to the gain or loss resulting from a change to the provisional amount recognized for the liability would be offset (in whole or in part) by a corresponding adjustment to the gain or loss resulting from a change to the provisional amount recognized for the claim receivable from the insurer.

43. During the measurement period, the resulting entity shall recognize adjustments to the provisional amounts as if the accounting for the amalgamation had been completed at the amalgamation date. Thus, the resulting entity shall revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation or amortization recognized in completing the initial accounting.

44. After the measurement period ends, the resulting entity shall revise the accounting for an amalgamation only to correct an error in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Amalgamation-Related Costs

45. Amalgamation-related costs are costs the resulting entity or combining operations incur to effect an amalgamation. Those costs include advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs; and any costs of registering and issuing debt and equity securities. The resulting entity and combining operations shall account for amalgamation-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognized in accordance with IPSAS 28, *Financial Instruments: Presentation*, and IPSAS 29.

Subsequent Measurement and Accounting

46. In general, a resulting entity shall subsequently measure and account for assets and liabilities received and equity instruments issued in an amalgamation in accordance with other applicable IPSASs for those items, depending on their nature. However, this Standard provides guidance on subsequently measuring and accounting for the following assets received and liabilities assumed or incurred in an amalgamation:

   (a) Licenses and similar rights previously granted by one combining operation to another combining operation;

   (b) Transfers, concessionary loans and similar benefits received by a combining operation on the basis of criteria that change as a result of an amalgamation; and

   (c) Income taxes (where not included in the terms of the amalgamation).

Licenses and Similar Rights Previously Granted by One Combining Operation to Another Combining Operation

47. A license or similar right, previously granted by one combining operation to another combining operation and recognized as an intangible asset shall be amortized over the remaining period of the binding arrangement in which the right was granted, where the right was granted for a finite period. Where the right was granted for an indefinite period, the resulting entity shall test the right for impairment at least annually, and whenever there is an indication that the right may be impaired. A resulting entity that subsequently sells this license or similar right to a third party shall include the carrying amount of the intangible asset in determining the gain or loss on the sale.

Transfers, Concessionary Loans and Similar Benefits Received by a Combining Operation on the Basis of Criteria that May Change as a Result of an Amalgamation

48. A transfer, concessionary loan or similar benefit, previously received by a combining operation on the basis of criteria that change as a result of an

amalgamation, shall be reassessed prospectively in accordance with other IPSASs (paragraphs AG61–AG63 provide related application guidance).

Income Taxes (Where not Included in the Terms of the Amalgamation)

49. Amalgamations involving public sector entities may result in a tax authority forgiving amounts of tax subsequent to the amalgamation. The resulting entity shall account for the tax forgiven prospectively in accordance with the relevant international or national accounting standard dealing with income taxes.

Presentation of Financial Statements

50. **Except where a resulting entity is not a new entity following a public sector combination, the resulting entity's first set of financial statements following the amalgamation shall comprise:**

  (a) **An opening statement of financial position as of the amalgamation date;**

  (b) **A statement of financial position as at the reporting date;**

  (c) **A statement of financial performance for the period from the amalgamation date to the reporting date;**

  (d) **A statement of changes in net assets/equity for the period from the amalgamation date to the reporting date;**

  (e) **A cash flow statement for the period from the amalgamation date to the reporting date;**

  (f) **If the entity makes publicly available its approved budget, a comparison of budget and actual amounts for the period from the amalgamation date to the reporting date, either as a separate additional financial statement or as a budget column in the financial statements; and**

  (g) **Notes, comprising a summary of significant accounting policies and other explanatory notes.**

51. **Where a resulting entity is not a new entity following a public sector combination, the resulting entity shall disclose:**

  (a) **The amounts recognized of each major class of assets and liabilities, and components of net assets/equity from combining operations included in the resulting entity;**

  (b) **Any adjustments made to components of net assets/equity where required to conform the accounting policies of the combining operations with those of the resulting entity; and**

(c) **Any adjustments made to eliminate transactions between the combining operations.**

52. Subject to the requirements in paragraphs 54 and 56, the resulting entity is permitted but not required to present financial statements for periods prior to the amalgamation date (paragraphs AG64–AG65 provide related application guidance). Where a resulting entity elects to present financial statements for periods prior to the amalgamation date, it shall disclose the information required by paragraph 54(g).

Disclosures

53. **The resulting entity shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of an amalgamation.**

54. To meet the objective in paragraph 53, the resulting entity shall disclose the following information for each amalgamation that occurs during the reporting period:

(a) The name and a description of each combining operation.

(b) The amalgamation date.

(c) The primary reasons for the amalgamation including, where applicable, the legal basis for the amalgamation.

(d) The amounts recognized as of the amalgamation date for each major class of assets and liabilities transferred.

(e) The adjustments made to the carrying amounts of assets and liabilities recorded by each combining operation as of the amalgamation date:

(i) To eliminate the effect of transactions between combining operations in accordance with paragraph 22; and

(ii) To conform to the resulting entity's accounting policies in accordance with paragraph 27.

(f) An analysis of net assets/equity, including any components that are presented separately, and any significant adjustments such as revaluation surpluses or deficits, recognized in accordance with paragraphs 37–38.

(g) If a resulting entity elects to present financial statements for periods prior to the amalgamation date in accordance with paragraph 52, the resulting entity shall disclose the following information for each combining operation:

(i) A statement of financial position as at the end of the prior period(s);

(ii) A statement of financial performance for the prior period(s);

(iii) A statement of changes in net assets/equity for the prior period(s);

(iv) A cash flow statement for the prior period(s); and

(v) Notes, comprising a summary of significant accounting policies and other explanatory notes.

The resulting entity shall not restate this information, but shall disclose the information on the same basis as used in the combining operations' financial statements. The resulting entity shall disclose the basis on which this information is presented.

(h) If, at the time the financial statements of the resulting entity are authorized for issue, the last reporting date of any of the combining operations does not immediately precede the amalgamation date, the resulting entity shall disclose the following information:

(i) The amounts of revenue and expense, and the surplus or deficit of each combining operation from the last reporting date of the combining operations until the amalgamation date. The amounts of revenue shall be analyzed in a manner appropriate to the entity's operations, in accordance with paragraph 108 of IPSAS 1, *Presentation of Financial Statements*. The amounts of expense shall be analyzed using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is faithfully representative and more relevant, in accordance with paragraph 109 of IPSAS 1.

(ii) The amounts reported by each combining operation immediately prior to the amalgamation date for each major class of assets and liabilities.

(iii) The amounts reported by each combining operation immediately prior to the amalgamation date in net assets/equity.

The resulting entity is not required to disclose this information where it has elected to present financial statements for periods prior to the amalgamation date as specified in subparagraph (g) above.

55. **The resulting entity shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognized in the current reporting period that relate to amalgamations that occurred in the period or previous reporting periods.**

56. To meet the objective in paragraph 55, the resulting entity shall disclose the following information:

    (a) If the initial accounting for an amalgamation is incomplete (see paragraph 40) for particular assets or liabilities, and the amounts recognized in the financial statements for the amalgamation thus have been determined only provisionally:

        (i) The reasons why the initial accounting for the amalgamation is incomplete;

        (ii) The assets or liabilities for which the initial accounting is incomplete; and

        (iii) The nature and amount of any measurement period adjustments recognized during the reporting period in accordance with paragraph 43.

    (b) If amounts of tax due are forgiven as a result of the terms of the amalgamation (see paragraphs 33–34):

        (i) The amount of tax due that was forgiven; and

        (ii) Where the resulting entity is the tax authority, details of the adjustment made to tax receivable.

57. If the specific disclosures required by this and other IPSASs do not meet the objectives set out in paragraphs 53 and 55, the resulting entity shall disclose whatever additional information is necessary to meet those objectives.

Accounting for Acquisitions

58. **An acquirer shall account for each acquisition by applying the acquisition method of accounting.**

The Acquisition Method of Accounting

59. Applying the acquisition method of accounting requires:

    (a) Identifying the acquirer;

    (b) Determining the acquisition date;

    (c) Recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation; and

    (d) Recognizing and measuring goodwill, a gain or a loss from an acquisition.

Identifying the Acquirer

60. **For each acquisition, the party to the combination that gains control of one or more operations shall be identified as the acquirer.**

61. The party to the combination that gains control of one or more operations is identified when determining the classification of the public sector combination in accordance with paragraphs 7, 8 and AG10–AG18.

Determining the Acquisition Date

62. **The acquirer shall identify the acquisition date, which is the date on which it obtains control of the acquired operation.**

63. The date on which the acquirer obtains control of the acquired operation is generally the date on which the acquirer legally transfers the consideration and/or acquires the assets and assumes the liabilities of the acquired operation—the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date. For example, the acquisition date precedes the closing date if a written agreement provides that the acquirer obtains control of the acquired operation on a date before the closing date. An acquirer shall consider all pertinent facts and circumstances in identifying the acquisition date.

Recognizing and Measuring the Identifiable Assets Acquired, the Liabilities Assumed and any Non-Controlling Interest in the Acquired Operation

Recognition Principle

64. **As of the acquisition date, the acquirer shall recognize, separately from any goodwill recognized, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired operation. Recognition of identifiable assets acquired and liabilities assumed is subject to the conditions specified in paragraphs 65 and 66.**

Recognition Conditions

65. To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* at the acquisition date, and be capable of being measured in a way that achieves the qualitative characteristics and takes account of constraints on information in general purpose financial reporting. For example, costs the acquirer expects but is not obliged to incur in the future to effect its plan to exit an activity of an acquired operation or to terminate the employment of or relocate an acquired operation's employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognize those costs as part of applying the acquisition method. Instead, the

acquirer recognizes those costs in its post-combination financial statements in accordance with other IPSASs.

66. In addition, to qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must be part of what the acquirer and the acquired operation (or its former owners) exchanged in the acquisition transaction rather than the result of separate transactions. The acquirer shall apply the guidance in paragraphs 109–111 to determine which assets acquired or liabilities assumed are part of the exchange for the acquired operation and which, if any, are the result of separate transactions to be accounted for in accordance with their nature and the applicable IPSASs.

67. The acquirer's application of the recognition principle and conditions may result in recognizing some assets and liabilities that the acquired operation had not previously recognized as assets and liabilities in its financial statements. For example, the acquirer recognizes the acquired identifiable intangible assets, such as a patent or a customer relationship, that the acquired operation did not recognize as assets in its financial statements because it developed them internally and charged the related costs to expense.

68. Paragraphs AG72–AG84 provide guidance on recognizing operating leases and intangible assets. Paragraphs 76–82 specify the types of identifiable assets and liabilities that include items for which this Standard provides limited exceptions to the recognition principle and conditions.

Classifying or Designating Identifiable Assets Acquired and Liabilities Assumed in an Acquisition

69. **At the acquisition date, the acquirer shall classify or designate the identifiable assets acquired and liabilities assumed as necessary to subsequently apply other IPSASs. The acquirer shall make those classifications or designations on the basis of the terms of the binding arrangement (including contractual terms), economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date.**

70. In some situations, IPSASs provide for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the acquirer shall make on the basis of the pertinent conditions as they exist at the acquisition date include but are not limited to:

    (a) Classification of particular financial assets and liabilities as measured at fair value or at amortized cost, in accordance with IPSAS 29;

    (b) Designation of a derivative instrument as a hedging instrument in accordance with IPSAS 29; and

(c) Assessment of whether an embedded derivative should be separated from a host contract in accordance with IPSAS 29 (which is a matter of 'classification' as this Standard uses that term).

71. This Standard provides two exceptions to the principle in paragraph 69:

(a) Classification of a lease arrangement as either an operating lease or a finance lease in accordance with IPSAS 13, *Leases*; and

(b) Classification of a contract as an insurance contract in accordance with the relevant international or national accounting standard dealing with insurance contracts.

The acquirer shall classify those binding arrangements on the basis of the terms and other factors at the inception of the binding arrangement (or, if the terms of the binding arrangement have been modified in a manner that would change its classification, at the date of that modification, which might be the acquisition date).

Measurement Principle

72. **The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.**

73. For each acquisition, the acquirer shall measure at the acquisition date components of non-controlling interests in the acquired operation that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either:

(a) Fair value; or

(b) The present ownership instruments' proportionate share in the recognized amounts of the acquired operation's identifiable net assets.

All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by IPSASs.

74. Paragraphs 78–84 specify the types of identifiable assets and liabilities that include items for which this Standard provides limited exceptions to the measurement principle.

Exceptions to the Recognition or Measurement Principles

75. This Standard provides limited exceptions to its recognition and measurement principles. Paragraphs 76–84 specify both the particular items for which exceptions are provided and the nature of those exceptions. The acquirer shall account for those items by applying the requirements in paragraphs 76–84, which will result in some items being:

(a) Recognized either by applying recognition conditions in addition to those in paragraphs 65–66 or by applying the requirements of other IPSASs, with results that differ from applying the recognition principle and conditions.

(b) Measured at an amount other than their acquisition-date fair values.

Exception to the Recognition Principle

Contingent Liabilities

76. IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, defines a contingent liability as:

(a) A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

(b) A present obligation that arises from past events, but is not recognized because:

(i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or

(ii) The amount of the obligation cannot be measured with sufficient reliability.

77. The requirements in IPSAS 19 do not apply in determining which contingent liabilities to recognize as of the acquisition date. Instead, the acquirer shall recognize as of the acquisition date a contingent liability assumed in an acquisition where consideration is transferred if it is a present obligation that arises from past events and its fair value can be measured reliably[1]. Therefore, contrary to IPSAS 19, the acquirer recognizes a contingent liability assumed in an acquisition where consideration is transferred at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation. Paragraph 115 provides guidance on the subsequent accounting for contingent liabilities.

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[1] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

Exceptions to Both the Recognition and Measurement Principles

Income Taxes (Where Included in the Terms of the Acquisition)

78. Acquisitions by a public sector entity may result in a tax authority forgiving amounts of tax due as part of the terms of the acquisition. The acquirer shall not recognize any taxation items that are forgiven as a result of the terms of the acquisition (paragraphs AG85–AG87 provide related application guidance).

79. The acquirer shall recognize and measure any remaining taxation items included in or arising from an acquisition in accordance with the relevant international or national accounting standard dealing with income taxes. The acquirer entity shall recognize and measure any remaining revenue from taxation included in or arising from an acquisition in accordance with IPSAS 23.

Employee Benefits

80. The acquirer shall recognize and measure a liability (or asset, if any) related to the acquired operation's employee benefit arrangements in accordance with IPSAS 39.

Indemnification Assets

81. The seller in an acquisition may contractually indemnify the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability. For example, the seller may indemnify the acquirer against losses above a specified amount on a liability arising from a particular contingency; in other words, the seller will guarantee that the acquirer's liability will not exceed a specified amount. As a result, the acquirer obtains an indemnification asset. The acquirer shall recognize an indemnification asset at the same time that it recognizes the indemnified item measured on the same basis as the indemnified item, subject to the need for a valuation allowance for uncollectible amounts. Therefore, if the indemnification relates to an asset or a liability that is recognized at the acquisition date and measured at its acquisition-date fair value, the acquirer shall recognize the indemnification asset at the acquisition date measured at its acquisition-date fair value. For an indemnification asset measured at fair value, the effects of uncertainty about future cash flows because of collectibility considerations are included in the fair value measure and a separate valuation allowance is not necessary (paragraph AG88 provides related application guidance).

82. In some circumstances, the indemnification may relate to an asset or a liability that is an exception to the recognition or measurement principles. For example, an indemnification may relate to a contingent liability that is not recognized at the acquisition date because its fair value is not reliably measurable at that date. Alternatively, an indemnification may relate to an asset or a liability, for example, one that results from an employee benefit, that is measured on a basis other than acquisition-date fair value. In those

circumstances, the indemnification asset shall be recognized and measured using assumptions consistent with those used to measure the indemnified item, subject to management's assessment of the collectibility of the indemnification asset and any contractual limitations on the indemnified amount. Paragraph 116 provides guidance on the subsequent accounting for an indemnification asset.

Exceptions to the Measurement Principle

Reacquired Rights

83. The acquirer shall measure the value of a reacquired right recognized as an intangible asset on the basis of the remaining term of the related binding arrangement regardless of whether market participants would consider potential renewals of binding arrangements when measuring its fair value. Paragraphs AG79–AG80 provide related application guidance.

Share-Based Payment Transactions

84. The acquirer shall measure a liability or an equity instrument related to share-based payment transactions of the acquired operation or the replacement of an acquired operation's share-based payment transactions with share-based payment transactions of the acquirer in accordance with the relevant international or national accounting standard dealing with share-based payments.

Recognizing and Measuring Goodwill or a Gain from a Bargain Purchase

85. **The acquirer shall recognize goodwill as of the acquisition date measured as the excess of (a) over (b) below, subject to the requirements of paragraph 86:**

    (a) **The aggregate of:**

    (i) **The consideration transferred measured in accordance with this Standard, which generally requires acquisition-date fair value (see paragraph 95);**

    (ii) **The amount of any non-controlling interest in the acquired operation measured in accordance with this Standard; and**

    (iii) **In an acquisition achieved in stages (see paragraphs 99–100), the acquisition-date fair value of the acquirer's previously held equity interest in the acquired operation.**

    (b) **The net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this Standard.**

86. **The acquirer shall recognize goodwill only to the extent that the acquisition will result in:**

   (a) **The generation of cash inflows (such as the acquisition of a cash-generating operation); and/or**

   (b) **A reduction in the net cash outflows of the acquirer.**

   An acquirer shall recognize any further excess of (a) over (b) in paragraph 85 above as a loss in surplus or deficit. Paragraph AG93 provides related application guidance.

87. In an acquisition in which the acquirer and the acquired operation (or its former owners) exchange only equity interests, the acquisition-date fair value of the acquired operation's equity interests may be more reliably measurable than the acquisition-date fair value of the acquirer's equity interests. If so, the acquirer shall determine the amount of goodwill by using the acquisition-date fair value of the acquired operation's equity interests instead of the acquisition-date fair value of the equity interests transferred. To determine the amount of goodwill in an acquisition in which no consideration is transferred, the acquirer shall use the acquisition-date fair value of the acquirer's interest in the acquired operation in place of the acquisition-date fair value of the consideration transferred (paragraph 85(a)(i)). Paragraph AG94 provides related application guidance.

Bargain Purchases

88. Occasionally in a public sector combination classified as an acquisition, an acquirer will make a bargain purchase, which is an acquisition in which the amount in paragraph 85(b) exceeds the aggregate of the amounts specified in paragraph 85(a). If that excess remains after applying the requirements in paragraph 90, the acquirer shall recognize the resulting gain in surplus or deficit on the acquisition date. The gain shall be attributed to the acquirer.

89. A bargain purchase might happen, for example, in an acquisition that is a forced sale in which the seller is acting under economic compulsion. However, the recognition or measurement exceptions for particular items discussed in paragraphs 76–84 may also result in recognizing a gain (or change the amount of a recognized gain) on a bargain purchase.

90. Before recognizing a gain on a bargain purchase, the acquirer shall reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and shall recognize any additional assets or liabilities that are identified in that review. The acquirer shall then review the procedures used to measure the amounts this Standard requires to be recognized at the acquisition date for all of the following:

(a) The identifiable assets acquired and liabilities assumed;

(b) The non-controlling interest in the acquired operation, if any;

(c) For an acquisition achieved in stages, the acquirer's previously held equity interest in the acquired operation; and

(d) The consideration transferred.

The objective of the review is to ensure that the measurements appropriately reflect consideration of all available information as of the acquisition date.

91. In the public sector, an entity sometimes obtains control of an operation in a non-exchange transaction in which it transfers consideration that is not approximately equal to the fair value of the acquired operation. Such circumstances include, but are not limited to:

(a) Compensated seizures of operations or entities; and

(b) The transfer of an operation to the acquirer by a donor for nominal consideration.

92. Where the economic substance of the public sector combination is that of an acquisition, such non-exchange acquisitions are treated as bargain purchases and accounted for in accordance with paragraphs 88–90.

A Non-Exchange Acquisition Without the Transfer of Consideration

93. In the public sector, an entity sometimes obtains control of an operation in a non-exchange transaction in which it transfers no consideration. Such circumstances include, but are not limited to:

(a) Uncompensated seizures of operations or entities (also known as forced nationalizations).

(b) The transfer of an operation to the entity by a donor for no consideration. Such transfers may take the form of a bequest.

And

(c) The transfer of an operation to the entity where the operation has net liabilities. The entity may accept the transfer of net liabilities to prevent the cessation of the operation. Such transactions are sometimes known as "bailouts".

94. Where the economic substance of the public sector combination is that of an acquisition, the acquirer that obtains control of an acquired operation in a non-exchange transaction in which it transfers no consideration does not recognize goodwill. The acquirer recognizes a gain or a loss in surplus or deficit in accordance with paragraph 86.

Consideration Transferred

95. **The consideration transferred in an acquisition shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquired operation and the equity interests issued by the acquirer. (However, any portion of the acquirer's share-based payment awards exchanged for awards held by the acquired operation's employees that is included in consideration transferred in the acquisition shall be measured in accordance with paragraph 84 rather than at fair value.)** Examples of potential forms of consideration include cash, other assets, an operation or a controlled entity of the acquirer, contingent consideration, ordinary or preference equity instruments, options, warrants and member interests of mutual entities.

96. The consideration transferred may include assets or liabilities of the acquirer that have carrying amounts that differ from their fair values at the acquisition date (for example, non-monetary assets or an operation of the acquirer). If so, the acquirer shall remeasure the transferred assets or liabilities to their fair values as of the acquisition date and recognize the resulting gains or losses, if any, in surplus or deficit. However, sometimes the transferred assets or liabilities remain within the combined entity after the acquisition (for example, because the assets or liabilities were transferred to the acquired operation rather than to its former owners), and the acquirer therefore retains control of them. In that situation, the acquirer shall measure those assets and liabilities at their carrying amounts immediately before the acquisition date and shall not recognize a gain or loss in surplus or deficit on assets or liabilities it controls both before and after the acquisition.

Contingent Consideration

97. **The consideration the acquirer transfers in exchange for the acquired operation includes any asset or liability resulting from a contingent consideration arrangement (see paragraph 95). The acquirer shall recognize the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquired operation.**

98. **The acquirer shall classify an obligation to pay contingent consideration that meets the definition of a financial instrument as a financial liability or as a component of net assets/equity on the basis of the definitions of an equity instrument and a financial liability in paragraph 9 of IPSAS 28. The acquirer shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met.** Paragraph 117 provides guidance on the subsequent accounting for contingent consideration.

An Acquisition Achieved in Stages

99. An acquirer sometimes obtains control of an acquired operation in which it held an equity interest immediately before the acquisition date. For example,

on 31 December 20X1, Entity A holds a 35 percent non-controlling equity interest in Entity B. On that date, Entity A purchases an additional 40 percent interest in Entity B, which gives it control of Entity B. This Standard refers to such a transaction as an acquisition achieved in stages, sometimes also referred to as a step acquisition.

100. In an acquisition achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquired operation at its acquisition-date fair value and recognize the resulting gain or loss, if any, in surplus or deficit or in net assets/equity, as appropriate. In prior reporting periods, the acquirer may have recognized changes in the value of its equity interest in the acquired operation in net assets/equity. If so, the amount that was recognized in net assets/equity shall be recognized on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

Additional Guidance for Applying the Acquisition Method Where an Acquisition is Achieved Through Changes in Voting Rights, by Contract Alone, and Similar Circumstances in Which no Consideration is Transferred

An Acquisition Achieved Through Changes in Voting Rights, by Contract Alone, and Similar Circumstances not Involving the Transfer of Consideration

101. An acquirer sometimes obtains control of an acquired operation without transferring consideration. The acquisition method of accounting for an acquisition applies to those public sector combinations. Such circumstances include:

   (a) The acquired operation repurchases a sufficient number of its own shares for an existing investor (the acquirer) to obtain control.

   (b) Minority veto rights lapse that previously kept the acquirer from controlling an acquired operation in which the acquirer held the majority voting rights.

   (c) The acquirer and acquired operation agree to combine their operations by contract alone. The acquirer transfers no consideration in exchange for control of an acquired operation and holds no quantifiable ownership interests in the acquired operation, either on the acquisition date or previously.

102. In an acquisition achieved by contract alone, the acquirer shall attribute to the owners of the acquired operation the amount of the acquired operation's net assets recognized in accordance with this Standard. In other words, the quantifiable ownership interests in the acquired operation held by parties other than the acquirer are a non-controlling interest in the acquirer's post-combination financial statements even if the result is that all of the quantifiable ownership interests in the acquired operation are attributed to the non-controlling interest.

Measurement Period

103. **If the initial accounting for an acquisition is incomplete by the end of the reporting period in which the acquisition occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the acquirer shall also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.**

104. The measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognized for an acquisition. The measurement period provides the acquirer with a reasonable time to obtain the information necessary to identify and measure the following as of the acquisition date in accordance with the requirements of this Standard:

   (a) The identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquired operation;

   (b) The consideration transferred for the acquired operation (or the other amount used in measuring goodwill);

   (c) In an acquisition achieved in stages, the equity interest in the acquired operation previously held by the acquirer; and

   (d) The resulting goodwill, loss, or gain on a bargain purchase.

105. The acquirer shall consider all pertinent factors in determining whether information obtained after the acquisition date should result in an adjustment to the provisional amounts recognized or whether that information results from events that occurred after the acquisition date. Pertinent factors include the date when additional information is obtained and whether the acquirer can identify a reason for a change to provisional amounts. Information that is obtained shortly after the acquisition date is more likely to reflect circumstances that existed at the acquisition date than is information obtained several months later. For example, unless an intervening event that changed its fair value can be identified, the sale of an asset to a third party shortly after the acquisition date for an amount that differs significantly from its

provisional fair value measured at that date is likely to indicate an error in the provisional amount.

106. The acquirer recognizes an increase (decrease) in the provisional amount recognized for an identifiable asset (liability) by means of a decrease (increase) in goodwill. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability. For example, the acquirer might have assumed a liability to pay damages related to an accident in one of the acquired operation's facilities, part or all of which are covered by the acquired operation's liability insurance policy. If the acquirer obtains new information during the measurement period about the acquisition-date fair value of that liability, the adjustment to goodwill resulting from a change to the provisional amount recognized for the liability would be offset (in whole or in part) by a corresponding adjustment to goodwill resulting from a change to the provisional amount recognized for the claim receivable from the insurer.

107. During the measurement period, the acquirer shall recognize adjustments to the provisional amounts as if the accounting for the acquisition had been completed at the acquisition date. Thus, the acquirer shall revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortization or other income effects recognized in completing the initial accounting.

108. After the measurement period ends, the acquirer shall revise the accounting for an acquisition only to correct an error in accordance with IPSAS 3.

Determining what is Part of the Acquisition Transaction

109. **The acquirer and the acquired operation may have a pre-existing relationship or other arrangement before negotiations for the acquisition began, or they may enter into an arrangement during the negotiations that is separate from the acquisition. In either situation, the acquirer shall identify any amounts that are not part of what the acquirer and the acquired operation (or its former owners) exchanged in the acquisition, i.e., amounts that are not part of the exchange for the acquired operation. The acquirer shall recognize as part of applying the acquisition method only the consideration transferred for the acquired operation and the assets acquired and liabilities assumed in the exchange for the acquired operation. Separate transactions shall be accounted for in accordance with the relevant IPSASs.**

110. A transaction entered into by or on behalf of the acquirer or primarily for the benefit of the acquirer or the combined entity, rather than primarily for the benefit of the acquired operation (or its former owners) before the acquisition, is likely to be a separate transaction. The following are examples of separate transactions that are not to be included in applying the acquisition method:

(a) A transaction that in effect settles pre-existing relationships between the acquirer and acquired operation;

(b) A transaction that remunerates employees or former owners of the acquired operation for future services; and

(c) A transaction that reimburses the acquired operation or its former owners for paying the acquirer's acquisition-related costs.

Paragraphs AG99–AG106 provide related application guidance.

Acquisition-Related Costs

111. Acquisition-related costs are costs the acquirer incurs to effect an acquisition. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognized in accordance with IPSAS 28 and IPSAS 29.

Subsequent Measurement and Accounting

112. **In general, an acquirer shall subsequently measure and account for assets acquired, liabilities assumed or incurred and equity instruments issued in an acquisition in accordance with other applicable IPSASs for those items, depending on their nature. However, this Standard provides guidance on subsequently measuring and accounting for the following assets acquired, liabilities assumed or incurred and equity instruments issued in an acquisition:**

(a) **Reacquired rights;**

(b) **Contingent liabilities recognized as of the acquisition date;**

(c) **Indemnification assets;**

(d) **Contingent consideration; and**

(e) **Income taxes (where not included in the terms of the acquisition).**

Paragraphs AG107–AG108 provide related application guidance.

Reacquired Rights

113. A reacquired right recognized as an intangible asset shall be amortized over the remaining period of the binding arrangement in which the right was granted, where the right was granted for a finite period. Where the right was granted for an indefinite period, the resulting entity shall test the right for impairment at least annually, and whenever there is an indication that the

right may be impaired. An acquirer that subsequently sells a reacquired right to a third party shall include the carrying amount of the intangible asset in determining the gain or loss on the sale.

Transfers, Concessionary Loans and Similar Benefits Received by an Acquirer or Acquired Operation on the Basis of Criteria that May Change as a Result of an Acquisition

114. A transfer, concessionary loan or similar benefit, previously received by an acquirer or an acquired operation on the basis of criteria that change as a result of an acquisition, shall be reassessed prospectively in accordance with other IPSASs (paragraphs AG109–AG111 provide related application guidance).

Contingent Liabilities

115. After initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognized in an acquisition at the higher of:

(a) The amount that would be recognized in accordance with IPSAS 19; and

(b) The amount initially recognized less, if appropriate, cumulative amortization recognized in accordance with IPSAS 9, *Revenue from Exchange Transactions*.

This requirement does not apply to contracts accounted for in accordance with IPSAS 29.

Indemnification Assets

116. At the end of each subsequent reporting period, the acquirer shall measure an indemnification asset that was recognized at the acquisition date on the same basis as the indemnified liability or asset, subject to any contractual limitations on its amount and, for an indemnification asset that is not subsequently measured at its fair value, management's assessment of the collectibility of the indemnification asset. The acquirer shall derecognize the indemnification asset only when it collects the asset, sells it or otherwise loses the right to it.

Contingent Consideration

117. Some changes in the fair value of contingent consideration that the acquirer recognizes after the acquisition date may be the result of additional information that the acquirer obtained after that date about facts and circumstances that existed at the acquisition date. Such changes are measurement period adjustments in accordance with paragraphs 103–107. However, changes resulting from events after the acquisition date, such as meeting an earnings target, reaching a specified share price or reaching a milestone on a research

and development project, are not measurement period adjustments. The acquirer shall account for changes in the fair value of contingent consideration that are not measurement period adjustments as follows:

(a) Contingent consideration classified as a component of net assets/equity shall not be remeasured and its subsequent settlement shall be accounted for within net assets/equity.

(b) Other contingent consideration that:

  (i) Is within the scope of IPSAS 29 shall be measured at fair value at each reporting date and changes in fair value shall be recognized in surplus or deficit in accordance with IPSAS 29.

  (ii) Is not within the scope of IPSAS 29 shall be measured at fair value at each reporting date and changes in fair value shall be recognized in surplus or deficit.

Income Taxes (Where not Included in the Terms of the Acquisition)

118. Acquisitions involving public sector entities may result in a tax authority forgiving amounts of tax subsequent to the acquisition. The acquirer shall account for the tax forgiven prospectively in accordance with the relevant international or national accounting standard dealing with income taxes.

Disclosures

119. **The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of an acquisition that occurs either:**

(a) **During the current reporting period; or**

(b) **After the end of the reporting period but before the financial statements are authorized for issue.**

120. To meet the objective in paragraph 119, the acquirer shall disclose the following information for each acquisition that occurs during the reporting period:

(a) The name and a description of the acquired operation.

(b) The acquisition date.

(c) The percentage of voting equity interests or equivalent acquired.

(d) The primary reasons for the acquisition and a description of how the acquirer obtained control of the acquired operation including, where applicable, the legal basis for the acquisition.

(e) A qualitative description of the factors that make up the goodwill recognized, such as expected synergies from combining the operations of the acquired operation and the acquirer, intangible assets that do not qualify for separate recognition or other factors.

(f) The acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as:

   (i) Cash;

   (ii) Other tangible or intangible assets, including an operation or controlled entity of the acquirer;

   (iii) Liabilities incurred, for example, a liability for contingent consideration; and

   (iv) Equity interests of the acquirer, including the number of instruments or interests issued or issuable and the method of measuring the fair value of those instruments or interests.

(g) For contingent consideration arrangements and indemnification assets:

   (i) The amount recognized as of the acquisition date;

   (ii) A description of the arrangement and the basis for determining the amount of the payment; and

   (iii) An estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer shall disclose that fact.

(h) For acquired receivables:

   (i) The fair value of the receivables;

   (ii) The gross amounts receivable in accordance with a binding arrangement; and

   (iii) The best estimate at the acquisition date of the cash flows in accordance with a binding arrangement not expected to be collected.

   The disclosures shall be provided by major class of receivable, such as loans, direct finance leases and any other class of receivables.

(i) The amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed.

(j) For each contingent liability recognized in accordance with paragraph 77, the information required in paragraph 98 of IPSAS 19. If a contingent liability is not recognized because its fair value cannot be measured reliably, the acquirer shall disclose:

(i) The information required by paragraph 100 of IPSAS 19; and

(ii) The reasons why the liability cannot be measured reliably.

(k) The total amount of goodwill that is expected to be deductible for tax purposes.

(l) For transactions that are recognized separately from the acquisition of assets and assumption of liabilities in the acquisition in accordance with paragraph 109:

(i) A description of each transaction;

(ii) How the acquirer accounted for each transaction;

(iii) The amounts recognized for each transaction and the line item in the financial statements in which each amount is recognized; and

(iv) If the transaction is the effective settlement of a pre-existing relationship, the method used to determine the settlement amount.

(m) The disclosure of separately recognized transactions required by (l) shall include the amount of acquisition-related costs and, separately, the amount of those costs recognized as an expense and the line item or items in the statement of financial performance in which those expenses are recognized. The amount of any issue costs not recognized as an expense and how they were recognized shall also be disclosed.

(n) In an acquisition in which a loss is recognized in surplus or deficit (see paragraph 86):

(i) The amount of the loss recognized in accordance with paragraph 86 and the line item in the statement of financial performance in which the loss is recognized; and

(ii) A description of the reasons why the transaction resulted in a loss.

(o) In a bargain purchase (see paragraphs 88–90):

(i) The amount of any gain recognized in accordance with paragraph 88 and the line item in the statement of financial performance in which the gain is recognized; and

(ii) A description of the reasons why the transaction resulted in a gain.

(p) For each acquisition in which the acquirer holds less than 100 percent of the quantifiable ownership interests or equivalent in the acquired operation at the acquisition date:

   (i) The amount of the non-controlling interest in the acquired operation recognized at the acquisition date and the measurement basis for that amount; and

   (ii) For each non-controlling interest in an acquired operation measured at fair value, the valuation technique(s) and significant inputs used to measure that value.

(q) In an acquisition achieved in stages:

   (i) The acquisition-date fair value of the equity interest in the acquired operation held by the acquirer immediately before the acquisition date; and

   (ii) The amount of any gain or loss recognized as a result of remeasuring to fair value the equity interest in the acquired operation held by the acquirer before the acquisition (see paragraph 100) and the line item in the statement of financial performance in which that gain or loss is recognized.

(r) The following information:

   (i) The amounts of revenue and expense, and the surplus or deficit of the acquired operation since the acquisition date included in the consolidated statement of financial performance for the reporting period; and

   (ii) The revenue and expense, and the surplus or deficit of the combined entity for the current reporting period as though the acquisition date for all acquisitions that occurred during the year had been as of the beginning of the annual reporting period.

   If disclosure of any of the information required by this subparagraph is impracticable, the acquirer shall disclose that fact and explain why the disclosure is impracticable. This Standard uses the term 'impracticable' with the same meaning as in IPSAS 3.

121. For individually immaterial acquisitions occurring during the reporting period that are material collectively, the acquirer shall disclose in aggregate the information required by paragraph 120(e)–(r).

122. If the acquisition date of an acquisition is after the end of the reporting period but before the financial statements are authorized for issue, the acquirer shall disclose the information required by paragraph 120 unless the initial accounting for the acquisition is incomplete at the time the financial statements

are authorized for issue. In that situation, the acquirer shall describe which disclosures could not be made and the reasons why they cannot be made.

123. **The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognized in the current reporting period that relate to acquisitions that occurred in the period or previous reporting periods.**

124. To meet the objective in paragraph 123, the acquirer shall disclose the following information for each material acquisition or in the aggregate for individually immaterial acquisitions that are material collectively:

(a) If the initial accounting for an acquisition is incomplete (see paragraph 103) for particular assets, liabilities, non-controlling interests or items of consideration and the amounts recognized in the financial statements for the acquisition thus have been determined only provisionally:

(i) The reasons why the initial accounting for the acquisition is incomplete;

(ii) The assets, liabilities, quantifiable ownership interests (or equivalent) or items of consideration for which the initial accounting is incomplete; and

(iii) The nature and amount of any measurement period adjustments recognized during the reporting period in accordance with paragraph 107.

(b) For each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires:

(i) Any changes in the recognized amounts, including any differences arising upon settlement;

(ii) Any changes in the range of outcomes (undiscounted) and the reasons for those changes; and

(iii) The valuation techniques and key model inputs used to measure contingent consideration.

(c) For contingent liabilities recognized in an acquisition, the acquirer shall disclose the information required by paragraphs 97 and 98 of IPSAS 19 for each class of provision.

(d) A reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period showing separately:

(i) The gross amount and accumulated impairment losses at the beginning of the reporting period.

(ii) Additional goodwill recognized during the reporting period.

(iii) Adjustments resulting from the subsequent recognition of amounts during the reporting period in accordance with the relevant international or national accounting standard dealing with income taxes.

(iv) Goodwill derecognized during the reporting period.

(v) Impairment losses recognized during the reporting period in accordance with IPSAS 26, *Impairment of Cash-Generating Assets*. (IPSAS 26 requires disclosure of information about the recoverable amount and impairment of goodwill in addition to this requirement.)

(vi) Net exchange rate differences arising during the reporting period in accordance with IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*.

(vii) Any other changes in the carrying amount during the reporting period.

(viii) The gross amount and accumulated impairment losses at the end of the reporting period.

(e) The amount and an explanation of any gain or loss recognized in the current reporting period that both:

(i) Relates to the identifiable assets acquired or liabilities assumed in an acquisition that was effected in the current or previous reporting period; and

(ii) Is of such a size, nature or incidence that disclosure is relevant to understanding the combined entity's financial statements.

And

(f) If amounts of tax due are forgiven as a result of the terms of the acquisition (see paragraphs 78–79):

(i) The amount of tax due that was forgiven; and

(ii) Where the acquirer is the tax authority, details of the adjustment made to tax receivable.

125. If the specific disclosures required by this and other IPSASs do not meet the objectives set out in paragraphs 119 and 123, the acquirer shall disclose whatever additional information is necessary to meet those objectives.

Effective Date and Transition

Effective Date

126. **This Standard shall be applied prospectively to public sector combinations for which the amalgamation date or acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies this Standard before January 1, 2019, it shall disclose that fact.**

Transition

127. Assets and liabilities that arose from public sector combinations whose acquisition dates or amalgamation dates preceded the application of this Standard shall not be adjusted upon application of this Standard.

128. Contingent consideration balances arising from acquisitions whose acquisition dates preceded the date when an entity first applied this Standard shall not be adjusted upon first application of this Standard. Paragraphs 129–132 shall be applied in the subsequent accounting for those balances. Paragraphs 129–132 shall not apply to the accounting for contingent consideration balances arising from acquisitions with acquisition dates on or after the date when the entity first applied this Standard. In paragraphs 129–132 acquisitions refers exclusively to acquisitions whose acquisition date preceded the application of this Standard.

129. If an acquisition agreement provides for an adjustment to the cost of the acquisition contingent on future events, the acquirer shall include the amount of that adjustment in the cost of the acquisition at the acquisition date if the adjustment is probable and can be measured reliably.

130. An acquisition agreement may allow for adjustments to the cost of the acquisition that are contingent on one or more future events. The adjustment might, for example, be contingent on a specified level of profit being maintained or achieved in future periods, or on the market price of the instruments issued being maintained. It is usually possible to estimate the amount of any such adjustment at the time of initially accounting for the acquisition without impairing the reliability of the information, even though some uncertainty exists. If the future events do not occur or the estimate needs to be revised, the cost of the acquisition shall be adjusted accordingly.

131. However, when an acquisition agreement provides for such an adjustment, that adjustment is not included in the cost of the acquisition at the time of initially accounting for the acquisition if it either is not probable or cannot be measured reliably. If that adjustment subsequently becomes probable and can be measured reliably, the additional consideration shall be treated as an adjustment to the cost of the acquisition.

132. In some circumstances, the acquirer may be required to make a subsequent payment to the seller as compensation for a reduction in the value of the assets given, equity instruments issued or liabilities incurred or assumed by the acquirer in exchange for control of the acquired operation. This is the case, for example, when the acquirer guarantees the market price of equity or debt instruments issued as part of the cost of the acquisition and is required to issue additional equity or debt instruments to restore the originally determined cost. In such cases, no increase in the cost of the acquisition is recognized. In the case of equity instruments, the fair value of the additional payment is offset by an equal reduction in the value attributed to the instruments initially issued. In the case of debt instruments, the additional payment is regarded as a reduction in the premium or an increase in the discount on the initial issue.

133. An entity, such as a mutual entity, that has not yet applied this Standard and had one or more public sector combinations that were accounted for using the purchase method (which involves the amortization of goodwill) shall apply the transition provisions in paragraphs AG114–AG115.

Income taxes

134. For public sector combinations in which the acquisition date or amalgamation date was before this Standard is applied, the acquirer or resulting entity shall apply the requirements of the relevant international or national accounting standard dealing with income taxes prospectively. From the date when this Standard is applied, the acquirer or resulting entity shall recognize any changes required by the relevant international or national accounting standard dealing with income taxes as an adjustment to surplus or deficit (or, if required by the relevant international or national accounting standard dealing with income taxes, outside surplus or deficit).

Appendix A

Application Guidance

This Appendix is an integral part of IPSAS 40.

Definitions (see paragraph 5)

AG1. Paragraph 5 of this Standard defines a resulting entity as "the entity that is the result of two or more operations combining in an amalgamation." A resulting entity is not initially a party to the public sector combination. A resulting entity may have the legal form of a new entity, or may retain the legal identity of one of the combining operations. However, a resulting entity usually has the economic substance of a new entity. In a combination in which one party to the combination gains control of one or more operations, and in which the economic substance is that of an amalgamation, the nature of the combination is usually that the resulting entity has the substance of a new entity.

Identifying a Public Sector Combination (see paragraph 6)

AG2. Paragraph 5 of this Standard defines a public sector combination as "the bringing together of separate operations into one public sector entity." The reference to one public sector entity may be to a single entity or to an economic entity. Some public sector reorganizations may involve more than one public sector combination. The circumstances in which a public sector combination might occur include:

(a) By mutual agreement; and

(b) By compulsion (for example by legislation).

AG3. Paragraph 5 of this Standard defines an operation as "an integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity's objectives, by providing goods and/or services."

AG4. An operation consists of inputs and processes applied to those inputs that have the ability to create outputs. Although operations usually have outputs, outputs are not required for an integrated set of activities and related assets and/or liabilities to qualify as an operation. For the purposes of this standard, the three elements of an operation are defined as follows:

(a) **Input**: Any economic resource that creates, or has the ability to create, outputs when one or more processes are applied to it.

(b) **Process**: Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs.

(c) **Output**: The result of inputs and processes applied to those inputs that provide, or have the ability to provide, goods and/or services.

The definitions of an input and an output differ from those in RPG 3, *Reporting Service Performance Information*. This is because RPG 3 focuses on recipients who are external to the entity; an operation may have recipients who are internal to an entity.

AG5. To be capable of being conducted and managed for the purposes defined, an integrated set of activities and assets and/or liabilities requires two essential elements—inputs and processes applied to those inputs, which together are or will be used to create outputs. However, an operation need not include all of the inputs or processes that the transferor used in operating that operation if the entity that receives the operation or operations is capable of continuing to produce outputs, for example, by integrating the operation with their own inputs and processes.

AG6. The nature of the elements of an operation varies by sector and by the structure of an entity's operations (activities), including the entity's stage of development. Established operations often have many different types of inputs, processes and outputs, whereas new operations often have few inputs and processes and sometimes only a single output (product). Nearly all operations also have liabilities, but an operation need not have liabilities.

AG7. An integrated set of activities and assets and/or liabilities in the development stage might not have outputs. In these cases, the entity that receives the operation should consider other factors to determine whether the set is an operation. Those factors include, but are not limited to, whether the set:

(a) Has begun planned principal activities;

(b) Has employees, intellectual property and other inputs and processes that could be applied to those inputs;

(c) Is pursuing a plan to produce outputs; and

(d) Will be able to obtain access to service recipients that will receive the outputs.

Not all of those factors need to be present for a particular integrated set of activities and assets and/or liabilities in the development stage to qualify as an operation.

AG8. Determining whether a particular set of activities and assets and/or liabilities is an operation should be based on whether the integrated set is capable of being conducted and managed as an operation by another entity. Thus, in evaluating whether a particular set is an operation, it is not relevant whether a transferor operated the set as an operation or whether the acquirer intends to operate the set as an operation.

AG9. In the absence of evidence to the contrary, a particular set of activities and assets and/or liabilities in which goodwill is present shall be presumed to be an operation. However, an operation need not have goodwill.

Classification of Public Sector Combinations (see paragraphs 7–14)

Assessment of Control (see paragraphs 7–8)

AG10. Where a party to a public sector combination gain controls of one or more operations as a result of that combination, the combination is classified as either an amalgamation or an acquisition, depending on the economic substance of the combination. If no party to the combination gains control, the combination is classified as an amalgamation. In making this assessment the first step is to determine whether one of the entities that existed prior to the public sector combination has gained control of one or more operations. Because this determination is made by reference to the entities that existed prior to the public sector combination, it differs from the assessment of control made in accordance with IPSAS 35, *Consolidated Financial Statements*, where the assessment of control is made by reference to the entities that exist after a public sector combination has taken place.

AG11. In determining whether one party to a public sector combination gains control of one or more operations as a result of the combination, an entity applies the principles and guidance in IPSAS 35. In applying the principles and guidance, references to "an entity controls" are read as "an entity gains control of" and references to "another entity" are read as "an operation". For example, in determining whether one party to a public sector combination gains control of one or more operations as a result of the combination for the purposes of this Standard, paragraph 20 of IPSAS 35 should be read as follows (amended text is shown in italics):

> Thus, an entity *gains control of an operation* if and only if the entity *gains* all the following:
>
> (a) Power over the operation (see paragraphs 23–29);
>
> (b) Exposure, or rights, to variable benefits from its involvement with the operation (see paragraphs 30–34); and
>
> (c) The ability to use its power over the operation to affect the nature or amount of the benefits from its involvement with the operation (see paragraphs 35–37).

AG12. In applying the principles and guidance in IPSAS 35, an entity has regard to paragraphs AG13–AG18.

AG13. A public sector combination effected primarily by the transfer of consideration (i.e., by transferring cash or other assets or by incurring liabilities) usually results in one entity gaining control of one or more operations.

AG14. A public sector combination effected primarily by exchanging equity interests usually results in one entity gaining control of one or more operations. Combinations involving an exchange of equity interests usually results in one entity having sufficient voting rights to gain control of one or more operations. This may occur without the entity having a majority of the voting rights where the entity has a large minority voting interest and no other owner or organized group of owners has a significant voting interest.

AG15. A public sector combination involving the issuance of equity interests may give rise to a reverse acquisition (see paragraphs AG66–AG71). An entity considers this possibility in determining whether one party to a public sector combination gains control of operations.

AG16. In a public sector combination involving more than two entities, the party to the public sector combination that initiates the combination (if any) is more likely to gain control of operations than the other parties to the combination.

AG17. In a public sector combination in which a new entity is formed to effect the combination, that entity may gain control of operations only where the entity exists prior to the combination taking place. Where this new entity does not exist prior to the combination taking place, an entity considers whether one of the parties to the combination that existed prior to the combination taking place gains control of operations.

AG18. If the application of this guidance identifies one party to the combination as gaining control of one or more operations, the combination is classified as either an amalgamation or an acquisition, depending on the economic substance of the combination. An entity considers the guidance in paragraphs 9–14 and AG19–AG50 to determine whether the economic substance of the combination is that of an amalgamation. If the application of the guidance does not identify one party to the combination as gaining control of one or more operations, the combination shall be classified as an amalgamation.

Assessment of the Classification of a Public Sector Combination (see paragraphs 9–14)

AG19. If one party to a public sector combination gains control of one or more operations as a result of the combination, the combination shall be classified as either an amalgamation or an acquisition, depending on the economic substance of the combination. In assessing whether the economic substance of the combination is that of an amalgamation, an entity considers the economic substance of the public sector combination and the indicators in paragraphs 12–14. A combination that does not have the economic substance of an amalgamation shall be classified as an acquisition. In making this assessment, an entity considers the following guidance.

Economic Substance (see paragraph 9)

AG20. Usually, an analysis of the indicators in paragraphs 12–13, individually or on combination, will produce a conclusive result and provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation. A combination does not need to satisfy both of these indicators to be classified as an amalgamation.

AG21. Where consideration of the indicators in paragraphs 12–13 produces inconclusive results or does not provide sufficient evidence to clearly determine the economic substance of the combination, an entity considers the additional matters in paragraph 14.

AG22. The economic substance of an amalgamation is usually that a new entity is formed, irrespective of the legal form of the resulting entity. This applies equally to a combination in which one party to the combination gains control of one or more operations. If the economic substance of a public sector combination is that one of the parties to the combination continues to exist, this may provide evidence that the economic substance of the combination is that of an acquisition. In combinations of operations under common control, the fact that the ultimate controlling entity controls the operations both before and after the combination reduces the significance of this factor.

AG23. An amalgamation involves the integration of the operations that are part of the public sector combination. In other words, an amalgamation does not give rise to a controlling entity/controlled entity relationship between parties to a combination. If, following the combination, any of the operations operate as controlled entities of a party to the combination, this may provide evidence that the economic substance of the combination is that of an acquisition.

AG24. An acquisition is usually a mutual agreement between two or more parties, and usually has commercial substance. However, in the public sector, a party to the combination may be able to impose a public sector combination on the other party to the combination. Where this results in the entity gaining access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement, it is probable that the economic substance of the public sector combination is that of an acquisition. For example, a central government may centralize a service for which it had been providing funding, by requiring local government entities to transfer operations to the central government in order to achieve economies of scale. Where the entity does not gain access to economic benefits or service potential that are similar to those that could have been obtained in a voluntary transaction, it is probable that the economic substance of the public sector combination is that of an amalgamation.

AG25. Where, after consideration of the indicators and the nature of the public sector combination, there is insufficient evidence that the public sector combination has the economic substance of an amalgamation, the combination shall be classified as an acquisition.

Indicators Relating to Consideration (see paragraph 12)

AG26. Amalgamations usually do not involve the payment of consideration to compensate a seller for giving up their entitlement to the net assets of an operation. By contrast, acquisitions usually involve an exchange of consideration between those gaining control of the operations and those losing control of the operations.

AG27. The payment of consideration that is intended to compensate those with an entitlement to the net assets of the transferred operation for giving up that entitlement provides evidence that the economic substance of the public sector combination is an acquisition. In such cases, the combination is classified as an acquisition.

AG28. The payment of consideration that is not intended to compensate the seller for giving up their entitlement to the net assets of an operation, but is, for example, intended to reimburse them for costs incurred in effecting the public sector combination, may provide evidence that the economic substance of the combination is that of an amalgamation.

AG29. Acquisitions may occur without an exchange of consideration, for example where an individual bequeaths an operation to a government entity. Consequently, the absence of consideration does not in itself provide evidence of the economic substance of the public sector combination. In assessing consideration, an entity also considers the reasons why consideration was either paid or not paid.

AG30. Where a public sector combination does not include the payment of consideration, an entity considers the reasons why no consideration has been paid. If the former owner has given up their entitlement to the net assets of an operation, or has had their entitlement extinguished through compulsion (for example, in an uncompensated seizure), there may be evidence that the combination is an acquisition.

AG31. Where a public sector combination does not include the payment of consideration because there is no party with an entitlement to the net assets of an operation, the economic substance of the combination will usually be that of an amalgamation. An acquisition involves a transfer of an operation from its former owner to its new owner. If there is no party with an entitlement to the net assets of an operation, there is no former owner, and the combination is usually not an acquisition. This scenario will only arise where a complete entity is being transferred; where an individual operation is being transferred, the entity transferring the operation will be the former owner and will be entitled to the net assets of the operation. Examples of entities where there will be no former owner(s) include municipalities and some not-for-profit organizations.

Indicators Relating to the Decision-Making Process (see paragraph 13)

AG32. An acquisition usually requires the voluntary participation of all the parties to the combination. Consequently, where a public sector combination is imposed by a third party without any party to the combination being involved in the decision-making process, this may provide evidence that the economic substance of the combination is an amalgamation.

AG33. In other circumstances, the parties to the public sector combination will be able to influence the terms of the combination to different degrees even when the combination is imposed by a third party. As the degree of influence the parties to the combination have increases, particularly the influence of the party that gains control of one or more operations, it becomes less likely that a conclusion regarding the economic substance of the combination can be drawn.

AG34. For example, the parties to the combination may be directed to combine by a regulator, but the regulator allows the parties to determine the terms of the combination. The economic substance of this public sector combination is likely to be determined by the terms of the combination agreed by the parties rather than by the decision of the regulator that the parties must combine.

AG35. Where the party to the public sector combination that gains control of one or more operations is able to impose the combination on the other party, this does not provide evidence that the economic substance of the combination is that of an amalgamation. For example, a government may decide to nationalize a private sector entity, contrary to the wishes of the shareholders. The fact that the government (a party to the combination) is able to impose the nationalization, for example through legislation, does not provide evidence that the economic substance of the combination is an amalgamation. Where the party to the combination that gains control of one or more operations is able to impose the combination on the other party, this provides evidence that the economic substance of the combination is that of an acquisition.

AG36. Where a public sector combination is subject to approval by each party's citizens through referenda, this may provide evidence that the economic substance of the combination is that of an amalgamation. Such a requirement provides evidence that the parties to the combination do not have freedom to voluntarily effect the combination and that the ultimate decision as to whether the combination takes place is taken by third parties. However, it is possible for citizens to approve, through referenda, a combination whose terms are those of an acquisition.

AG37. Where a public sector combination takes place between two parties that are under common control, this may provide evidence that the economic substance of the combination is that of an amalgamation. Public sector combinations under common control are often instigated by and on behalf of the controlling entity, and the controlling entity will often determine the terms of the combination. For example, a government may decide to combine two ministries for administrative or political reasons, and specify the terms of the combination. In such circumstances, the ultimate decision as to whether the combination takes place, and the terms of the combination, are determined by the controlling entity. This provides evidence that the economic substance of the combination is an amalgamation.

AG38. In some circumstances, two operations under common control may agree to combine voluntarily. However, this decision will usually be subject to the approval of the controlling entity, whether this approval is given explicitly or not. Where the approval of the controlling entity is required, this provides evidence that the ultimate decision as to whether the combination takes place, and the terms of the combination, are determined by the controlling entity. Consequently, this provides evidence that the economic substance of the combination is that of an amalgamation.

AG39. Only where there is no evidence that the controlling entity is involved in the public sector combination, either by instigating the combination, determining the terms of the combination, or approving (whether explicitly or implicitly) the combination, will there be no evidence that the economic substance of the combination is that of an amalgamation. In such circumstances, the entity considers all other factors in determining the classification of the public sector combination.

Additional Matters to be Considered Where the Indicators Relating to Consideration and the Decision-Making Process do not Provide Sufficient Evidence to Determine Whether the Economic Substance of the Combination is that of an Amalgamation (see paragraph 14)

AG40. Where an analysis of the indicators relating to consideration and the decision-making process produces inconclusive results or does not provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation, an entity considers which classification and resulting accounting treatment would provide information that:

(a) Best meets the objectives of financial reporting; and

(b) Best satisfies the qualitative characteristics (QCs).

AG41. An analysis of the indicators relating to consideration and the decision-making process will usually produce a conclusive result and provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation. This is because the indicators relating to consideration and the decision-making process will provide evidence of the economic substance of a public sector combination in all but exceptional circumstances. As a result, where it is clear that the indicators have been met, the additional matters set out in paragraph 14 are not considered in determining the classification.

AG42. Where an analysis of the indicators relating to consideration and the decision-making process provides inconclusive results or does not provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation, an entity considers which classification would provide information that best meets the objectives of financial reporting. The determination of whether a public sector combination is classified as an acquisition or an amalgamation can significantly affect the financial reporting of the combination. Consequently, it is important to consider the information each method provides and the principal users of that information.

AG43. The modified pooling of interests method views the combination from the perspective of each of the combining operations and their owners or constituents who are uniting their interests in the resulting entity. Using the modified pooling of interests method of accounting, the combining operations measure the reported assets and liabilities at their carrying amounts in the financial statements of the combining operations as of the amalgamation date. Such information may assist users in assessing the performance of the resulting entity based upon the combined historical assets and liabilities of the combining operations at the date of the amalgamation and in comparing operating results with prior periods. However, this comparability may be reduced where adjustments to achieve consistent accounting policies are required. It does not include information about the market's expectation of the value of the future cash flows associated with assets and liabilities, other than assets and liabilities recorded at fair value prior to the date of the amalgamation.

AG44. The acquisition method views a combination from the perspective of the acquirer—the entity that gains control of the other operations. The acquirer purchases or otherwise gains control over net assets and recognizes in its financial statements the assets acquired and liabilities assumed, including those not previously recognized by the acquired operation. Such information assists users of the financial statements in assessing the initial investments made and the subsequent performance of those investments and comparing them with the performance of other entities based on the investment made by the acquirer. It also includes information about the market's expectation of the value of the future cash flows associated with those assets and liabilities. While it revalues the assets and liabilities of the acquired operation, it does not affect the valuation of assets and liabilities held by the acquirer prior to the acquisition. Further, depending on the relationship between the amounts in paragraph 85(a) and 85(b) and other factors (for example, a bargain purchase), it may result in the immediate recognition of a gain or loss through surplus or deficit.

AG45. The information provided by each approach is summarized in the following table.

	Amalgamation	**Acquisition**
Perspective	Perspective of each of the combining operations and their owners or constituents.	Perspective of the acquirer.
User information	Assists users of the financial statements in assessing the performance of the resulting entity based upon the combined historical assets and liabilities of the combining operations at the date of the amalgamation and in comparing operating results with prior periods.	Assists users of the financial statements in assessing the initial investments made and the subsequent performance of those investments.
Basis of reported values	Measures the reported assets and liabilities at their carrying amounts in the financial statements of the combining operations as of the amalgamation date.	Revalues the identifiable assets and liabilities of the acquired operation but does not affect the valuation of assets and liabilities held by the acquirer. Includes information about the market's expectation of the value of the future cash flows associated with those assets and liabilities.

	Amalgamation	Acquisition
Ability to compare to operating results of prior periods	May facilitate the comparison of operating results with prior periods. Comparability may be reduced where adjustments to achieve consistent accounting policies are required.	Difficult to compare operating results with prior periods.

AG46. Consideration of which classification would provide information that best meets the objectives of financial reporting provides evidence of the economic substance of the public sector combination where an analysis of the indicators relating to consideration and the decision-making process provides inconclusive results or does not provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation.

AG47. Where an analysis of the indicators relating to consideration and the decision-making process provides inconclusive results or does not provide sufficient evidence to determine the classification of the combination, an entity considers which classification would provide information that best satisfies the QCs of relevance, faithful representation, understandability, timeliness, comparability and verifiability. In making this assessment, an entity also considers the constraints on information included in general purpose financial reports, which are materiality, cost-benefit and the balance between the QCs.

AG48. When considering the classification of a public sector combination, some QCs will be more significant than others. For example, timeliness will be less significant than understandability when considering whether a combination is an amalgamation or an acquisition.

AG49. An entity considers the QCs and the constraints on information from the perspective of the users of the financial statements. This will include consideration of the following questions; this list is not exhaustive.

(a) Which classification most faithfully represents the economic substance of the public sector combination, which may be different from its legal form? Does that classification faithfully represent an entity's financial performance and financial position?

(b) Which classification will help users understand the nature of the public sector combination? For example, in an amalgamation, any difference between the total recognized assets and total recognized liabilities is recognized in net assets/equity, whereas in an acquisition, the acquirer recognizes goodwill, or a gain or loss in the reporting period. Which approach best helps the user to understand the nature of the combination?

(c) Users' needs are best served when the information provided in respect of a transaction is comparable. How are similar public sector combinations classified?

AG50. Consideration of which classification would provide information that best meets the QCs provides evidence of the economic substance of the public sector combination where an analysis of the indicators relating to consideration and the decision-making process provides inconclusive results or does not provide sufficient evidence to determine whether the economic substance of the combination is that of an amalgamation.

Accounting for Amalgamations

Eliminating Transactions Between the Combining Operations (see paragraph 22)

AG51. A resulting entity eliminates the effects of all transactions between the combining operations. For many transactions, elimination will take place automatically. For example, one combining operation provided services for a fee to another combining operation prior to the amalgamation date. The revenue of the combining operation that provided the services is reflected in that combining operation's accumulated surplus or deficit at the amalgamation date. The expense of the combining operation receiving the services is reflected in that combining operation's accumulated surplus or deficit at the amalgamation date. The resulting entity will recognize both amounts in net assets/equity.

AG52. Elimination may not take place automatically where one combining operation has recognized an asset, and another combining operation has recognized a corresponding liability as a result of the transaction between two combining operations. The resulting entity eliminates both the asset and the liability, and recognizes any difference between the asset and liability in net assets/equity.

Carrying Amounts to be Used (see paragraphs 26–27)

AG53. Where a combining operation has previously been acquired in an acquisition (i.e., it was previously an acquired operation), the carrying amounts of the combining operation's assets and liabilities in its separate financial statements may be different to the carrying amounts of those assets and liabilities in the controlling entity's financial statements. In an acquisition, the controlling entity would measure the combining operation's assets and liabilities at their fair value. However, where the combining operation (i.e., the previously acquired operation) continues to prepare separate financial statements, it would use its previous carrying amounts. The fair value measurements in the financial statements of the controlling entity are not pushed down to the combining operation.

AG54. To meet the requirements in paragraphs 26–27, a resulting entity measures the identifiable assets and liabilities of the combining operations at their carrying amounts in the financial statements of the combining operations as of the amalgamation date, subject to the requirement to adjust the carrying amounts to conform to the resulting entity's accounting policies. The resulting entity does not measure the assets and liabilities at the carrying amounts in the financial statements of the controlling entity.

Licenses and Similar Rights Previously Granted by One Combining Operation to Another Combining Operation (see paragraph 32)

AG55. As part of an amalgamation, a resulting entity may receive a license or similar right that had previously been granted by one combining operation to another combining operation to use one or more of the grantor's recognized or unrecognized assets. Examples of such rights include a right to use the acquirer's technology under a technology licensing agreement. The resulting entity recognizes this license or similar right as an identifiable intangible asset, and measures the intangible asset at its carrying amount in the financial statements of the combining operation as of the amalgamation date. Because the license or similar right has previously been part of a binding arrangement, the license satisfies both the separability and binding arrangement criteria in IPSAS 31, *Intangible Assets*. Paragraph 47 provides guidance on the subsequent accounting for a license or similar right previously granted by one combining operation to another combining operation.

AG56. The resulting entity assesses both the license or similar right previously granted by one combining operation to another combining operation, and the underlying asset (where the underlying asset is a recognized asset) for impairment in accordance with IPSAS 21, *Impairment of Non-Cash-Generating Assets* and IPSAS 26, *Impairment of Cash-Generating Assets*, at the amalgamation date.

Forgiveness of Amounts of Tax Due in an Amalgamation (Where Included in the Terms of the Amalgamation) (see paragraphs 33–34)

AG57. The resulting entity shall not recognize any amounts in respect of a combining operation's tax due where these amounts have been forgiven by a tax authority as part of the terms of the amalgamation. Where tax forgiveness occurs subsequent to an amalgamation, the resulting entity applies the requirements in paragraph 49. In applying the modified pooling of interests method of accounting, the resulting entity shall treat those amounts included in the terms of the amalgamation as having been derecognized prior to the amalgamation. The resulting entity shall account for a combining operation's tax due that has not been forgiven by a tax authority in accordance with the relevant international or national accounting standard dealing with income taxes.

AG58. Where, as a result of the amalgamation, the resulting entity becomes the tax authority, it shall derecognize any tax receivable relating to the combining operation's tax due that has been forgiven in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

Recognition of Goodwill (see paragraph 36)

AG59. Amalgamations do not give rise to goodwill, and consequently a resulting entity does not recognize goodwill arising from an amalgamation. Paragraphs 37–38 specify the treatment of the net assets/equity arising as a result of the amalgamation.

AG60. Where a combining operation has previously recognized goodwill as a result of a previous acquisition, the resulting entity recognizes this goodwill in its opening statement of financial position.

Subsequent Measurement of Transfers, Concessionary Loans and Similar Benefits Received by a Combining Operation on the Basis of Criteria that May Change as a Result of an Amalgamation (see paragraph 48)

AG61. Prior to an amalgamation taking place, a combining operation may receive a transfer from a third party, based on specified criteria. For example, a national government may provide grants to those municipalities where the average household income is below a threshold. An amalgamation of two municipalities may involve one municipality which met the criteria and received the grant, and one municipality which did not meet the criteria and which did not receive the grant. Following the amalgamation, the average household income of the new, combined municipality will either be above or below the threshold, which may cause the grantor to reassess the amount of grant given.

AG62. The resulting entity shall not account for any revisions to the grant amount as part of the amalgamation, but shall account for any revisions at the point the grantor makes its intentions known in accordance with other IPSASs.

AG63. Similar circumstances may arise in respect of concessionary loans and other benefits. The resulting entity shall not account for any revisions to those transactions as part of the amalgamation, but shall account for any revisions at the point the grantor makes its intentions known in accordance with other IPSASs.

Amalgamations Occurring during a Reporting Period (see paragraphs 50–52)

AG64. To meet the requirements of paragraphs 50–52, the resulting entity is not required to present financial statements for periods prior to the amalgamation date, although it may elect to do so by making the disclosures specified in paragraph 54(g). Where the resulting entity does not elect to present financial statements for periods prior to the amalgamation date, it meets the needs of the users of its financial statements for information about the combining operations prior to the amalgamation by:

(a) Where financial statements have been issued on behalf of the combining operations for a reporting period ending immediately prior to the amalgamation date (which may be a partial period), directing the users of its financial statements to the financial statements issued on behalf of the combining operations.

(b) Where no financial statements have been issued on behalf of the combining operations for a reporting period ending immediately prior to the amalgamation date (which may be a partial period), making the disclosures required by paragraph 54(h).

AG65. To satisfy the requirements of a regulator, it may be necessary for the combining operations and/or the resulting entity to present or disclose information in addition to that required by this Standard.

Accounting for Acquisitions

Reverse Acquisitions

AG66. A reverse acquisition occurs when the entity that issues securities (the legal acquirer) is identified as the acquired operation for accounting purposes on the basis of the guidance in paragraphs AG10–AG18. The entity whose equity interests are acquired (the legal acquired operation) must be the acquirer for accounting purposes for the transaction to be considered a reverse acquisition. For example, reverse acquisitions sometimes occur when a public sector entity wants to become a listed entity but does not want to register its equity shares. To accomplish that, the public sector entity will arrange for a listed entity to acquire its equity interests in exchange for the equity interests of the listed entity. In this example, the listed entity is the legal acquirer because it issued its equity interests, and the public sector entity is the legal acquired operation because its equity interests were acquired. However, application of the guidance in paragraphs AG10–AG18 results in identifying:

(a) The listed entity as the acquired operation for accounting purposes (the accounting acquired operation)–i.e., the listed entity does not gain control of one or more operations; and

(b) The public sector entity as the acquirer for accounting purposes (the accounting acquirer)–i.e., the public sector entity does gain control of one or more operations.

The accounting acquired operation must meet the definition of an operation for the transaction to be accounted for as a reverse acquisition, and all of the recognition and measurement principles in this Standard, including the requirement to recognize goodwill, apply.

Measuring the Consideration Transferred

AG67. In a reverse acquisition, the accounting acquirer usually issues no consideration for the acquired operation. Instead, the accounting acquired operation usually issues its equity shares to the owners of the accounting acquirer. Accordingly, the acquisition-date fair value of the consideration transferred by the accounting acquirer for its interest in the accounting acquired operation is based on the number of equity interests the legal controlled entity would have had to issue to give the owners of the legal controlling entity the same percentage equity interest in the combined entity that results from the reverse acquisition. The fair value of the number of equity interests calculated in that way can be used as the fair value of consideration transferred in exchange for the acquired operation.

Preparation and Presentation of Consolidated Financial Statements

AG68. Consolidated financial statements prepared following a reverse acquisition are issued under the name of the legal controlling entity (accounting acquired operation) but described in the notes as a continuation of the financial statements of the legal controlled entity (accounting acquirer), with one adjustment, which is to adjust retroactively the accounting acquirer's legal capital to reflect the legal capital of the accounting acquired operation. That adjustment is required to reflect the capital of the legal controlling entity (the accounting acquired operation). Comparative information presented in those consolidated financial statements also is retroactively adjusted to reflect the legal capital of the legal controlling entity (accounting acquired operation).

AG69. Because the consolidated financial statements represent the continuation of the financial statements of the legal controlled entity except for its capital structure, the consolidated financial statements reflect:

(a) The assets and liabilities of the legal controlled entity (the accounting acquirer) recognized and measured at their pre-combination carrying amounts.

(b) The assets and liabilities of the legal controlling entity (the accounting acquired operation) recognized and measured in accordance with this Standard.

(c) The accumulated surplus or deficit and other equity balances of the legal controlled entity (accounting acquirer) before the acquisition.

(d) The amount recognized as issued equity interests in the consolidated financial statements determined by adding the issued equity interest of the legal controlled entity (the accounting acquirer) outstanding immediately before the acquisition to the fair value of the legal controlling entity (accounting acquired operation). However, the equity structure (i.e., the number and type of equity interests issued) reflects the equity structure of the legal controlling entity (the accounting acquired operation), including the equity interests the legal controlling entity issued to effect the acquisition. Accordingly, the equity structure of the legal controlled entity (the accounting acquirer) is restated using the exchange ratio established in the acquisition agreement to reflect the number of shares of the legal controlling entity (the accounting acquired operation) issued in the reverse acquisition.

(e) The non-controlling interest's proportionate share of the legal controlled entity's (accounting acquirer's) pre-acquisition carrying amounts of retained earnings and other equity interests as discussed in paragraphs AG70 and AG71.

Non-Controlling Interest

AG70. In a reverse acquisition, some of the owners of the legal acquired operation (the accounting acquirer) might not exchange their equity interests for equity interests of the legal controlling entity (the accounting acquired operation). Those owners are treated as a non-controlling interest in the consolidated financial statements after the reverse acquisition. That is because the owners of the legal acquired operation that do not exchange their equity interests for equity interests of the legal acquirer have an interest in only the results and net assets of the legal acquired operation—not in the results and net assets of the combined entity. Conversely, even though the legal acquirer is the acquired operation for accounting purposes, the owners of the legal acquirer have an interest in the results and net assets of the combined entity.

AG71. The assets and liabilities of the legal acquired operation are measured and recognized in the consolidated financial statements at their pre-combination carrying amounts (see paragraph AG69(a)). Therefore, in a reverse acquisition the non-controlling interest reflects the non-controlling shareholders' proportionate interest in the pre-acquisition carrying amounts of the legal acquired operation's net assets even if the non-controlling interests in other acquisitions are measured at their fair value at the acquisition date.

Recognizing Particular Assets Acquired and Liabilities Assumed in an Acquisition (see paragraphs 64–68)

Operating Leases

AG72. The acquirer shall recognize no assets or liabilities related to an operating lease in which the acquired operation is the lessee except as required by paragraphs AG73–AG74.

AG73. The acquirer shall determine whether the terms of each operating lease in which the acquired operation is the lessee are favorable or unfavorable. The acquirer shall recognize an intangible asset if the terms of an operating lease are favorable relative to market terms and a liability if the terms are unfavorable relative to market terms. Paragraph AG89 provides guidance on measuring the acquisition-date fair value of assets subject to operating leases in which the acquired operation is the lessor.

AG74. An identifiable intangible asset may be associated with an operating lease, which may be evidenced by market participants' willingness to pay a price for the lease even if it is at market terms. For example, a lease of gates at an airport or of retail space in a prime shopping area might provide entry into a market or other future economic benefits or service potential that qualify as identifiable intangible assets, for example, as a relationship with users of a service. In that situation, the acquirer shall recognize the associated identifiable intangible asset(s) in accordance with paragraph AG75.

Intangible Assets

AG75. The acquirer shall recognize, separately from goodwill, the identifiable intangible assets acquired in an acquisition. An intangible asset is identifiable if it meets either the separability criterion or the binding arrangement criterion.

AG76. An intangible asset that meets the binding arrangement criterion is identifiable even if the asset is not transferable or separable from the acquired operation or from other rights and obligations. For example:

(a) An acquired operation leases a facility under an operating lease that has terms that are favorable relative to market terms. The lease terms explicitly prohibit transfer of the lease (through either sale or sublease). The amount by which the lease terms are favorable compared with the terms of current market transactions for the same or similar items is an intangible asset that meets the binding arrangement criterion for recognition separately from goodwill, even though the acquirer cannot sell or otherwise transfer the lease arrangement.

(b) An acquired operation owns and operates a nuclear power plant. The license to operate that power plant is an intangible asset that meets the binding arrangement criterion for recognition separately from goodwill, even if the acquirer cannot sell or transfer it separately from the acquired power plant. An acquirer may recognize the fair value of the operating license and the fair value of the power plant as a single asset for financial reporting purposes if the useful lives of those assets are similar.

(c) An acquired operation owns a technology patent. It has licensed that patent to others for their exclusive use outside the domestic market, receiving a specified percentage of future foreign revenue in exchange. Both the technology patent and the related license agreement meet the binding arrangement criterion for recognition separately from goodwill even if selling or exchanging the patent and the related license agreement separately from one another would not be practical.

AG77. The separability criterion means that an acquired intangible asset is capable of being separated or divided from the acquired operation and sold, transferred, licensed, rented or exchanged, either individually or together with a related binding arrangement, identifiable asset or liability. An intangible asset that the acquirer would be able to sell, license or otherwise exchange for something else of value meets the separability criterion even if the acquirer does not intend to sell, license or otherwise exchange it. An acquired intangible asset meets the separability criterion if there is evidence of exchange transactions for that type of asset or an asset of a similar type, even if those transactions are infrequent and regardless of whether the acquirer is involved in them. For example, lists of users of a service are frequently licensed and thus meet the separability criterion. Even if an acquired operation believes its lists of users of a service have characteristics different from other lists of users of a service, the fact that lists of users of a service are frequently licensed generally means that the acquired list of users of a service meets the separability criterion. However, a list of users of a service acquired in an acquisition would not meet the separability criterion if the terms of confidentiality or other agreements prohibit an entity from selling, leasing or otherwise exchanging information about its users of a service.

AG78. An intangible asset that is not individually separable from the acquired operation or combined entity meets the separability criterion if it is separable in combination with a related binding arrangement, identifiable asset or liability. For example, an acquired operation owns a registered trademark and documented but unpatented technical expertise used to manufacture the trademarked product. To transfer ownership of a trademark, the owner is also required to transfer everything else necessary for the new owner to produce a product or service indistinguishable from that produced by the former owner. Because the unpatented technical expertise must be separated from the acquired operation or combined entity and sold if the related trademark is sold, it meets the separability criterion.

Reacquired Rights

AG79. As part of an acquisition, an acquirer may reacquire a right that it had previously granted to the acquired operation to use one or more of the acquirer's recognized or unrecognized assets. Examples of such rights include a right to use the acquirer's technology under a technology licensing agreement. A reacquired right is an identifiable intangible asset that the acquirer recognizes separately from goodwill or a gain from a bargain purchase. Paragraph 83 provides guidance on measuring a reacquired right and paragraph 113 provides guidance on the subsequent accounting for a reacquired right.

AG80. If the terms of the binding arrangement giving rise to a reacquired right are favorable or unfavorable relative to the terms of current market transactions for the same or similar items, the acquirer shall recognize a settlement gain or loss. Paragraph AG100 provides guidance for measuring that settlement gain or loss.

Assembled Workforce and Other Items that are not Identifiable

AG81. The acquirer subsumes into goodwill the value of an acquired intangible asset that is not identifiable as of the acquisition date. For example, an acquirer may attribute value to the existence of an assembled workforce, which is an existing collection of employees that permits the acquirer to continue to operate an acquired operation from the acquisition date. An assembled workforce does not represent the intellectual capital of the skilled workforce—the (often specialized) knowledge and experience that employees of an acquired operation bring to their jobs. Because the assembled workforce is not an identifiable asset to be recognized separately from goodwill or a gain from a bargain purchase, any value attributed to it is subsumed into goodwill or a gain from a bargain purchase.

AG82. The acquirer also subsumes into goodwill or a gain from a bargain purchase any value attributed to items that do not qualify as assets at the acquisition date. For example, the acquirer might attribute value to potential binding arrangements the acquired operation is negotiating with prospective new customers at the acquisition date. Because those potential binding arrangements are not themselves assets at the acquisition date, the acquirer does not recognize them separately from goodwill or a gain from a bargain purchase. The acquirer should not subsequently reclassify the value of those binding arrangements from goodwill for events that occur after the acquisition date. However, the acquirer should assess the facts and circumstances surrounding events occurring shortly after the acquisition to determine whether a separately recognizable intangible asset existed at the acquisition date.

AG83. After initial recognition, an acquirer accounts for intangible assets acquired in an acquisition in accordance with the provisions of IPSAS 31. However, as described in paragraph 6 of IPSAS 31, the accounting for some acquired intangible assets after initial recognition is prescribed by other IPSASs.

AG84. The identifiability criteria determine whether an intangible asset is recognized separately from goodwill. However, the criteria neither provide guidance for measuring the fair value of an intangible asset nor restrict the assumptions used in measuring the fair value of an intangible asset. For example, the acquirer would take into account the assumptions that market participants would use when pricing the intangible asset, such as expectations of future renewals of binding arrangements, in measuring fair value. It is not necessary for the renewals themselves to meet the identifiability criteria. (However, see paragraph 83, which establishes an exception to the fair value measurement principle for reacquired rights recognized in an acquisition.) Paragraphs 39D and 39E of IPSAS 31 provide guidance for determining whether intangible assets should be combined into a single unit of account with other intangible or tangible assets.

Forgiveness of Amounts of Tax Due in an Acquisition (Where Included in the Terms of the Acquisition) (see paragraphs 78–79)

AG85. The acquirer shall not recognize any amounts in respect of an acquired operation's tax due where these amounts have been forgiven by a tax authority as part of the terms of the acquisition. Where tax forgiveness occurs subsequent to an acquisition, the resulting entity applies the requirements in paragraph 118. The acquirer shall account for an acquired operation's tax due that has not been forgiven by a tax authority in accordance with the relevant international or national accounting standard dealing with income taxes.

AG86. If the acquirer is itself the tax authority, it shall derecognize any tax receivable relating to the acquired operation's tax due that has been forgiven in accordance with IPSAS 23.

AG87. If, as a consequence of the terms of an acquisition, a tax authority forgives an amount of the acquirer's tax due, the acquirer shall derecognize those amounts in accordance with the relevant international or national accounting standard dealing with income taxes.

Measuring the Fair Value of Particular Identifiable Assets and a Non-Controlling Interest in an Acquired Operation in an Acquisition (see paragraphs 72–73)

Assets with Uncertain Cash Flows (Valuation Allowances)

AG88. The acquirer shall not recognize a separate valuation allowance as of the acquisition date for assets acquired in an acquisition that are measured at their acquisition-date fair values because the effects of uncertainty about future cash flows are included in the fair value measure. For example, because this Standard requires the acquirer to measure acquired receivables, including loans, at their acquisition-date fair values in accounting for an acquisition, the acquirer does not recognize a separate valuation allowance for the cash flows of the binding arrangement that are deemed to be uncollectible at that date.

Assets Subject to Operating Leases in Which the Acquired Operation is the Lessor

AG89. In measuring the acquisition-date fair value of an asset such as a building that is subject to an operating lease in which the acquired operation is the lessor, the acquirer shall take into account the terms of the lease. In other words, the acquirer does not recognize a separate asset or liability if the terms of an operating lease are either favorable or unfavorable when compared with market terms as paragraph AG73 requires for leases in which the acquired operation is the lessee.

Assets that the Acquirer Intends not to Use or to Use in a Way that is Different from the Way Other Market Participants Would Use them

AG90. To protect its competitive position, or for security or other reasons, the acquirer may intend not to use an acquired non-financial asset actively, or it may not intend to use the asset according to its highest and best use. For example, that might be the case for an acquired research and development intangible asset that the acquirer plans to use defensively by preventing others from using it. Nevertheless, the acquirer shall measure the fair value of the non-financial asset assuming its highest and best use by market participants in accordance with the appropriate valuation premise, both initially and when measuring fair value less costs of disposal for subsequent impairment testing.

Non-Controlling Interest in an Acquired Operation

AG91. This Standard allows the acquirer to measure a non-controlling interest in the acquired operation at its fair value at the acquisition date. Sometimes an acquirer will be able to measure the acquisition-date fair value of a non-controlling interest on the basis of a quoted price in an active market for the equity shares (i.e., those not held by the acquirer). In other situations, however, a quoted price in an active market for the equity shares will not be available. In those situations, the acquirer would measure the fair value of the non-controlling interest using other valuation techniques.

AG92. The fair values of the acquirer's interest in the acquired operation and the non-controlling interest on a per-share basis might differ. The main difference is likely to be the inclusion of a control premium in the per-share fair value of the acquirer's interest in the acquired operation or, conversely, the inclusion of a discount for lack of control (also referred to as a non-controlling interest discount) in the per-share fair value of the non-controlling interest if market participants would take into account such a premium or discount when pricing the non-controlling interest.

Measuring Goodwill or a Gain from a Bargain Purchase in an Acquisition (see paragraphs 85–98)

Relationship Between Goodwill and Cash Flows (see paragraph 86)

AG93. The acquirer shall recognize goodwill only to the extent that the acquirer estimates there will be favorable changes to its net cash flows, either from increased cash inflows or decreased cash outflows. An acquirer shall not recognize goodwill related to service potential other than cash flows.

Measuring the Acquisition-Date Fair Value of the Acquirer's Interest in the Acquired Operation Using Valuation Techniques (see paragraph 87)

AG94. In an acquisition achieved without the transfer of consideration, the acquirer must substitute the acquisition-date fair value of its interest in the acquired operation for the acquisition-date fair value of the consideration transferred to measure goodwill, a loss or a gain on a bargain purchase (see paragraphs 85–87).

Special Considerations in Applying the Acquisition Method to Combinations of Mutual Entities (Application of Paragraph 87)

AG95. When two mutual entities combine, the fair value of the equity or member interests in the acquired operation (or the fair value of the acquired operation) may be more reliably measurable than the fair value of the member interests transferred by the acquirer. In that situation, paragraph 87 requires the acquirer to determine the amount of goodwill by using the acquisition-date fair value of the acquired operation's equity interests instead of the acquisition-date fair value of the acquirer's equity interests transferred as consideration. In addition, the acquirer in a combination of mutual entities shall recognize the acquired operation's net assets as a direct addition to capital or equity in its statement of financial position, not as an addition to accumulated surplus or deficit, which is consistent with the way in which other types of entities apply the acquisition method.

AG96. Although they are similar in many ways to other entities, mutual entities have distinct characteristics that arise primarily because their members are both customers and owners. Members of mutual entities generally expect to receive benefits for their membership, often in the form of reduced fees charged for goods and services or patronage dividends. The portion of patronage dividends allocated to each member is often based on the amount of business the member did with the mutual entity during the year.

AG97. A fair value measurement of a mutual entity should include the assumptions that market participants would make about future member benefits as well as any other relevant assumptions market participants would make about the mutual entity. For example, a present value technique may be used to measure the fair value of a mutual entity. The cash flows used as inputs to the model should be based on the expected cash flows of the mutual entity, which are likely to reflect reductions for member benefits, such as reduced fees charged for goods and services.

Determining what is Part of the Acquisition Transaction (see paragraphs 109–111)

AG98. The acquirer should consider the following factors, which are neither mutually exclusive nor individually conclusive, to determine whether a transaction is part of the exchange for the acquired operation or whether the transaction is separate from the acquisition:

(a) The reasons for the transaction. Understanding the reasons why the parties to the acquisition (the acquirer and the acquired operation and their owners, directors and managers—and their agents) entered into a particular transaction or arrangement may provide insight into whether it is part of the consideration transferred and the assets acquired or liabilities assumed. For example, if a transaction is arranged primarily for the benefit of the acquirer or the combined entity rather than primarily for the benefit of the acquired operation or its former owners before the combination, that portion of the transaction price paid (and any related assets or liabilities) is less likely to be part of the exchange for the acquired operation. Accordingly, the acquirer would account for that portion separately from the acquisition.

(b) Who initiated the transaction. Understanding who initiated the transaction may also provide insight into whether it is part of the exchange for the acquired operation. For example, a transaction or other event that is initiated by the acquirer may be entered into for the purpose of providing future economic benefits to the acquirer or combined entity with little or no benefit received by the acquired operation or its former owners before the combination. On the other hand, a transaction or arrangement initiated by the acquired operation or its former owners is less likely to be for the benefit of the acquirer or the combined entity and more likely to be part of the acquisition transaction.

(c) The timing of the transaction. The timing of the transaction may also provide insight into whether it is part of the exchange for the acquired operation. For example, a transaction between the acquirer and the acquired operation that takes place during the negotiations of the terms of an acquisition may have been entered into in contemplation of the acquisition to provide future economic benefits to the acquirer or the combined entity. If so, the acquired operation or its former owners before the acquisition are likely to receive little or no benefit from the transaction except for benefits they receive as part of the combined entity.

Effective Settlement of a Pre-Existing Relationship between the Acquirer and Acquired Operation in an Acquisition (see paragraph 110(a))

AG99. The acquirer and acquired operation may have a relationship that existed before they contemplated the acquisition, referred to here as a 'pre-existing relationship'. A pre-existing relationship between the acquirer and acquired operation may arise from a binding arrangement (for example, vendor and customer or licensor and licensee) or may arise outside of a binding arrangement (for example, plaintiff and defendant).

AG100. If the acquisition in effect settles a pre-existing relationship, the acquirer recognizes a gain or loss, measured as follows:

(a) For a pre-existing relationship arising outside of a binding arrangement (such as a lawsuit), fair value.

(b) For a pre-existing relationship arising from a binding arrangement, the lesser of (i) and (ii):

(i) The amount by which the binding arrangement is favorable or unfavorable from the perspective of the acquirer when compared with terms for current market transactions for the same or similar items. (An unfavorable binding arrangement is a binding arrangement that is unfavorable in terms of current market terms. It is not necessarily an onerous binding arrangement in which the unavoidable costs of meeting the obligations under the binding arrangement exceed the economic benefits expected to be received under it.)

(ii) The amount of any stated settlement provisions in the binding arrangement available to the counterparty to whom the binding arrangement is unfavorable.

If (ii) is less than (i), the difference is included as part of the acquisition accounting.

The amount of gain or loss recognized may depend in part on whether the acquirer had previously recognized a related asset or liability, and the reported gain or loss therefore may differ from the amount calculated by applying the above requirements.

AG101. A pre-existing relationship may be a binding arrangement that the acquirer recognizes as a reacquired right. If the binding arrangement includes terms that are favorable or unfavorable when compared with pricing for current market transactions for the same or similar items, the acquirer recognizes, separately from the acquisition, a gain or loss for the effective settlement of the binding arrangement, measured in accordance with paragraph AG100.

Arrangements for Contingent Payments to Employees or Selling Shareholders (see paragraph 110(b))

AG102. Whether arrangements for contingent payments to employees or selling shareholders are contingent consideration in the acquisition or are separate transactions depends on the nature of the arrangements. Understanding the reasons why the acquisition agreement includes a provision for contingent payments, who initiated the arrangement and when the parties entered into the arrangement may be helpful in assessing the nature of the arrangement.

AG103. If it is not clear whether an arrangement for payments to employees or selling shareholders is part of the exchange for the acquired operation or is a transaction separate from the acquisition, the acquirer should consider the following indicators:

(a) Continuing employment. The terms of continuing employment by the selling shareholders who become key employees may be an indicator of the substance of a contingent consideration arrangement. The relevant terms of continuing employment may be included in an employment agreement, acquisition agreement or some other document. A contingent consideration arrangement in which the payments are automatically forfeited if employment terminates is remuneration for post-combination services. Arrangements in which the contingent payments are not affected by employment termination may indicate that the contingent payments are additional consideration rather than remuneration.

(b) Duration of continuing employment. If the period of required employment coincides with or is longer than the contingent payment period, that fact may indicate that the contingent payments are, in substance, remuneration.

(c) Level of remuneration. Situations in which employee remuneration other than the contingent payments is at a reasonable level in comparison with that of other key employees in the combined entity may indicate that the contingent payments are additional consideration rather than remuneration.

(d) Incremental payments to employees. If selling shareholders who do not become employees receive lower contingent payments on a per-share basis than the selling shareholders who become employees of the combined entity, that fact may indicate that the incremental amount of contingent payments to the selling shareholders who become employees is remuneration.

(e) Number of shares owned. The relative number of shares owned by the selling shareholders who remain as key employees may be an indicator of the substance of the contingent consideration arrangement. For example, if the selling shareholders who owned substantially all of the shares in the acquired operation continue as key employees, that fact may indicate that the arrangement is, in substance, a profit-sharing arrangement intended to provide remuneration for post-combination services. Alternatively, if selling shareholders who continue as key employees owned only a small number of shares of the acquired operation and all selling shareholders receive the same amount of contingent consideration on a per-share basis, that fact may indicate that the contingent payments are additional consideration. The pre-acquisition ownership interests held by parties related to selling shareholders who continue as key employees, such as family members, should also be considered.

(f) Linkage to the valuation. If the initial consideration transferred at the acquisition date is based on the low end of a range established in the valuation of the acquired operation and the contingent formula relates to that valuation approach, that fact may suggest that the contingent payments are additional consideration. Alternatively, if the contingent payment formula is consistent with prior profit-sharing arrangements, that fact may suggest that the substance of the arrangement is to provide remuneration.

(g) Formula for determining consideration. The formula used to determine the contingent payment may be helpful in assessing the substance of the arrangement. For example, if a contingent payment is determined on the basis of a multiple of earnings, that might suggest that the obligation is contingent consideration in the acquisition and that the formula is intended to establish or verify the fair value of the acquired operation. In contrast, a contingent payment that is a specified percentage of earnings might suggest that the obligation to employees is a profit-sharing arrangement to remunerate employees for services rendered.

(h) Other agreements and issues. The terms of other arrangements with selling shareholders (such as agreements not to compete, executory contracts, consulting contracts and property lease agreements) and the income tax treatment of contingent payments may indicate that contingent payments are attributable to something other than consideration for the acquired operation. For example, in connection with the acquisition, the acquirer might enter into a property lease arrangement with a significant selling shareholder. If the lease payments specified in the lease arrangement are significantly below market, some or all of the contingent payments to the lessor (the selling shareholder) required by a separate arrangement for contingent payments might be, in substance, payments for the use of the leased property that the acquirer should recognize separately in its post-combination financial statements. In contrast, if the lease arrangement specifies lease payments that are consistent with market terms for the leased property, the arrangement for contingent payments to the selling shareholder may be contingent consideration in the acquisition.

Acquirer Share-Based Payment Awards Exchanged for Awards Held by the Acquired Operation's Employees (see paragraph 110(b))

AG104. An acquirer may exchange its share-based payment awards for awards held by employees of the acquired operation. The acquirer shall account for exchanges of share options or other share-based payment awards in conjunction with an acquisition in accordance with the relevant international or national accounting standard dealing with share-based payments.

AG105. In situations in which acquired operation awards would expire as a consequence of an acquisition and if the acquirer replaces those awards when it is not obliged to do so, the acquirer shall recognize any costs as remuneration cost in the post-combination financial statements in accordance with the relevant international or national accounting standard dealing with share-based payments. The cost of those awards shall not be included in measuring the consideration transferred in the acquisition.

Equity-Settled Share-Based Payment Transactions of the Acquired Operation

AG106. The acquired operation may have outstanding share-based payment transactions that the acquirer does not exchange for its share-based payment transactions. If vested, those acquired operation share-based payment transactions are part of the non-controlling interest in the acquired operation. If unvested, they are measured as if the acquisition date were the grant date. Share-based payment transactions are measured in accordance with the relevant international or national accounting standard dealing with share-based payments.

Subsequent Measurement and Accounting (see paragraph 112)

AG107. Examples of other IPSASs that provide guidance on subsequently measuring and accounting for assets acquired and liabilities assumed or incurred in an acquisition include:

(a) IPSAS 31 prescribes the accounting for identifiable intangible assets acquired in an acquisition. The acquirer measures goodwill at the amount recognized at the acquisition date less any accumulated impairment losses. IPSAS 26 prescribes the accounting for impairment losses.

(b) IPSAS 35 provides guidance on accounting for changes in a controlling entity's ownership interest in a controlled entity after control is obtained.

AG108. An acquirer should refer to the relevant international or national accounting standards for guidance on subsequently measuring and accounting for insurance contracts, income taxes and share-based payments.

Subsequent Measurement of Transfers, Concessionary Loans and Similar Benefits Received by an Acquirer or Acquired Operation on the Basis of Criteria that May Change as a Result of an Acquisition (see paragraph 114)

AG109. Prior to an acquisition taking place, an acquirer or an acquired operation may receive a transfer from a third party, based on specified criteria. For example, a national government may provide grants to those municipalities where the municipality's revenue per head of population is below a threshold. An acquisition by a municipality of a cash-generating operation may increase the revenue per head of population of the municipality so that it is above the threshold. This may cause the government to review the grant.

AG110. The acquirer shall not account for any revisions to the grant amount as part of the acquisition, but accounts for any revisions at the point the grantor makes its intentions known in accordance with other IPSASs.

AG111. Similar circumstances may arise in respect of concessionary loans and other benefits. The acquirer shall not account for any revisions to those transactions as part of the acquisition, but accounts for any revisions at the point the grantor makes its intentions known in accordance with other IPSASs.

Acquisitions Occurring during a Reporting Period

AG112. The resulting entity meets the needs of the users of its financial statements for information about the acquired operations prior to the acquisition by making the disclosures in paragraph 120(r).

AG113. To satisfy the requirements of a regulator, it may be necessary for the acquirer to present or disclose information in addition to that required by this Standard.

Transitional Provisions for Public Sector Combinations Involving Only Mutual Entities or by Contract Alone (see paragraph 133)

AG114. Paragraph 126 provides that this Standard applies prospectively to public sector combinations for which the acquisition date or amalgamation date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019. Earlier application is permitted.

AG115. The requirement to apply this Standard prospectively has the following effect for a public sector combination involving only mutual entities or by contract alone if the acquisition date or amalgamation date for that public sector combination is before the application of this Standard:

(a) Classification. An entity shall continue to classify the prior public sector combination in accordance with the entity's previous accounting policies for such combinations.

(b) Previously recognized goodwill. At the beginning of the first annual period in which this Standard is applied, the carrying amount of goodwill arising from the prior public sector combination shall be its carrying amount at that date in accordance with the entity's previous accounting policies. In determining that amount, the entity shall eliminate the carrying amount of any accumulated amortization of that goodwill and the corresponding decrease in goodwill. No other adjustments shall be made to the carrying amount of goodwill.

(c) Goodwill previously recognized as a deduction from equity. The entity's previous accounting policies may have resulted in goodwill arising from the prior public sector combination being recognized as a deduction from equity. In that situation the entity shall not recognize that goodwill as an asset at the beginning of the first annual period in which this Standard is applied. Furthermore, the entity shall not recognize in surplus or deficit any part of that goodwill when it disposes of all or part of the operation to which that goodwill relates or when a cash-generating unit to which the goodwill relates becomes impaired.

(d) Subsequent accounting for goodwill. From the beginning of the first annual period in which this Standard is applied, an entity shall discontinue amortizing goodwill arising from the prior public sector combination and shall test goodwill for impairment in accordance with IPSAS 26.

(e) Previously recognized negative goodwill. An entity that accounted for the prior public sector combination by applying the purchase method may have recognized a deferred credit for an excess of its interest in the net fair value of the acquired operation's identifiable assets and liabilities over the cost of that interest (sometimes called negative goodwill). If so, the entity shall derecognize the carrying amount of that deferred credit at the beginning of the first annual period in which this Standard is applied with a corresponding adjustment to the opening balance of accumulated surplus or deficit at that date.

Appendix B

Amendments to Other IPSASs

Amendments to IPSAS 1, *Presentation of Financial Statements*

Paragraph 135 is amended and paragraph 153J is added. New text is underlined and deleted text is struck through.

Notes

…

Disclosure of Accounting Policies

…

135. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, public sector entities would be expected to disclose an accounting policy for recognition of taxes, donations, and other forms of non-exchange revenue. When an entity has significant foreign operations or transactions in foreign currencies, disclosure of accounting policies for the recognition of foreign exchange gains and losses would be expected. When ~~entity combinations~~ <u>public sector combinations</u> have occurred, the policies used for measuring goodwill and non-controlling interest are disclosed.

…

Effective Date

…

<u>153J.</u> <u>**Paragraph 135 was amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**</u>

Amendments to IPSAS 10, Financial Reporting in Hyperinflationary Economies

Paragraph 22 is amended and paragraph 38E is added. New text is underlined and deleted text is struck through.

The Restatement of Financial Statements

…

Statement of Financial Position

…

22. To determine whether the restated amount of a non-monetary item has become impaired and should be reduced an entity applies relevant impairment tests in IPSAS 21, *Impairment of Non-Cash-Generating Assets*, <u>or</u> IPSAS 26, *Impairment of Cash-Generating Assets* ~~or international and/or national accounting standards addressing impairment of goodwill~~. For example, restated amounts of property, plant and equipment, goodwill, patents and trademarks are reduced to recoverable amount or recoverable service amount where appropriate, and restated amounts of inventories are reduced to net realizable value or current replacement cost. An investee that is accounted for under the equity method may report in the currency of a hyperinflationary economy. The statement of financial position and statement of financial performance of such an investee are restated in accordance with this Standard in order to calculate the investor's share of its net assets/equity and surplus or deficit. Where the restated financial statements of the investee are expressed in a foreign currency they are translated at closing rates.

…

Effective Date

…

<u>38E.</u> <u>**Paragraph 22 was amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**</u>

Amendments to IPSAS 14, Events After the Reporting Date

Paragraph 31 is amended and paragraph 32E is added. New text is underlined and deleted text is struck through.

<u>*Disclosure*</u>

…

Disclosure of Non-adjusting Events after the Reporting Date

…

31. The following are examples of non-adjusting events after the reporting date that would generally result in disclosure:

    (a) An unusually large decline in the value of property carried at fair value, where that decline is unrelated to the condition of the property at reporting date, but is due to circumstances that have arisen since the reporting date;

    (b) The entity decides after the reporting date, to provide/distribute substantial additional benefits in the future directly or indirectly to participants in community service programs that it operates, and those additional benefits have a major impact on the entity;

    (c) A major public sector combination (IPSAS 40, *Public Sector Combinations* requires specific disclosures in such cases), a ~~An acquisition or~~ disposal of a major controlled entity or the outsourcing of all or substantially all of the activities currently undertaken by an entity after the reporting date;

…

Effective Date

…

32E. **Paragraph 31 was amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

Amendments to IPSAS 16, *Investment Property*

Paragraphs 87 and 90 are amended and paragraphs 18A and 101E are added. New text is underlined and deleted text is struck through.

Definitions

…

Investment Property

…

18A. Judgment is also needed to determine whether the acquisition of investment property is the acquisition of an asset or a group of assets or a public sector combination within the scope of IPSAS 40, *Public Sector Combinations.*

Reference should be made to IPSAS 40 to determine whether it is a public sector combination. The discussion in paragraphs 9–18 of this Standard relates to whether or not property is owner-occupied property or investment property and not to determining whether or not the acquisition of property is a public sector combination as defined in IPSAS 40. Determining whether a specific transaction meets the definition of a public sector combination as defined in IPSAS 40 and includes an investment property as defined in this Standard requires the separate application of both Standards.

…

Disclosure

Fair Value Model and Cost Model

…

Fair Value Model

87. In addition to the disclosures required by paragraph 86, an entity that applies the fair value model in paragraphs 42–64 shall disclose a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:

(a) Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognized in the carrying amount of an asset;

(b) Additions resulting from acquisitions through ~~entity combinations~~ public sector combinations;

…

Cost Model

90. In addition to the disclosures required by paragraph 86, an entity that applies the cost model in paragraph 65 shall disclose:

(a) The depreciation methods used;

…

(d) The reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:

(i) Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognized as an asset;

(ii) Additions resulting from acquisitions through ~~entity combinations~~ public sector combinations;

(iii) Disposals;

…

Effective Date

…

101E. **Paragraph 18A was added and paragraphs 87 and 90 amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

Amendments to IPSAS 17, Property, Plant, and Equipment

Paragraphs 60 and 88 are amended and paragraph 107M is added. New text is underlined and deleted text is struck through.

Depreciation

…

60. An entity allocates the amount initially recognized in respect of an item of property, plant, and equipment to its significant parts and depreciates separately each such part. For example, in most cases, it would be required to depreciate separately the pavements, formation, curbs and channels, footpaths, bridges, and lighting within a road system. Similarly, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease. Similarly, if an entity acquires property, plant and equipment subject to an operating lease in which it is the lessor, it may be appropriate to depreciate separately amounts reflected in the cost of that item that are attributable to favorable or unfavorable lease terms relative to market terms.

88. The financial statements shall disclose, for each class of property, plant, and equipment recognized in the financial statements:

(a) The measurement bases used for determining the gross carrying amount;

…

(e) A reconciliation of the carrying amount at the beginning and end of the period showing:

(i) Additions;

(ii) Disposals;

(iii) Acquisitions through ~~entity combinations~~ public sector combinations;

…

Effective Date

…

107M. **Paragraphs 60 and 88 were amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

Amendments to IPSAS 18, *Segment Reporting*

Paragraphs 34 and 37 are amended and paragraph 76E is added. New text is underlined and deleted text is struck through.

Definitions of Segment Revenue, Expense, Assets, Liabilities, and Accounting Policies

…

Segment Assets, Liabilities, Revenue, and Expense

…

34. The consolidated financial statements of a government or other entity may encompass operations ~~entities~~ acquired in ~~an entity acquisition~~ a public sector combination that gives rise to purchased goodwill (guidance on accounting for the acquisition of an ~~entity~~ operation is included in ~~IFRS 3, *Business Combinations*~~ IPSAS 40, *Public Sector Combinations*).~~)~~ In these cases, segment assets will include goodwill that is directly attributable to a segment or that can be allocated to a segment on a reasonable basis, and segment expense includes related ~~amortization~~ impairment of goodwill.

…

37. ~~International or national accounting standards~~ IPSAS 40 may require adjustments to be made to the carrying amounts of the identifiable assets and liabilities of an ~~entity~~ operation acquired in an acquisition ~~(see for example IFRS 3)~~. Measurements of segment assets and liabilities include any adjustments to the prior carrying amounts of the identifiable segment assets and segment liabilities of an operation ~~entity~~ acquired in an acquisition ~~entity combination accounted for as a purchase~~, even if those adjustments are

made only for the purpose of preparing consolidated financial statements and are not recorded in either the controlling entity's separate or the controlled entity's individual financial statements. Similarly, if property, plant, and equipment has been revalued subsequent to acquisition in accordance with the revaluation model in IPSAS 17, *Property, Plant, and Equipment*, measurements of segment assets reflect those revaluations.

…

Effective Date

…

76E. **Paragraphs 34 and 37 were amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

Amendments to IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets

Paragraphs 4A and 111F are added. New text is underlined.

Scope

…

4A. This Standard does not apply to the contingent consideration of an acquirer in a public sector combination which is within the scope of IPSAS 40, *Public Sector Combinations*.

…

Effective Date

…

111F. **Paragraph 4A was added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

Amendments to IPSAS 21, Impairment of Non-Cash-Generating Assets

Paragraph 14 is amended and paragraphs 20A and 82G are added. New text is underlined and deleted text is struck through.

Definitions

14. **The following terms are used in this Standard with the meanings specified:**

…

Cash-generating assets are assets held with the primary objective of generating a commercial return. For the purposes of impairment, goodwill is considered a cash-generating asset.

…

Cash-Generating Assets

…

20A. For the purposes of impairment, goodwill is considered a cash-generating asset. Goodwill does not generate economic benefits independently of other assets, and is assessed for impairment as part of a group of assets. This Standard deals with the assessment of individual assets. Goodwill is only recognized where it gives rise to cash inflows or reductions in an acquirer's net cash outflows, No goodwill is recognized in respect of service potential that does not give rise to related cash flows. The recoverable service amount used to assess impairment in this Standard includes service potential. Consequently, an entity applies IPSAS 26 rather than this Standard to determine whether to impair goodwill.

…

Effective Date

…

82G. **Paragraph 14 was amended and paragraph 20A added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 21.

…

Cash-Generating Assets

…

BC5A. IPSAS 40, *Public Sector Combinations*, was issued in January 2017. IPSAS 40 includes requirements for recognizing and measuring goodwill. In developing IPSAS 40, the IPSASB considered the requirements for impairing goodwill. The IPSASB noted that goodwill does not generate economic benefits independently of other assets, and is therefore assessed for impairment as part of a group of assets. Goodwill can only be measured by reference to cash flows, whether positive cash inflows or reductions in net cash outflows. The IPSASB also noted that IPSAS 21 deals with the impairment of individual assets only, and assesses impairment by reference to the present value of the remaining service potential of the asset. The IPSASB therefore concluded that it would not be appropriate to apply IPSAS 21 to the impairment of goodwill. The IPSASB concluded that, for the purposes of impairment, goodwill should be considered a cash-generating asset irrespective of whether the operation to which it relates is a cash-generating operation. The IPSASB agreed to include additional guidance in IPSAS 21 and in IPSAS 26 that goodwill should be considered a cash-generating asset for the purposes of impairment.

Amendments to IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)

Paragraphs 1, 2 and 6 are amended and paragraph 124E is added. New text is underlined and deleted text is struck through.

Objective

1. The objective of this Standard is to prescribe requirements for the financial reporting of revenue arising from non-exchange transactions, other than non-exchange transactions that give rise to a public sector combination ~~an entity combination~~. This Standard deals with issues that need to be considered in recognizing and measuring revenue from non-exchange transactions, including the identification of contributions from owners.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for revenue from non-exchange transactions. This Standard does not apply to a public sector combination ~~an entity combination~~ that is a non-exchange transaction.**

…

6. Governments may reorganize the public sector, merging some public sector entities, and dividing other entities into two or more separate entities. A public sector combination ~~An entity combination~~ occurs when two or more operations ~~reporting entities~~ are brought together to form one reporting entity. These restructurings do not ordinarily involve one entity purchasing another operation or entity, but may result in a new or existing entity acquiring all the assets and liabilities of another operation or entity. ~~The IPSASB has not addressed entity combinations, and has excluded them from the scope of this Standard. Therefore, this Standard does not specify whether an entity combination, which is a non-exchange transaction, will give rise to revenue or not.~~ Public sector combinations shall be accounted for in accordance with IPSAS 40, *Public Sector Combinations*.

…

Effective Date

…

124E. **Paragraphs1, 2 and 6 were amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 23.

…

Public Sector ~~Entity~~ Combinations

BC8. When issued, this ~~This~~ Standard did ~~does~~ not specify whether entity combinations resulting from non-exchange transactions will give rise to revenue. This was ~~is~~ because the IPSASB ~~has~~ had not considered the financial reporting of entity combinations in the public sector, including the applicability of IFRS 3, *Business Combinations*, to public sector entities.

BC8A. Subsequently, the IPSASB issued IPSAS 40, *Public Sector Combinations*. IPSAS 40 specifies the accounting for public sector combinations, including the treatment for any gains or losses. Public sector combinations are, therefore, excluded from the scope of this Standard.

Amendments to IPSAS 26, Impairment of Cash-Generating Assets

Paragraphs 2, 23, 71, 76, 88, 91, 92, 98–100, 102, 103, 106–108, 110, 111, 120, 122 and 123–125, and headings before paragraphs 71 and 76 are amended. Paragraphs 18A, 20A, 90A–90O, 97A–97H, 111A, 111B, 122A and 126I, and headings after paragraphs 90, 97 and 111 are added. Paragraphs 7 and 96 are deleted. New text is underlined and deleted text is struck through.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for the impairment of cash-generating assets, except for:**

…

~~(i) Goodwill;~~

…

~~7. This Standard excludes goodwill from its scope. Entities apply the requirements of the relevant international or national accounting standards dealing with the impairment of goodwill, the allocation of goodwill to cash-generating units, and the testing for impairment of cash-generating units with goodwill.~~

…

Definitions

…

Cash-Generating Assets

…

18A. For the purposes of impairment, goodwill is considered a cash-generating asset. Goodwill does not generate economic benefits independently of other assets, and is assessed for impairment as part of a group of assets. IPSAS 21 deals with the assessment of individual assets. Goodwill is only recognized where it gives rise to cash inflows or reductions in an acquirer's net cash outflows, No goodwill is recognized in respect of service potential that does not give rise to related cash flows. The recoverable service amount used to assess impairment in IPSAS 21 includes service potential. Consequently, an entity applies this Standard to determine whether to impair goodwill.

…

Identifying an Asset that may be Impaired

20A. Paragraphs 21–30 specify when recoverable amount shall be determined. These requirements use the term 'an asset' but apply equally to an individual asset or a cash-generating unit. The remainder of this Standard is structured as follows:

(a) Paragraphs 31–70 set out the requirements for measuring recoverable amount. These requirements also use the term 'an asset' but apply equally to an individual asset and a cash-generating unit.

(b) Paragraphs 71–97 set out the requirements for recognizing and measuring impairment losses. Recognition and measurement of impairment losses for individual assets other than goodwill are dealt with in paragraphs 71–75. Paragraphs 76–97 deal with the recognition and measurement of impairment losses for cash-generating units and goodwill.

(c) Paragraphs 98–105 set out the requirements for reversing an impairment loss recognized in prior periods for an asset or a cash-generating unit. Again, these requirements use the term 'an asset' but apply equally to an individual asset or a cash-generating unit. Additional requirements for an individual asset are set out in paragraphs 106–109, for a cash-generating unit in paragraphs 110–111, and for goodwill in paragraphs 111A–111B.

(d) Paragraphs 112–113 set out the requirements for the redesignation of an asset from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset.

(e) Paragraphs 114–122A specify the information to be disclosed about impairment losses and reversals of impairment losses for assets and cash-generating units. Paragraphs 123–125 specify additional disclosure requirements for cash-generating units to which goodwill or intangible assets with indefinite useful lives have been allocated for impairment testing purposes.

…

23. **Irrespective of whether there is any indication of impairment, an entity shall also:**

(a) **T~~t~~est an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test may be performed at any time during the reporting period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at**

different times. However, if such an intangible asset was initially recognized during the current reporting period, that intangible asset shall be tested for impairment before the end of the current reporting period.

(b) **Test goodwill acquired in an acquisition for impairment annually in accordance with paragraphs 90A–90O.**

...

Recognizing and Measuring an Impairment Loss ~~of an Individual Asset~~

71. Paragraphs 72–75 set out the requirements for recognizing and measuring impairment losses for an individual asset other than goodwill. The recognition and measurement of impairment losses for cash-generating units and goodwill are dealt with in paragraphs 76–97H.

…

Cash-Generating Units and Goodwill

76. Paragraphs 77–97H set out the requirements for identifying the cash-generating unit to which an asset belongs and determining the carrying amount of, and recognizing impairment losses for, cash-generating units and goodwill.

…

Recoverable Amount and Carrying Amount of a Cash-Generating Unit

…

88. When assets are grouped for recoverability assessments, it is important to include in the cash-generating unit all assets that generate, or are used to generate, the relevant stream of cash inflows. Otherwise, the cash-generating unit may appear to be fully recoverable when in fact an impairment loss has occurred. The Illustrated Decision Tree provides a flow diagram illustrating the treatment of individual assets that are part of cash-generating units. In some cases, although some assets contribute to the estimated future cash flows of a cash-generating unit, they cannot be allocated to the cash-generating unit on a reasonable and consistent basis. This might be the case for goodwill. Paragraphs90A–90O explain how to deal with these assets in testing a cash-generating unit for impairment.

…

Goodwill

Allocating Goodwill to Cash-Generating Units

90A. **For the purpose of impairment testing, goodwill acquired in an acquisition shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquired operation are assigned to those units or groups of units. Where goodwill is acquired in an acquisition of a non-cash-generating operation that results in a reduction in the net cash outflows of the acquirer, the acquirer shall be considered as the cash-generating unit. Except where goodwill relates to the acquisition of a non-cash-generating operation, each unit or group of units to which the goodwill is so allocated shall:**

(a) **Represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and**

(b) **Not be larger than a segment as defined by paragraph 9 of IPSAS 18, *Segment Reporting*.**

90B. Goodwill recognized in an acquisition is an asset representing the future economic benefits arising from other assets acquired in an acquisition that are not individually identified and separately recognized. Goodwill does not generate cash flows, or reductions in net cash outflows, independently of other assets or groups of assets, and often contributes to the cash flows of multiple cash-generating units. Goodwill sometimes cannot be allocated on a non-arbitrary basis to individual cash-generating units, but only to groups of cash-generating units. As a result, the lowest level within the entity at which the goodwill is monitored for internal management purposes sometimes comprises a number of cash-generating units to which the goodwill relates, but to which it cannot be allocated. References in paragraphs 90D–90O and 97A–97H to a cash-generating unit to which goodwill is allocated should be read as references also to a group of cash-generating units to which goodwill is allocated. Where goodwill is acquired in an acquisition of a non-cash-generating operation that results in a reduction in the net cash outflows of the acquirer, references in paragraphs 90D–90O and 97A–97H to a cash-generating unit to which goodwill is allocated should be read as references also to the acquirer.

90C. Applying the requirements in paragraph 90A results in goodwill being tested for impairment at a level that reflects the way an entity manages its operations and with which the goodwill would naturally be associated. Therefore, the development of additional reporting systems is typically not necessary.

90D. A cash-generating unit to which goodwill is allocated for the purpose of impairment testing may not coincide with the level at which goodwill is allocated in accordance with IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*, for the purpose of measuring foreign currency gains and losses. For example, if an entity is required by IPSAS 4 to allocate goodwill to relatively low levels for the purpose of measuring foreign currency gains and losses, it is not required to test the goodwill for impairment at that same level unless it also monitors the goodwill at that level for internal management purposes.

90E. **If the initial allocation of goodwill acquired in an acquisition cannot be completed before the end of the annual period in which the acquisition is effected, that initial allocation shall be completed before the end of the first annual period beginning after the acquisition date.**

90F. In accordance with IPSAS 40, *Public Sector Combinations*, if the initial accounting for an acquisition can be determined only provisionally by the end of the period in which the combination is effected, the acquirer:

(a) Accounts for the acquisition using those provisional values; and

(b) Recognizes any adjustments to those provisional values as a result of completing the initial accounting within the measurement period, which will not exceed twelve months from the acquisition date.

In such circumstances, it might also not be possible to complete the initial allocation of the goodwill recognized in the acquisition before the end of the annual period in which the combination is effected. When this is the case, the entity discloses the information required by paragraph 122A.

90G. **If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of shall be:**

(a) **Included in the carrying amount of the operation when determining the gain or loss on disposal; and**

(b) **Measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained, unless the entity can demonstrate that some other method better reflects the goodwill associated with the operation disposed of.**

90H. **If an entity reorganizes its reporting structure in a way that changes the composition of one or more cash-generating units to which goodwill has been allocated, the goodwill shall be reallocated to the units affected. This reallocation shall be performed using a relative value approach similar to that used when an entity disposes of an operation within a cash-generating unit, unless the entity can demonstrate that some other method better reflects the goodwill associated with the reorganized units.**

Testing cash-generating units with goodwill for impairment

90I. **When, as described in paragraph 90B, goodwill relates to a cash-generating unit but has not been allocated to that unit, the unit shall be tested for impairment, whenever there is an indication that the unit**

may be impaired, by comparing the unit's carrying amount, excluding any goodwill, with its recoverable amount. Any impairment loss shall be recognized in accordance with paragraph 91.

90J. If a cash-generating unit described in paragraph 90I includes in its carrying amount an intangible asset that has an indefinite useful life or is not yet available for use and that asset can be tested for impairment only as part of the cash-generating unit, paragraph 23 requires the unit also to be tested for impairment annually.

90K. **A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity shall recognize the impairment loss in accordance with paragraph 91.**

Timing of impairment tests

90L. **The annual impairment test for a cash-generating unit to which goodwill has been allocated may be performed at any time during an annual period, provided the test is performed at the same time every year. Different cash-generating units may be tested for impairment at different times. However, if some or all of the goodwill allocated to a cash-generating unit was acquired in an acquisition during the current annual period, that unit shall be tested for impairment before the end of the current annual period.**

90M. **If the assets constituting the cash-generating unit to which goodwill has been allocated are tested for impairment at the same time as the unit containing the goodwill, they shall be tested for impairment before the unit containing the goodwill. Similarly, if the cash-generating units constituting a group of cash-generating units to which goodwill has been allocated are tested for impairment at the same time as the group of units containing the goodwill, the individual units shall be tested for impairment before the group of units containing the goodwill.**

90N. At the time of impairment testing a cash-generating unit to which goodwill has been allocated, there may be an indication of an impairment of an asset within the unit containing the goodwill. In such circumstances, the entity tests the asset for impairment first, and recognizes any impairment loss for that asset before testing for impairment the cash-generating unit containing the goodwill. Similarly, there may be an indication of an impairment of a cash-generating unit within a group of units containing the goodwill. In such circumstances, the entity tests the cash-generating unit for impairment first, and recognizes any impairment loss for that unit, before testing for impairment the group of units to which the goodwill is allocated.

90O. **The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit to which goodwill has been allocated may be used in the impairment test of that unit in the current period provided all of the following criteria are met:**

(a) **The assets and liabilities making up the unit have not changed significantly since the most recent recoverable amount calculation;**

(b) **The most recent recoverable amount calculation resulted in an amount that exceeded the carrying amount of the unit by a substantial margin; and**

(c) **Based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination would be less than the current carrying amount of the unit is remote.**

Impairment Loss for a Cash-Generating Unit

91. **An impairment loss shall be recognized for a cash-generating unit (the smallest group of cash-generating units to which goodwill has been allocated) if, and only if, the recoverable amount of the unit (group of units) is less than the carrying amount of the unit (group of units). The impairment loss shall be allocated to reduce the carrying amount of the cash-generating assets of the unit (group of units) in the following order:**

(a) **First, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and**

(b) **Then, to the other assets of the unit (group of units) on a pro rata basis, based on the carrying amount of each asset in the unit.**

These reductions in carrying amounts shall be treated as impairment losses on individual assets and recognized in accordance with paragraph 73.

92. **In allocating an impairment loss in accordance with paragraph 91, an entity shall not reduce the carrying amount of an asset below the highest of:**

(a) **Its fair value less costs to sell (if determinable);**

(b) **Its value in use (if determinable); and**

(c) **Zero.**

The amount of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other cash-generating assets of the unit (group of units).

…

~~96. Where an asset releases service potential to one or more cash-generating activities, but not to non-cash-generating activities, entities refer to the relevant international and national accounting standard dealing with such circumstances.~~

…

Impairment Testing Cash-Generating Units with Goodwill and Non-Controlling Interests

97A. In accordance with IPSAS 40, the acquirer measures and recognizes goodwill as of the acquisition date as the excess of (a) over (b) below:

(a) The aggregate of:

(i) The consideration transferred measured in accordance with IPSAS 40, which generally requires acquisition-date fair value;

(ii) The amount of any non-controlling interest in the acquired operation measured in accordance with IPSAS 40; and

(iii) In an acquisition achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquired operation.

(b) The net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed measured in accordance with IPSAS 40.

Allocation of Goodwill

97B. Paragraph 90A of this Standard requires goodwill acquired in an acquisition to be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquired operation are assigned to those units, or groups of units. It is possible that some of the synergies resulting from an acquisition will be allocated to a cash-generating unit in which the non-controlling interest does not have an interest.

Testing for Impairment

97C. Testing for impairment involves comparing the recoverable amount of a cash-generating unit with the carrying amount of the cash-generating unit.

97D. If an entity measures non-controlling interests as its proportionate interest in the net identifiable assets of a controlled entity at the acquisition date, rather than at fair value, goodwill attributable to non-controlling interests is included in the recoverable amount of the related cash-generating unit but is not recognized in the controlling entity's consolidated financial statements. As a consequence, an entity shall gross up the carrying amount of goodwill allocated to the unit to include the goodwill attributable to the non-controlling interest. This adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the cash-generating unit is impaired.

Allocating an Impairment Loss

97E. Paragraph 91 requires any identified impairment loss to be allocated first to reduce the carrying amount of goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

97F. If a controlled entity, or part of a controlled entity, with a non-controlling interest is itself a cash-generating unit, the impairment loss is allocated between the controlling entity and the non-controlling interest on the same basis as that on which surplus or deficit is allocated.

97G. If a controlled entity, or part of a controlled entity, with a non-controlling interest is part of a larger cash-generating unit, goodwill impairment losses are allocated to the parts of the cash-generating unit that have a non-controlling interest and the parts that do not. The impairment losses should be allocated to the parts of the cash-generating unit on the basis of:

(a) To the extent that the impairment relates to goodwill in the cash-generating unit, the relative carrying values of the goodwill of the parts before the impairment; and

(b) To the extent that the impairment relates to identifiable assets in the cash-generating unit, the relative carrying values of the net identifiable assets of the parts before the impairment. Any such impairment is allocated to the assets of the parts of each unit pro rata on the basis of the carrying amount of each asset in the part.

In those parts that have a non-controlling interest, the impairment loss is allocated between the controlling entity and the non-controlling interest on the same basis as that on which surplus or deficit is allocated.

97H. If an impairment loss attributable to a non-controlling interest relates to goodwill that is not recognized in the controlling entity's consolidated financial statements (see paragraph 97D), that impairment is not recognized as a goodwill impairment loss. In such cases, only the impairment loss relating to the goodwill that is allocated to the controlling entity is recognized as a goodwill impairment loss.

Reversing an Impairment Loss

98. Paragraphs 99–105 set out the requirements for reversing an impairment loss recognized for an asset or a cash-generating unit in prior periods. These requirements use the term "an asset," but apply equally to an individual asset or a cash-generating unit. Additional requirements for an individual asset are set out in paragraphs 106–109 ~~and~~, for a cash-generating unit~~,~~ in paragraphs 110 and 111 and for goodwill in paragraphs 111A and 111B.

99. **An entity shall assess at each reporting date whether there is any indication that an impairment loss recognized in prior periods for an asset other than good will may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset.**

100. **In assessing whether there is any indication that an impairment loss recognized in prior periods for an asset other than good will may no longer exist or may have decreased, an entity shall consider, as a minimum, the following indications:**

…

102. If there is an indication that an impairment loss recognized for an asset other than goodwill may no longer exist or may have decreased, this may indicate that (a) the remaining useful life, (b) the depreciation (amortization) method, or (c) the residual value may need to be reviewed and adjusted in accordance with the standard applicable to the asset, even if no impairment loss is reversed for the asset.

103. **An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall, except as described in paragraph 106, be increased to its recoverable amount. That increase is a reversal of an impairment loss.**

…

Reversing an Impairment Loss for an Individual Asset

106. **The increased carrying amount of an asset other than good will attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.**

107. Any increase in the carrying amount of an asset other than goodwill above the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior

years is a revaluation. In accounting for such a revaluation, an entity applies the standard applicable to the asset.

108. **A reversal of an impairment loss for an asset other than goodwill shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, the revaluation model in IPSAS 17 and IPSAS 31). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Standard.**

…

Reversing an Impairment Loss for a Cash-Generating Unit

110. **A reversal of an impairment loss for a cash-generating unit shall be allocated to the cash-generating assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets. These increases in carrying amounts shall be treated as reversals of impairment losses for individual assets and recognized in accordance with paragraph 108. No part of the amount of such a reversal shall be allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.**

111. **In allocating a reversal of an impairment loss for a cash-generating unit in accordance with paragraph 110, the carrying amount of an asset shall not be increased above the lower of:**

(a) **Its recoverable amount (if determinable); and**

(b) **The carrying amount that would have been determined (net of amortization or depreciation) if no impairment loss had been recognized for the asset in prior periods.**

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other assets of the unit, except for goodwill.

Reversing an Impairment Loss for Goodwill

111A. **An impairment loss recognized for goodwill shall not be reversed in a subsequent period.**

111B. IPSAS 31 prohibits the recognition of internally generated goodwill. Any increase in the recoverable amount of goodwill in the periods following the recognition of an impairment loss for that goodwill is likely to be an increase in internally generated goodwill, rather than a reversal of the impairment loss recognized for the acquired goodwill.

…

Disclosure

…

120. **An entity shall disclose the following for each material impairment loss recognized or reversed during the period for a cash-generating asset (including good will) or a cash-generating unit:**

(a) **The events and circumstances that led to the recognition or reversal of the impairment loss;**

…

(e) **Whether the recoverable amount of the asset (cash-generating unit) is its fair value less costs to sell or its value in use;**

…

122. An entity is encouraged to disclose assumptions used to determine the recoverable amount of assets during the period. However, paragraph 123 requires an entity to disclose information about the estimates used to measure the recoverable amount of a cash-generating unit when goodwill or an intangible asset with an indefinite useful life is included in the carrying amount of that unit.

122A. **If, in accordance with paragraph 90E, any portion of the goodwill acquired in an acquisition during the period has not been allocated to a cash-generating unit (group of units) at the end of the reporting period, the amount of the unallocated goodwill shall be disclosed together with the reasons why that amount remains unallocated.**

Disclosure of Estimates Used to Measure Recoverable Amounts of Cash-Generating Units Containing Intangible Assets with Indefinite Useful Lives

123. **An entity shall disclose the information required by (a)–~~(e)~~(f) for each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives:**

(a) **The carrying amount of goodwill allocated to the unit (group of units)**

~~(a)~~(b) **The carrying amount of intangible assets with indefinite useful lives allocated to the unit (group of units);**

~~(b)~~(c) **The basis on which the unit's (group of units') recoverable amount has been determined (i.e., value in use or fair value less costs to sell);**

~~(c)~~(d) **If the unit's (group of units') recoverable amount is based on value in use:**

(i) **A description of each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive;**

(ii) **A description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information;**

(iii) **The period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash-generating unit (group of units), an explanation of why that longer period is justified;**

(iv) **The growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts, and the justification for using any growth rate that exceeds the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market to which the unit (group of units) is dedicated; and**

(v) **The discount rate(s) applied to the cash flow projections.**

~~(d)~~(e) **If the unit's (group of units') recoverable amount is based on fair value less costs to sell, the methodology used to determine fair value less costs to sell. If fair value less costs to sell is not determined using an observable market price for the unit, the following information shall also be disclosed:**

(i) **A description of each key assumption on which management has based its determination of fair value less costs to sell. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive; and**

(ii) **A description of management's approach to determining the value (or values) assigned to each key assumption, whether those values reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.**

If fair value less costs to sell is determined using discounted cash flow projections, the following information shall also be disclosed:

(iii) **The period over which management has projected cash flows;**

(iv) **The growth rate used to extrapolate cash flow projections; and**

(v) **The discount rate(s) applied to the cash flow projections.**

~~(e)~~(f) **If a reasonably possible change in a key assumption on which management has based its determination of the unit's (group of units') recoverable amount would cause the unit's carrying amount to exceed its recoverable amount:**

(i) **The amount by which the unit's (group of units') recoverable amount would exceed its carrying amount;**

(ii) **The value assigned to the key assumption; and**

(iii) **The amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the unit's (group of units') recoverable amount to be equal to its carrying amount.**

124. **If some or all of the carrying amount of goodwill or intangible assets with indefinite useful lives is allocated across multiple cash-generating units (groups of units), and the amount so allocated to each unit (group of units) is not significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, that fact shall be disclosed, together with the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to those units (groups of units). In addition, if the recoverable amounts of any of those units (groups of units) are based on the same key assumption(s), and the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to them is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, an entity shall disclose that fact, together with:**

(a) **The aggregate carrying amount of goodwill allocated to those units (groups of units);**

~~(a)~~(b) **The aggregate carrying amount of intangible assets with indefinite useful lives allocated to those units (groups of units);**

~~(b)~~(c) **A description of the key assumption(s);**

~~(c)~~(d) **A description of management's approach to determining the value(s) assigned to the key assumption(s), whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and if not, how and why they differ from past experience or external sources of information;**

~~(d)~~(e) **If a reasonably possible change in the key assumption(s) would cause the aggregate of the units' (groups of units') carrying amounts to exceed the aggregate of their recoverable amounts:**

(i) **The amount by which the aggregate of the units' (group of units') recoverable amounts would exceed the aggregate of their carrying amounts;**

(ii) **The value(s) assigned to the key assumption(s); and**

(iii) **The amount by which the value(s) assigned to the key assumption(s) must change, after incorporating any consequential effects of the change on the other variables used to measure recoverable amount, in order for the aggregate of the units' (group of units') recoverable amounts to be equal to the aggregate of their carrying amounts.**

125. The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit (group of units) may, in accordance with paragraph 37 or 90O, be carried forward and used in the impairment test for that unit (group of units) in the current period, provided specified criteria are met. When this is the case, the information for that unit (group of units) that is incorporated into the disclosures required by paragraphs 123 and 124 relate to the carried forward calculation of recoverable amount.

Effective Date

…

126I. **Paragraphs 2, 23, 71, 76, 88, 91, 92, 98–100, 102, 103, 106–108, 110, 111, 120, 122 and 123–125 were amended, paragraphs 18A, 20A, 90A–90O, 97A–97H, 111A, 111B and 122A added and paragraphs 7 and 96 deleted by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 26.

Development of IPSAS 26 Based on the IASB's Revised Version of IAS 36 Issued in 2004

…

Exclusion of Goodwill from Scope

BC8. IAS 36 contains extensive requirements and guidance on (a) the impairment of goodwill, (b) the allocation of goodwill to cash-generating units, and (c) testing cash-generating units with goodwill for impairment. In developing IPSAS 26, t~~T~~he IPSASB considered whether goodwill should be within the scope of this Standard. The IPSASB ~~has~~ had not yet issued an IPSAS dealing with entity combinations and consider~~s~~ed it likely that a number of public sector-specific issues ~~will~~ would arise when combinations of public sector entities take place: in particular, whether an acquirer can always be identified in combinations of public sector entities. The IPSASB concluded that goodwill should not be within the scope of this Standard. In accordance with the hierarchy in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, users ~~are~~ were referred to the requirements of the relevant international or national accounting standards dealing with the impairment of goodwill, the allocation of goodwill to cash-generating units, and the testing for impairment of cash-generating units with goodwill.

BC8A. IPSAS 40, *Public Sector Combinations*, was issued in January 2017. IPSAS 40 includes requirements for recognizing and measuring goodwill. In developing IPSAS 40, the IPSASB considered the requirements for impairing goodwill. The IPSASB noted that goodwill does not generate economic benefits independently of other assets, and is therefore assessed for impairment as part of a group of assets. Goodwill can only be measured by reference to cash flows, whether positive cash inflows or reductions in net cash outflows. The IPSASB also noted that IPSAS 21 deals with the impairment of individual assets only, and assesses impairment by reference to the present value of the remaining service potential of the asset. The IPSASB therefore concluded that it would not be appropriate to apply IPSAS 21 to the impairment of goodwill. The IPSASB concluded that, for the purposes of impairment, goodwill should be considered a cash-generating asset irrespective of whether the operation to which it relates is a cash-generating operation. The IPSASB agreed to include additional guidance in IPSAS 21 and in IPSAS 26 that goodwill should be considered a cash-generating asset for the purposes of impairment.

BC8B. As a consequence of the IPSASB's decision that goodwill should be considered a cash-generating asset for the purposes of impairment, the IPSASB agreed to incorporate into IPSAS 26 the extensive requirements and guidance on (a) the impairment of goodwill, (b) the allocation of goodwill to cash-generating units, and (c) testing cash-generating units with goodwill for impairment contained in IAS 36.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 26.

…

Including Goodwill in the Carrying Amount of an Operation on Disposal

Background

IG24A. A municipality sells for CU100 an operation that was part of a cash-generating unit to which goodwill has been allocated. The goodwill allocated to the unit cannot be identified or associated with an asset group at a level lower than that unit, except arbitrarily. The recoverable amount of the portion of the cash-generating unit retained is CU300.

Accounting Treatment

IG24B. Because the goodwill allocated to the cash-generating unit cannot be non-arbitrarily identified or associated with an asset group at a level lower than that unit, the goodwill associated with the operation disposed of is measured on the basis of the relative values of the operation disposed of and the portion of the unit retained. Therefore, 25 percent of the goodwill allocated to the cash-generating unit is included in the carrying amount of the operation that is sold.

Reallocation of Goodwill when a Cash-Generating Unit is Restructured.

Background

IG24C. Goodwill had previously been allocated to cash-generating unit A. The goodwill allocated to A cannot be identified or associated with an asset group at a level lower than A, except arbitrarily. A is to be divided and integrated into three other cash-generating units, B, C and D.

Accounting Treatment

IG24D. Because the goodwill allocated to A cannot be non-arbitrarily identified or associated with an asset group at a level lower than A, it is reallocated to units B, C and D on the basis of the relative values of the three portions of A before those portions are integrated with B, C and D.

Comparison with IAS 36

IPSAS 26, *Impairment of Cash-Generating Assets* deals with the impairment of cash-generating assets in the public sector, and includes an amendment made to IAS 36 (2004), *Impairment of Assets* as part of the *Improvements to IFRSs* issued in May 2008. The main differences between IPSAS 26 and IAS 36 are as follows:

…

- ~~Goodwill is outside the scope of IPSAS 26. IAS 36 includes extensive requirements and guidance on the impairment of goodwill, the allocation of goodwill to cash-generating units, and testing cash-generating units with goodwill for impairment.~~

…

Amendments to IPSAS 27, *Agriculture*

Paragraph 48 is amended and paragraph 56F is added. New text is underlined and deleted text is struck through.

Disclosure

General

…

48. **An entity shall present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:**

…

(g) **Increases resulting from ~~entity combinations~~ <u>public sector combinations</u>;**

…

Effective Date

…

<u>56F.</u> **<u>Paragraph 48 was amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall apply IPSAS 40 at the same time.</u>**

Amendments to IPSAS 29, Financial Instruments: Recognition and Measurement

Paragraphs 2, AG35, AG131 and B4 are amended and paragraph 125F is added. New text is underlined and deleted text is struck through.

Scope

2. **This Standard shall be applied by all entities to all types of financial instruments, except:**

…

(f) **Any forward contracts between an acquirer and seller to buy or sell an acquired operation ~~acquiree~~ that will result in a public sector combination ~~an entity combination~~ at a future acquisition date. The term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction.**

…

Effective Date

…

125F. **Paragraphs 2, AG35, AG131 and B4 were amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

Application Guidance

This Appendix is an integral part of IPSAS 29.

…

Definitions (paragraphs 9 and 10)

…

Held-to-Maturity Investments

…

AG35. Sales before maturity could satisfy the condition in paragraph 10 – and therefore not raise a question about the entity's intention to hold other investments to maturity – if they are attributable to any of the following:

…

(c) A major public sector combination ~~entity combination~~ or major disposition (such as a sale of a segment) that necessitates the sale or transfer of held-to-maturity investments to maintain the entity's existing interest rate risk position or credit risk policy (although the public sector combination ~~entity combination~~ is an event within the entity's control, the changes to its investment portfolio to maintain an interest rate risk position or credit risk policy may be consequential rather than anticipated).

…

Hedging (paragraphs 80–113)

…

Hedged Items (paragraphs 87–94)

Qualifying Items (paragraphs 87–89)

AG131. A firm commitment to acquire an entity or an integrated set of activities in a public sector combination ~~an entity combination~~ cannot be a hedged item, except for foreign exchange risk, because the other risks being hedged cannot be specifically identified and measured. These other risks are general operational risks.

Appendix B

Reassessment of Embedded Derivatives

This Appendix is an integral part of IPSAS 29.

Introduction

…

B4. This appendix applies to all embedded derivatives within the scope of IPSAS 29 except the acquisition of contracts with embedded derivatives in a public sector combination ~~an entity combination~~ or their possible reassessment at the date of acquisition.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 29.

…

Section F: Hedging

…

F.2 Hedged Items

…

F.2.3 Hedge Accounting: Core Deposit Intangibles

Is hedge accounting treatment permitted for a hedge of the fair value exposure of core deposit intangibles?

It depends on whether the core deposit intangible is generated internally or acquired (e.g., as part of a public sector combination ~~an entity combination~~).

…

Amendments to IPSAS 31, *Intangible Assets*

Paragraphs 3, 6, 18, 24, 40, 41, 66, 67, and 117 are amended, paragraphs 18A, 26A, 39A–39E, 93A, 114A and 132H are added, and additional headings are inserted after paragraphs17 and 39. New text is underlined and deleted text is struck through.

Scope

…

3. **This Standard shall be applied in accounting for intangible assets, except:**

   (a) **Intangible assets that are within the scope of another Standard;**

   …

   ~~(e) **Intangible assets acquired in a business combination (see the relevant international or national accounting standard dealing with business combinations)**~~**;**

   ~~(f) **Goodwill acquired in a business combination (see the relevant international or national accounting standard dealing with business combinations);**~~

   …

6. If another IPSAS prescribes the accounting for a specific type of intangible asset, an entity applies that IPSAS instead of this Standard. For example, this Standard does not apply to:

   …

   (d) Financial assets as defined in IPSAS 28. The recognition and measurement of some financial assets are covered by IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements* and IPSAS 36, *Investments in Associates and Joint Ventures*;~~ and~~

   (e) Recognition and initial measurement of service concession assets that are within the scope of IPSAS 32, *Service Concession Assets: Grantor*. However, this Standard applies to the subsequent measurement and disclosure of such assets~~.~~; and

(f) Goodwill (see IPSAS 40, *Public Sector Combinations*).

…

Definitions

…

Intangible Assets

…

Identifiability

18. Not all the items described in paragraph 17 meet the definition of an intangible asset, i.e., identifiability, control over a resource, and existence of future economic benefits or service potential. If an item within the scope of this Standard does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally is recognized as an expense when it is incurred. However, if the item is acquired in an acquisition, it forms part of the goodwill recognized at the acquisition date (see paragraph 66).

18A. The definition of an intangible asset requires an intangible asset to be identifiable to distinguish it from goodwill. Goodwill recognized in an acquisition is an asset representing the future economic benefits arising from other assets acquired in an acquisition that are not individually identified and separately recognized. The future economic benefits may result from synergy between the identifiable assets acquired or from assets that, individually, do not qualify for recognition in the financial statements.

…

Control of an Asset

…

24. An entity may have a portfolio of users of its services or its success rate in reaching intended users of its services and expect that, because of its efforts in building relationships with users of its services, those users will continue to use its services. However, in the absence of legal rights to protect, or other ways to control the relationships with users of a service or the loyalty of those users, the entity usually has insufficient control over the expected economic benefits or service potential from relationships with users of a service and loyalty for such items (e.g., portfolio of users of a service, market shares or success rates of a service, relationships with, and loyalty of, users of a service) to meet the definition of intangible assets. In the absence of legal rights to protect such relationships, exchange transactions for the same or similar non-contractual customer relationships (other than as part of an acquisition)

provide evidence that the entity is nonetheless able to control the expected future economic benefits or service potential flowing from the relationships with the users of a service. Because such exchange transactions also provide evidence that the relationships with users of a service are separable, those relationships meet the definition of an intangible asset.

…

Recognition and Measurement

…

26A. Paragraphs 32–39 deal with the application of the recognition criteria to separately acquired intangible assets, and paragraphs 39A–41 deal with their application to intangible assets acquired in a public sector combination. Paragraphs 42–43 deal with the initial measurement of intangible assets acquired through non-exchange transactions, paragraphs 44–45 with exchanges of intangible assets, and paragraphs 46–48 with the treatment of internally generated goodwill. Paragraphs 49–65 deal with the initial recognition and measurement of internally generated intangible assets.

…

Acquisition of an Intangible Asset as Part of an Acquisition (Public Sector Combination)

39A. In accordance with IPSAS 40, if an intangible asset is acquired in an acquisition, the cost of that intangible asset is its fair value at the acquisition date. The fair value of an intangible asset will reflect market participants' expectations at the acquisition date about the probability that the expected future economic benefits or service potential embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits or service potential, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion in paragraph 28(a) is always considered to be satisfied for intangible assets acquired in acquisitions. If an asset acquired in an acquisition is separable or arises from binding arrangements (including rights from contracts or other legal rights), sufficient information exists to measure reliably the fair value of the asset. Thus, the reliable measurement criterion in paragraph 28(b) is always considered to be satisfied for intangible assets acquired in acquisitions.

39B. In accordance with this Standard and IPSAS 40, an acquirer recognizes at the acquisition date, separately from goodwill, an intangible asset of the acquired operation, irrespective of whether the asset had been recognized by the acquired operation before the acquisition. This means that the acquirer recognizes as an asset separately from goodwill an in-process research and development project of the acquired operation if the project meets the definition of an intangible asset. An acquired operation's in-process research and development project meets the definition of an intangible asset when it:

(a) Meets the definition of an asset; and

(b) Is identifiable, i.e., is separable or arises from binding arrangements (including rights from contracts or other legal rights).

Intangible Asset Acquired in an Acquisition (Public Sector Combination)

39C. If an intangible asset acquired in an acquisition is separable or arises from a binding arrangement (including rights from contracts or other legal rights), sufficient information exists to measure reliably the fair value of the asset. When, for the estimates used to measure an intangible asset's fair value, there is a range of possible outcomes with different probabilities, that uncertainty enters into the measurement of the asset's fair value.

39D. An intangible asset acquired in an acquisition might be separable, but only together with a related binding arrangement, identifiable asset or liability. In such cases, the acquirer recognizes the intangible asset separately from goodwill, but together with the related item.

39E. The acquirer may recognize a group of complementary intangible assets as a single asset provided the individual assets have similar useful lives. For example, the terms 'brand' and 'brand name' are often used as synonyms for trademarks and other marks. However, the former are general marketing terms that are typically used to refer to a group of complementary assets such as a trademark (or service mark) and its related trade name, formulas, recipes and technological expertise.

Subsequent Expenditure on an Acquired In-process Research and Development Project

40. **Research or development expenditure that:**

(a) **Relates to an in-process research or development project acquired separately or in an acquisition and recognized as an intangible asset; and**

(b) **Is incurred after the acquisition of that project;**

shall be accounted for in accordance with paragraphs 52–60.

41. Applying the requirements in paragraphs 52–60 means that subsequent expenditure on an in-process research or development project acquired separately or in an acquisition and recognized as an intangible asset is:

(a) Recognized as an expense when incurred if it is research expenditure;

(b) Recognized as an expense when incurred if it is development expenditure that does not satisfy the criteria for recognition as an intangible asset in paragraph 55; and

(c) Added to the carrying amount of the acquired in-process research or development project if it is development expenditure that satisfies the recognition criteria in paragraph 55.

…

Recognition of an Expense

66. **Expenditure on an intangible item shall be recognized as an expense when it is incurred unless:**

(a) **I~~i~~t forms part of the cost of an intangible asset that meets the recognition criteria (see paragraphs 26–65); or**

(b) **The item is acquired in an acquisition and cannot be recognized as an intangible asset. If this is the case, it forms part of the amount recognized as goodwill at the acquisition date (see IPSAS 40).**

67. In some cases, expenditure is incurred to provide future economic benefits or service potential to an entity, but no intangible asset or other asset is acquired or created that can be recognized. In the case of the supply of goods, the entity recognizes such expenditure as an expense when it has a right to access those goods. In the case of the supply of services, the entity recognizes the expenditure as an expense when it receives the services. For example, expenditure on research is recognized as an expense when it is incurred (see paragraph 52), except when it is acquired as part of an acquisition. Other examples of expenditure that is recognized as an expense when it is incurred include:

(a) Expenditure on start-up activities (i.e., start-up costs), unless this expenditure is included in the cost of an item of property, plant, and equipment in accordance with IPSAS 17. Start-up costs may consist of establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or operation (i.e., pre-opening costs), or expenditures for starting new operations or launching new products or processes (i.e., pre-operating costs);

(b) Expenditure on training activities;

(c) Expenditure on advertising and promotional activities (including mail order catalogues and information pamphlets); and

(d) Expenditure on relocating or reorganizing part or all of an entity.

…

Useful Life

…

93A. **The useful life of:**

(a) **A license or similar right previously granted by one combining operation to another combining operation that is recognized by the resulting entity in an amalgamation; or**

(b) **A reacquired right recognized as an intangible asset in an acquisition**

is the remaining period of the binding arrangement (including rights from contracts or other legal rights) in which the right was granted and shall not include renewal periods.

…

Retirements and Disposals

…

114A. In the case of:

(a) A license or similar right previously granted by one combining operation to another combining operation that is recognized by the resulting entity in an amalgamation; or

(b) A reacquired right recognized as an intangible asset in an acquisition,

if the right is subsequently reissued (sold) to a third party, the related carrying amount, if any, shall be used in determining the gain or loss on reissue.

…

Disclosure

General

117. An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

(a) Whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortization rates used;

…

(e) A reconciliation of the carrying amount at the beginning and end of the period showing:

(i) Additions, indicating separately those from internal development, ~~and~~ those acquired separately, and those acquired through acquisitions;

…

Effective Date

…

132H. **Paragraphs 3, 6, 18, 24, 40, 41, 66, 67, and 117 were amended and paragraphs 18A, 26A, 39A–39E, 93A and 114A were added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2019. Therefore, amounts recognized for intangible assets and goodwill in prior public sector combinations shall not be adjusted. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 31.

…

Scope

…

BC4. IAS 38 contains requirements and guidance on goodwill and intangible assets acquired in a business combination. In issuing IPSAS 31, the ~~The~~ IPSASB considered whether goodwill and intangible assets acquired in a business combination should be included in the scope of this Standard. The IPSASB ~~has~~ had not yet issued an IPSAS dealing with business combinations and ~~considers~~ considered it likely that a number of public sector specific issues will arise when combinations of public sector entities take place. The IPSASB concluded at that time that goodwill and intangible assets acquired in a business combination should not be included in the scope of this Standard. In accordance with the hierarchy in IPSAS 3, *Accounting Policies, Changes in Accounting Policies and Errors*, users ~~are~~ were referred to the requirements of the relevant international or national accounting standards dealing with goodwill and intangible assets acquired in a business combination.

BC4A. Subsequently, the IPSASB issued IPSAS 40, *Public Sector Combinations*. IPSAS 40 specifies the accounting for public sector combinations, including the initial recognition and measurement of intangible assets. IPSAS 40 does not specify the subsequent measurement and disclosure of intangible assets recognized as part of a public sector combination. Consequently, the IPSASB reconsidered whether goodwill and intangible assets recognized in a public sector combination should be included in the scope of this Standard. The IPSASB agreed that such assets should be included in the scope of this Standard as a result of the IPSASB issuing IPSAS 40, and amended the Standard accordingly.

Comparison with IAS 38

IPSAS 31, *Intangible Assets* is drawn primarily from IAS 38, *Intangible Assets* (as at December 31, 2008). The main differences between IPSAS 31 and IAS 38 are as follows:

…

- ~~IAS 38 contains requirements and guidance on goodwill and intangible assets acquired in a business combination. IPSAS 31 does not include this guidance.~~

…

Amendments to IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)

Paragraphs 86, 129, 130 and 132 are amended, paragraphs 62A–62C, and 156 are added, and an additional heading is inserted after paragraph 62. New text is underlined and deleted text is struck through.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSASs During the Period of Transition

…

Three Year Transitional Relief Period for the Recognition and/or Measurement of Assets and/or Liabilities

…

Other Exemptions

…

IPSAS 40, Public Sector Combinations

62A. **Where a first-time adopter applies the exemption in paragraph 36 which allows a three year transitional relief period to not recognize and/or measure assets and/or liabilities, the first-time adopter may be a party to a public sector combination during that three year transitional relief period. The first-time adopter is not required to recognize and/or measure the assets and/or liabilities associated with the public sector**

combination, until the exemption that provided the relief has expired and/or when the relevant assets and/or liabilities are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier).

62B. **Where a first-time adopter applies the exemption in paragraph 62A it shall not recognize goodwill in respect of an acquisition. The first-time adopter shall recognize the difference between (a) and (b) below in net assets/equity:**

(a) **The aggregate of:**

(i) **Any consideration transferred;**

(ii) **Any non-controlling interests in an acquired operation; and**

(iii) **Any previously held equity interests in an acquired operation.**

(b) **The net amounts of any identifiable assets acquired and the liabilities assumed.**

62C. IPSAS 40 is applied prospectively. Consequently, a first-time adopter does not adjust any amounts of goodwill recognized as a result of a public sector combination that occurred prior to the application of IPSAS 40.

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSASs During the Period of Adoption

…

IPSAS 4, The Effects of Changes in Foreign Exchange Rates

86. **A first-time adopter shall apply the requirement to treat any goodwill (see ~~the relevant international or national accounting standard dealing with entity combinations~~ IPSAS 40) arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation, as assets and liabilities of the foreign operation, prospectively on the date of adoption of IPSASs.**

…

IPSAS 34, Separate Financial Statements, IPSAS 35, Consolidated Financial Statements and IPSAS 36, Investments in Associates and Joint Ventures

129. **If a controlled entity becomes a first-time adopter later than its controlling entity, except for the controlled entity of an investment entity,**

the controlled entity shall, in its financial statements, measure its assets and liabilities at either:

(a) **The carrying amounts determined in accordance with this IPSAS that would be included in the controlling entity's consolidated financial statements, based on the controlled entity's date of adoption of IPSASs, if no adjustments were made for consolidation procedures and for the effects of the ~~entity combination~~ public sector combination in which the controlling entity acquired the controlled entity; or**

…

130. **However, if a controlling entity becomes a first-time adopter later than its controlled entity (or associate or joint venture) the controlling entity shall, in its consolidated financial statements, measure the assets and liabilities of the controlled entity (or associate or joint venture) at the same carrying amounts as in the financial statements of the controlled entity (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the ~~entity combination~~ public sector combination in which the controlling entity acquired the controlled entity (or associate or joint venture), subject to the exemptions that may be adopted in terms of this IPSAS. Similarly, if a controlled entity becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, subject to the exemptions that may be adopted in this IPSAS, except for consolidation adjustments.**

…

IPSAS 37, Joint Arrangements

132. **Where a first-time adopter accounted for its investment in a joint venture under its previous basis of accounting basis using proportionate consolidation, the investment in the joint venture shall be measured on the date of adoption as the aggregate of the carrying amount of the assets and liabilities that the entity previously proportionately consolidated, including any purchased goodwill arising from acquisition transactions (see ~~the relevant international or national accounting standard dealing with entity combinations~~ IPSAS 40).**

…

Effective Date

…

156. **Paragraphs 86, 129, 130 and 132 were amended and paragraphs 62A–62C were added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 33.

…

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS

…

IPSAS 40, Public Sector Combinations

BC79A. In developing IPSAS 40, *Public Sector Combinations*, the IPSASB considered whether it should provide transitional relief that allows a first-time adopter not to recognize and/or measure all the assets and/or liabilities associated with a public sector combination. The IPSASB noted that IPSAS 40 is applied prospectively, and so its application would not require a first-time adopter to adjust their accounting for a public sector combination that occurred prior to the application of that Standard. However, a public sector combination could occur during a first-time adopter's three year transitional relief period. The IPSASB considered that requiring a first-time adopter to recognize and measure all the assets and liabilities associated with a public sector combination without requiring them to recognize and measure all similar assets and liabilities would not provide useful information for the users of the financial statements.

BC79B. Consequently, the IPSASB agreed to provide transitional relief that allows a first-time adopter not to recognize and/or measure all the assets and/or liabilities associated with a public sector combination as part of this Standard. The IPSASB also agreed that a first-time adopter should not recognize goodwill where it did not recognize and/or measure all the assets and/or liabilities associated with a public sector combination.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 33.

…

IPSAS 35, Consolidated Financial Statements

IG82. If a first-time adopter did not consolidate a controlled entity in accordance with its previous basis of accounting, then, in its consolidated financial statements, the first-time adopter measures the controlled entity's assets and liabilities at the same carrying amounts as in the accrual basis financial statements of the controlled entity following its adoption of IPSASs, after adjusting for consolidation procedures and for the effects of the ~~entity combination~~ public sector combination in which it acquired the controlled entity (paragraph 130 of IPSAS 33). If the controlled entity has not adopted accrual basis IPSASs in its financial statements, the carrying amounts described in the previous sentence are those that IPSASs would require in those financial statements.

Amendments to IPSAS 35, Consolidated Financial Statements

Paragraphs 4, 40, 52, 56, 57 and 63 are amended and paragraphs 55A, 79B and 79C are added. New text is underlined and deleted text is struck through.

Scope

…

Public Sector Combinations

4. This Standard does not deal with the accounting requirements for public sector combinations and their effect on consolidation, including goodwill arising on a public sector combination (see ~~the relevant international or national accounting standard dealing with public sector combinations~~ IPSAS 40, Public Sector Combinations).

…

Accounting Requirements

…

Consolidation Procedures

40. Consolidated financial statements:

…

(b) Offset (eliminate) the carrying amount of the controlling entity's investment in each controlled entity and the controlling entity's portion of net assets/equity of each controlled entity (~~the relevant international or national accounting standards~~ IPSAS 40 explains how to account for any related goodwill).

…

Loss of Control

52. **If a controlling entity loses control of a controlled entity, the controlling entity:**

    (a) **Derecognizes the assets and liabilities of the former controlled entity from the consolidated statement of financial position;**

    (b) **Recognizes any investment retained in the former controlled entity ~~at its fair value when control is lost~~ and subsequently accounts for it and for any amounts owed by or to the former controlled entity in accordance with relevant IPSASs. That ~~fair value~~ retained interest is remeasured, as described in paragraphs 54(b)(iii) and 55A. The remeasured value at the date that control is lost shall be regarded as the fair value on initial recognition of a financial asset in accordance with IPSAS 29 or the cost on initial recognition of an investment in an associate or joint venture, if applicable; and**

    (c) **Recognizes the gain or loss associated with the loss of control attributable to the former controlling interest, as specified in paragraphs 54–55A.**

…

55A. **If a controlling entity loses control of a controlled entity that does not contain an operation, as defined in IPSAS 40, as a result of a transaction involving an associate or a joint venture that is accounted for using the equity method, the controlling entity determines the gain or loss in accordance with paragraphs 54–55. The gain or loss resulting from the transaction is recognized in the controlling entity's surplus or deficit only to the extent of the unrelated investors' interests in that associate or joint venture. The remaining part of the gain is eliminated against the carrying amount of the investment in that associate or joint venture. In addition, if the controlling entity retains an investment in the former controlled entity and the former controlled entity is now an associate or a joint venture that is accounted for using the equity method, the controlling entity recognizes the part of the gain or loss resulting from the remeasurement at fair value of the investment retained in that former controlled entity in its surplus or deficit only to the extent of the unrelated investors' interests in the new associate or joint venture. The remaining part of that gain is eliminated against the carrying amount of the investment retained in the former controlled entity. If the controlling entity retains an investment in the former controlled entity that is now accounted for in accordance with IPSAS 29, the part of the gain or loss resulting from the remeasurement at fair value of the investment retained in the former controlled entity is recognized in full in the controlling entity's surplus or deficit.**

Investment Entities: Fair Value Requirement

56. **Except as described in paragraph 57, an investment entity shall not consolidate its controlled entities or apply IPSAS 40 when it obtains control of another entity. Instead, an investment entity shall measure an investment in a controlled entity at fair value through surplus or deficit in accordance with IPSAS 29.**

57. **Notwithstanding the requirement in paragraph 56, if an investment entity has a controlled entity that is not itself an investment entity and whose main purpose and activities are providing services that relate to the investment entity's investment activities (see paragraphs AG98–AG100), it shall consolidate that controlled entity in accordance with paragraphs 38–55 of this Standard and apply the requirements of IPSAS 40 to the acquisition of any such controlled entity.**

…

Accounting for a Change in Investment Entity Status

63. **When an entity ceases to be an investment entity, it shall apply ~~the relevant international or national accounting standard dealing with public sector combinations~~ IPSAS 40 to any controlled entity that was previously measured at fair value through surplus or deficit in accordance with paragraph 56. The date of the change of status shall be the deemed acquisition date. The fair value of the controlled entity at the deemed acquisition date shall represent the transferred deemed consideration when measuring any goodwill or gain from a bargain purchase that arises from the deemed acquisition. All controlled entities shall be consolidated in accordance with paragraphs 38–51 of this Standard from the date of change of status.**

…

Effective Date

…

79B. Paragraphs 4, 40, 56, 57 and 63 were amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.

79C. **Paragraph 52 was amended and paragraph 55A added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after a date to be determined by the IPSASB. Earlier application is permitted. If an entity applies the amendments earlier, it shall disclose that fact and, if it has not already done so, apply IPSAS 40 at the same time.**

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 35.

…

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

…

BC57. At the time the IPSASB developed ED 60, *Public Sector Combinations*, it reconsidered whether to include guidance on how to account for the loss of control of a former controlled entity to an investor's associate or joint venture. The IPSASB reviewed the guidance issued by the IASB in *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28). The effect of the IASB's amendments if adopted in IPSAS 35 would be that a partial gain or loss for transactions between an investor and its associate or joint venture would apply only to the gain or loss resulting from the loss of control of a former controlled entity *that does not contain an operation*. The IPSASB did not identify any public sector reason to depart from the IASB's approach. Consequently, the IPSASB agreed to include this guidance (amended to fit the terminology and definitions in ED 60) in IPSAS 35.

BC58. In December 2015, the IASB deferred the implementation of the guidance in *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28). This was because the IASB was undertaking further research in this area as part of its project on equity accounting, and it did not want to require entities to change their accounting twice in a short period. In deferring the effective date, the IASB continued to allow early application of the guidance as it did not wish to prohibit the application of better financial reporting. The IPSASB reviewed the decision of the IASB to defer the implementation of this guidance. The IPSASB did not identify any public sector reason to depart from the IASB's approach. Consequently, the IPSASB agreed to include this guidance (amended to fit the terminology and definitions in IPSAS 40) in IPSAS 35, to be applied from a date to be determined by the IPSASB.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 35.

…

Accounting requirements: loss of control (paragraphs 52–55A)

IE13A. The following example illustrates the treatment of a sale of an interest in a controlled entity that does not contain an operation.

Example 44A

A controlling entity has a 100 per cent interest in a controlled entity that does not contain an operation. The controlling entity sells 70 per cent of its interest in the controlled entity to an associate in which it has a 20 per cent interest. As a consequence of this transaction, the controlling entity loses control of the controlled entity. The carrying amount of the net assets of the subsidiary is CU100 and the carrying amount of the interest sold is CU70 (CU70 = CU100 × 70%). The fair value of the consideration received is CU210, which is also the fair value of the interest sold. The investment retained in the former controlled entity is an associate accounted for using the equity method and its fair value is CU90. The gain determined in accordance with paragraphs 54–55, before the elimination required by paragraph 55A, is CU200 (CU200 = CU210 + CU90 – CU100). This gain comprises two parts:

(a) The gain (CU140) resulting from the sale of the 70 per cent interest in the controlled entity to the associate. This gain is the difference between the fair value of the consideration received (CU210) and the carrying amount of the interest sold (CU70). According to paragraph 55A, the controlling entity recognizes in its surplus or deficit the amount of the gain attributable to the unrelated investors' interests in the existing associate. This is 80 per cent of this gain, that is CU112 (CU112 = CU140 × 80%). The remaining 20 per cent of the gain (CU28 = CU140 × 20%) is eliminated against the carrying amount of the investment in the existing associate.

(b) The gain (CU60) resulting from the remeasurement at fair value of the investment directly retained in the former controlled entity. This gain is the difference between the fair value of the investment retained in the former controlled entity (CU90) and 30 per cent of the carrying amount of the net assets of the controlled entity (CU30 = CU100 × 30%). According to paragraph 55A, the controlling entity recognizes in its surplus or deficit the amount of the gain attributable to the unrelated investors' interests in the new associate. This is 56 per cent (70% × 80%) of the gain, that is

CU34 (CU34 = CU60 × 56%). The remaining 44 per cent of the gain CU26 (CU26 = CU60 × 44%) is eliminated against the carrying amount of the investment retained in the former controlled entity.

Amendments to IPSAS 36, Investments in Associates and Joint Ventures

Paragraphs 26, 31 and 33 are amended and paragraphs 34A, 34B, 51B and 51C are added. New text is underlined and deleted text is struck through.

Application of the Equity Method

…

Discontinuing the Use of the Equity Method

26. **An entity shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:**

    (a) **If the investment becomes a controlled entity, the entity shall account for its investment in accordance with ~~the relevant national or international pronouncement dealing with public sector combinations~~ IPSAS 40, *Public Sector Combinations* and IPSAS 35.**

    …

Equity Method Procedures

…

31. Gains and losses resulting from "upstream" and "downstream" transactions involving assets that do not constitute an operation, as defined in IPSAS 40, between an entity (including its consolidated controlled entities) and its associate or joint venture are recognized in the entity's financial statements only to the extent of unrelated investors' interests in the associate or joint venture. "Upstream" transactions are, for example, sales of assets from an associate or a joint venture to the investor. The entity's share in the associate's or the joint venture's gains or losses resulting from these transactions is eliminated. "Downstream" transactions are, for example, sales or contributions of assets from the investor to its associate or its joint venture. ~~The investor's share in the associate's or joint venture's gains or losses resulting from these transactions is eliminated.~~

…

33. The gain or loss resulting from the contribution of ~~a~~ non-monetary assets that do not constitute an operation, as defined in IPSAS 40, to an associate or a joint venture in exchange for an equity interest in ~~the~~ that associate or

joint venture shall be accounted for in accordance with paragraph 31, except when the contribution lacks commercial substance, as that term is described in IPSAS 17, *Property, Plant and Equipment*. If such a contribution lacks commercial substance, the gain or loss is regarded as unrealized and is not recognized unless paragraph 34 also applies. Such unrealized gains and losses shall be eliminated against the investment accounted for using the equity method and shall not be presented as deferred gains or losses in the entity's consolidated statement of financial position or in the entity's statement of financial position in which investments are accounted for using the equity method.

…

34A. The gain or loss resulting from a downstream transaction involving assets that constitute an operation, as defined in IPSAS 40, between an entity (including its consolidated controlled entities) and its associate or joint venture is recognized in full in the investor's financial statements.

34B. An entity might sell or contribute assets in two or more arrangements (transactions). When determining whether assets that are sold or contributed constitute an operation, as defined in IPSAS 40, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction in accordance with the requirements in paragraph 53 of IPSAS 35.

…

Effective Date

…

51B. **Paragraph 26 was amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

51C. **Paragraphs 31 and 33 were amended and paragraphs 34A and 34B added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after a date to be determined by the IPSASB. Earlier application is permitted. If an entity applies the amendments for a period earlier, it shall disclose that fact and, if it has not already done so, apply IPSAS 40 at the same time.**

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 36.

…

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

…

BC15. At the time the IPSASB developed ED 60, *Public Sector Combinations*, it reconsidered whether to include guidance on how to account for the sale or contribution of assets between an investor and its associate or joint venture. The IPSASB reviewed the guidance issued by the IASB in *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28). The effect of the IASB's amendments if adopted in IPSAS 36 would be that a partial gain or loss for transactions between an investor and its associate or joint venture would apply only to the gain or loss resulting from the sale or contribution of assets *that do not constitute an operation*. The IPSASB did not identify any public sector reason to depart from the IASB's approach. Consequently, the IPSASB agreed to include this guidance (amended to fit the terminology and definitions in ED 60) in IPSAS 36.

BC16. In December 2015, the IASB deferred the implementation of the guidance in *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28). This was because the IASB was undertaking further research in this area as part of its project on equity accounting, and it did not want to require entities to change their accounting twice in a short period. In deferring the effective date, the IASB continued to allow early application of the guidance as it did not wish to prohibit the application of better financial reporting. The IPSASB reviewed the decision of the IASB to defer the implementation of this guidance. The IPSASB did not identify any public sector reason to depart from the IASB's approach. Consequently, the IPSASB agreed to include this guidance (amended to fit the terminology and definitions in IPSAS 40) in IPSAS 36, to be applied from a date to be determined by the IPSASB.

Amendments to IPSAS 37, *Joint Arrangements*

Paragraph 32 is amended and paragraphs 24A, 41A, 42B, 42C and AG33A–AG33D are added. The heading before paragraph 23 is amended and additional headings are added before paragraphs 41A and AG33A. New text is underlined and deleted text is struck through.

Financial Statements of Parties to a Joint Arrangement (see paragraphs ~~AG34~~ AG33A–AG37)

Joint Operations

…

24A. When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes an operation, as defined in IPSAS 40, *Public Sector Combinations*, it shall apply, to the extent of its share in accordance with paragraph 23, all of the principles on acquisition accounting in IPSAS 40, and other IPSASs, that do not conflict with the guidance in this Standard, and disclose the information that is required in those IPSASs in relation to acquisitions. This applies to the acquisition of both the initial interest and additional interests in a joint operation in which the activity of the joint operation constitutes an operation. The accounting for the acquisition of an interest in such a joint operation is specified in paragraphs AG33A–AG33D.

…

Transitional Provisions

…

Joint Ventures—Transition from Proportionate Consolidation to the Equity Method

…

32. **When changing from proportionate consolidation to the equity method, an entity shall recognize its investment in the joint venture as at the beginning of the immediately preceding period. That initial investment shall be measured as the aggregate of the carrying amounts of the assets and liabilities that the entity had previously proportionately consolidated, including any purchased goodwill arising from acquisition transactions ~~(guidance on accounting for the acquisition of an entity and the allocation of goodwill to joint ventures can be found in the relevant international or national standards on entity combinations and joint arrangements)~~. If the goodwill previously belonged to a larger cash-generating unit, or to a group of cash-generating units, the entity shall allocate goodwill to the joint venture on the basis of the relative carrying amounts of the joint venture and the cash-generating unit or group of cash-generating units to which it belonged.**

…

Accounting for Acquisitions of Interests in Joint Operations

41A. IPSAS 40, *Public Sector Combinations*, issued in January 2017, added paragraphs 24A, 42B, and AG33A–AG33D. An entity shall apply those amendments prospectively for acquisitions of interests in joint operations in which the activities of the joint operations constitute operations, as defined in IPSAS 40, for those acquisitions occurring from the beginning of the first period in which it applies those amendments. Consequently, amounts recognized for acquisitions of interests in joint operations occurring in prior periods shall not be adjusted.

Effective Date

…

42B. **Paragraphs 24A, 41A and AG33A–AG33D were added by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

42C. **Paragraph 32 was amended by IPSAS 40, *Public Sector Combinations*, issued in January 2017. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2019. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2019 it shall disclose that fact and apply IPSAS 40 at the same time.**

Application Guidance

This Appendix is an integral part of IPSAS 37.

…

Financial Statements of Parties to a Joint Arrangement (paragraphs 23–28)

Accounting for Acquisitions of Interests in Joint Operations

AG33A. When an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes an operation, as defined in IPSAS 40, it shall apply, to the extent of its share in accordance with paragraph 23, all of the principles on acquisition accounting in IPSAS 40, and other IPSASs, that do not conflict with the guidance in this Standard and disclose the information required by those IPSASs in relation to acquisitions. The principles on acquisition accounting that do not conflict with the guidance in this Standard include but are not limited to:

(a) Measuring identifiable assets and liabilities at fair value, other than items for which exceptions are given in IPSAS 40 and other IPSASs;

(b) Recognizing acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with the exception that the costs to issue debt or equity securities are recognized in accordance with IPSAS 28 and IPSAS 29;

(c) Recognizing the excess of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, if any, as goodwill; and

(d) Testing for impairment a cash-generating unit to which goodwill has been allocated at least annually, and whenever there is an indication that the unit may be impaired, as required by IPSAS 26, *Impairment of Cash-Generating Assets*, for goodwill acquired in an acquisition.

AG33B. Paragraphs 24A and AG33A also apply to the formation of a joint operation if, and only if, an existing operation, as defined in IPSAS 40, is contributed to the joint operation on its formation by one of the parties that participate in the joint operation. However, those paragraphs do not apply to the formation of a joint operation if all of the parties that participate in the joint operation only contribute assets or groups of assets that do not constitute operations to the joint operation on its formation.

AG33C. A joint operator might increase its interest in a joint operation in which the activity of the joint operation constitutes an operation, as defined in IPSAS 40, by acquiring an additional interest in the joint operation. In such cases, previously held interests in the joint operation are not remeasured if the joint operator retains joint control.

AG33D. Paragraphs 24A and AG33A–AG33C do not apply on the acquisition of an interest in a joint operation when the parties sharing joint control, including the entity acquiring the interest in the joint operation, are under the common control of the same ultimate controlling party or parties both before and after the acquisition, and that control is not transitory.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 37.

Acquisition of an Interest in a Joint Operation

…

BC9. At the time the IPSASB developed IPSAS 40, *Public Sector Combinations*, it reconsidered whether to include guidance on how to account for the acquisition of an interest in a joint operation that constitutes an operation. The IPSASB reviewed the guidance issued by the IASB in *Accounting for*

Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) and did not identify a public sector reason to depart from that guidance. Consequently, the IPSASB agreed to include this guidance (amended to fit the terminology and definitions in IPSAS 40) in IPSAS 37.

Illustrative Examples

These examples accompany, but are not part of, IPSAS 37.

…

Example 8—Accounting for acquisitions of interests in joint operations in which the activity constitutes an operation

IE60. Municipalities A, B and C have joint control of Joint Operation D whose activity constitutes an operation, as defined in IPSAS 40, *Public Sector Combinations*.

IE61. Municipality E acquires municipality A's 40 per cent ownership interest in Joint Operation D at a cost of CU300 and incurs acquisition-related costs of CU50.

IE62. The binding arrangement between the parties that Municipality E joined as part of the acquisition establishes that Municipality E's shares in several assets and liabilities differ from its ownership interest in Joint Operation D. The following table sets out Municipality E's share in the assets and liabilities related to Joint Operation D as established in the binding arrangement between the parties:

	Municipality E's share in the assets and liabilities related to Joint Operation D
Property, plant and equipment	48%
Intangible assets (excluding goodwill)	90%
Accounts receivable	40%
Inventory	40%
Retirement benefit obligations	15%
Accounts payable	40%
Contingent liabilities	56%

Analysis

IE63. Municipality E recognizes in its financial statements its share of the assets and liabilities resulting from the contractual arrangement (see paragraph 23).

IE64. It applies the principles on acquisition accounting in IPSAS 40 and other IPSASs for identifying, recognizing, measuring and classifying the assets acquired, and the liabilities assumed, on the acquisition of the interest in Joint Operation D. This is because Municipality E acquired an interest in a joint operation in which the activity constitutes an operation (see paragraph 24A).

IE65. However, Municipality E does not apply the principles on acquisition accounting in IPSAS 40 and other IPSASs that conflict with the guidance in this Standard. Consequently, in accordance with paragraph 23, Municipality E recognizes, and therefore measures, in relation to its interest in Joint Operation D, only its share in each of the assets that are jointly held and in each of the liabilities that are incurred jointly, as stated in the binding arrangement. Municipality E does not include in its assets and liabilities the shares of the other parties in Joint Operation D.

IE66. IPSAS 40 requires the acquirer to measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values with limited exceptions; for example, a reacquired right recognized as an intangible asset is measured on the basis of the remaining term of the related binding arrangement regardless of whether market participants would consider potential renewals of binding arrangements when measuring its fair value. Such measurement does not conflict with this Standard and thus those requirements apply.

IE67. Consequently, Municipality E determines the fair value, or other measure specified in IPSAS 40, of its share in the identifiable assets and liabilities related to Joint Operation D. The following table sets out the fair value or other measure specified by IPSAS 40 of Municipality E's shares in the identifiable assets and liabilities related to Joint Operation D:

	Fair value or other measure specified by IPSAS 40 for Municipality E's shares in the identifiable assets and liabilities of Joint Operation D **(CU)**
Property, plant and equipment	138
Intangible assets (excluding goodwill)	72
Accounts receivable	84
Inventory	70

	***Fair value or other measure specified by IPSAS 40 for Municipality E's shares in the identifiable assets and liabilities of Joint Operation D* (CU)**
Retirement benefit obligations	(12)
Accounts payable	(48)
Contingent liabilities	(52)
Deferred tax liability (see the international or national standard dealing with income taxes)	(24)
Net assets	**228**

IE68. In accordance with IPSAS 40, the excess of the consideration transferred over the amount allocated to Municipality E's shares in the net identifiable assets is recognized as goodwill:

Consideration transferred	CU300
Municipality E's shares in the identifiable assets and liabilities relating to its interest in the joint operation	CU228
Goodwill	**CU72**

IE69. Acquisition-related costs of CU50 are not considered to be part of the consideration transferred for the interest in the joint operation. They are recognized as expenses in surplus or deficit in the period that the costs are incurred and the services are received (see paragraph 113 of IPSAS 40).

Example 9—Contributing the right to use know-how to a joint operation in which the activity constitutes an operation

IE70. Entities A and B are two entities whose activities are the construction of high performance batteries for diverse applications.

IE71. In order to develop batteries for electric vehicles they set up a binding arrangement (Joint Operation Z) to work together. Entities A and B share joint control of Joint Operation Z. This arrangement is a joint operation in which the activity constitutes an operation, as defined in IPSAS 40.

IE72. After several years, the joint operators (Entities A and B) concluded that it is feasible to develop a battery for electric vehicles using Material M. However, processing Material M requires specialist know-how and thus far, Material M has only been used in electricity generation.

IE73. In order to get access to existing know-how in processing Material M, Entities A and B arrange for Entity C to join as another joint operator by acquiring an interest in Joint Operation Z from Entities A and B and becoming a party to the binding arrangements.

IE74. Entity C's activity so far has been solely the generation of electricity. It has long-standing and extensive knowledge in processing Material M.

IE75. In exchange for its share in Joint Operation Z, Entity C pays cash to Entities A and B and grants the right to use its know-how in processing Material M for the purposes of Joint Operation Z. In addition, Entity C seconds some of its employees who are experienced in processing Material M to Joint Operation Z. However, Entity C does not transfer control of the know-how to Entities A and B or Joint Operation Z because it retains all the rights to it. In particular, Entity C is entitled to withdraw the right to use its know-how in processing Material M and to withdraw its seconded employees without any restrictions or compensation to Entity A and B or Joint Operation Z if it ceases its participation in Joint Operation Z.

IE76. The fair value of Entity C's know-how on the date of the acquisition of the interest in the joint operation is CU1,000. Immediately before the acquisition, the carrying amount of the know-how in the financial statements of Entity C was CU300.

Analysis

IE77. Entity C has acquired an interest in Joint Operation Z in which the activity of the joint operation constitutes an operation, as defined in IPSAS 40.

IE78 In accounting for the acquisition of its interest in the joint operation, Entity C applies all the principles on acquisition accounting in IPSAS 40 and other IPSASs that do not conflict with the guidance in this Standard (see paragraph 24A). Entity C therefore recognizes in its financial statements its share of the assets and liabilities resulting from the binding arrangement (see paragraph 23).

IE79. Entity C granted the right to use its know-how in processing Material M to Joint Operation Z as part of joining Joint Operation Z as a joint operator. However, Entity C retains control of this right because it is entitled to withdraw the right to use its know-how in processing Material M and to withdraw its seconded employees without any restrictions or any compensation to Entities A and B or Joint Operation Z if it ceases its participation in Joint Operation Z.

IE80. Consequently, Entity C continues to recognize the know-how in processing Material M after the acquisition of the interest in Joint Operation Z because it retains all the rights to it. This means that Entity C will continue to recognize the know-how based on its carrying amount of CU300. As a consequence of retaining control of the right to use the know-how that it granted to the joint operation, Entity C has granted the right to use the know-how to itself. Consequently, Entity C does not remeasure the know-how, and it does not recognize a gain or loss on the grant of the right to use it.

Comparison with IFRS 11

IPSAS 37, *Joint Arrangements*, is drawn primarily from IFRS 11, *Joint Arrangements* (issued in 2011, including amendments up to December 31, 2014). At the time of issuing this Standard, the IPSASB has not considered the applicability to public sector entities of IFRS 9, *Financial Instruments*. References to IFRS 9 in IFRS 11 are therefore replaced by references to the IPSASs dealing with financial instruments.

The main differences between IPSAS 37 and IFRS 11 are as follows:

…

- ~~IPSAS 37 does not provide guidance on the allocation of goodwill to joint ventures or on how to account for the acquisition of an interest in a joint operation that constitutes a business. Such guidance is included in IFRS 11.~~

…

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 40.

Objective (paragraph 1)

BC1. In the absence of an International Public Sector Accounting Standard (IPSAS) dealing with public sector combinations, public sector entities are directed, in IPSAS 1, *Presentation of Financial Statements,* to look to other international or national accounting standards. In the case of public sector combinations, they may look to International Financial Reporting Standard (IFRS®) 3, *Business Combinations*. However, IFRS 3 requires all business combinations to be accounted for using acquisition accounting. In developing IFRS 3, the International Accounting Standards Board (IASB®) came to the conclusion that 'true mergers' or 'mergers of equals' in which none of the combining entities obtains control of the others are so rare as to be virtually non-existent. The IASB also observed that respondents and other constituents were unable to suggest an unambiguous and non-arbitrary boundary for distinguishing true mergers or mergers of equals from other business combinations and concluded that developing such an operational boundary would not be feasible (see IFRS 3, BC35). Consequently, the IASB decided that separate accounting requirements for such combinations was not necessary.

BC2. Many consider that in the public sector, mergers or amalgamations are the most common form of combination. As a result, public sector entities may not apply IFRS Standards when accounting for public sector combinations. This means that there may not be consistent or appropriate reporting of such combinations in general purpose financial statements (GPFSs). Consequently, users may not be able to obtain the information needed to identify the type of public sector combination and evaluate its nature and financial effect. The IPSASB believes this Standard will promote consistency and comparability in how public sector combinations are reported by public sector entities.

Process

BC3. In developing this Standard the IPSASB had regard to the discussion of control in IPSAS 35, *Consolidated Financial Statements*. The IPSASB considered how control, as defined in IPSAS 35, should influence the classification of public sector combinations in this Standard. The IPSASB also had regard to the guidance on combinations in the *Government Finance Statistics Manual* 2014 (GFSM 2014) with the aim of avoiding unnecessary differences. The IPSASB also considered IFRS 3 and guidance on combinations developed by national standard setters.

Alignment with Government Finance Statistics (GFS)

BC4. In developing this Standard, the IPSASB had regard to the treatment of public sector combinations in Government Finance Statistics (GFS):

GFS guidelines make a distinction between an acquisition and an amalgamation based on the principle that with an acquisition a transaction occurs, while with an amalgamation just a reclassification of units may occur.

A transaction will occur where a "market unit" is nationalized or privatized (that is, entering government control or leaving it), and the amounts are recorded in GFS as transactions in equity that correspond to the observed transaction price. Any changes in valuation–for example, between the opening balance of a government equity stake and the eventual transaction price–are recorded as revaluation effects, with no impact on government net lending/net borrowing. For amalgamations, the main impact is on the sectorization of the "institutional units".

Where the units before amalgamation belonged to the same sector or subsector of general government, the amalgamation will have no impact on the data for that sector or subsector. For example, an amalgamation of two local governments, where both are already classified to the local government sector, would not change results for the local government sector.

However, in cases where a unit in one subsector is being amalgamated with a unit in another subsector, the amalgamated units will be removed from the sector they belonged to and be added to the sector of the new amalgamated unit, through a reclassification of the unit (recorded in GFS as an "other volume change in assets and liabilities"). For example, if a local government unit is amalgamated with a state government, the unit will be reclassified from the local government subsector to the state government subsector.

BC5. The IPSASB agreed the approach in GFS was not an appropriate basis for classifying public sector combinations in this Standard, for the following reasons:

(a) The approach in GFS is based on a number of concepts that have no equivalent in IPSASs, for example:

(i) The classification of institutional units into sectors based on their economic nature; and

(ii) The distinction between market producers and nonmarket producers.

(b) Amalgamations in GFS can arise from a reclassification of units without a transaction being recorded, which is inconsistent with the approach in IPSASs; and

(c) Public sector combinations within the same sector or subsector of general government have no impact on the data in GFS, whereas IPSASs would require the changes to individual entities to be accounted for.

BC6. In coming to this conclusion the IPSASB noted that the different approaches in GFS and IPSASs may lead to similar accounting, for example:

(a) Nationalizations are likely to be recorded as acquisitions under both approaches; and

(b) The modified pooling of interests method of accounting will produce similar accounting to the GFS reclassification approach where the combining operations had previously adopted the same accounting policies.

Scope (paragraphs 2–4)

BC7. The IPSASB initially considered developing two Standards on public sector combinations, covering:

(a) Entity combinations arising from exchange transactions—a limited convergence project with IFRS 3; and

(b) Entity combinations arising from non-exchange transactions—a public sector-specific project.

BC8. In May 2009, the IPSASB issued Exposure Draft (ED) 41, *Entity Combinations from Exchange Transactions*, which was the limited convergence project with IFRS 3. Following the consultation process on ED 41, the IPSASB decided not to continue with this approach for the following reasons:

(a) IFRS 3 includes bargain purchases within its scope. It could be argued, therefore, that IFRS 3 also applies to at least some non-exchange entity combinations. The IPSASB acknowledged that it may be difficult to establish a clear demarcation between all exchange and non-exchange entity combinations.

(b) It was not clear whether combinations where no party gains control of the other parties to the combination would be classified as entity combinations arising from exchange transactions, and therefore required to be accounted for as an acquisition in accordance with ED 41.

BC9. Subsequently, the IPSASB decided to develop a single standard dealing with all public sector combinations. This wider scope was included in the Consultation Paper (CP), *Public Sector Combinations*, issued in June 2012. Respondents to the CP supported this wider scope.

BC10. The IPSASB, therefore, decided that this Standard should apply to all public sector combinations, with only limited exceptions. This Standard defines a public sector combination as the bringing together of separate operations into one public sector entity. This definition refers to the bringing together of operations rather than entities, as public sector combinations, in common with business combinations, may involve part of an entity that can be managed separately from the rest of the entity.

BC11. In coming to a decision on the scope of this Standard, the IPSASB agreed to include public sector combinations under common control. While these are excluded from the scope of IFRS 3, the IPSASB considered it important that this Standard included all public sector combinations within its scope.

Scope Exclusions

BC12. The IPSASB agreed that this Standard should not apply to the formation of joint arrangements or joint ventures. The IPSASB stated in the CP that:

> "The concept underlying the formation of a joint venture differs from other combinations, in that the formation arises from separate entities deciding to share control, i.e., they have joint control of the operations that form the joint venture. The concept of joint control may give rise to issues that affect how the joint venture itself should account for its formation."

BC13. In developing this Standard, the IPSASB discussed whether this rationale was still valid given that this Standard takes a different approach to classifying public sector combinations. The IPSASB concluded that the concept of joint control does not reflect the issues addressed in this Standard, and agreed to exclude the formation of joint arrangements or joint ventures from its scope.

BC14. The IPSASB noted that combinations of two or more joint arrangements may occur. The IPSASB considered that, where such a combination results in the formation of a new joint arrangement, this would be outside the scope of IPSAS 40. The IPSASB noted that a combination may result in the acquisition of one or more joint arrangements by another joint arrangement. In such circumstances, the entities that previously had control over the acquired joint arrangements give up that joint control. Such a combination would be an acquisition within the scope of IPSAS 40.

BC15. The IPSASB also agreed to exclude from the scope of this Standard the acquisition by an investment entity of an investment in a controlled entity that is required to be measured at fair value through surplus or deficit. Such transactions are considered to be investments rather than public sector combinations. IPSAS 35 prescribes the accounting requirements for such transactions.

Responses to ED 60, Public Sector Combinations

BC16. The IPSASB issued its proposals in ED 60, *Public Sector Combinations*, in January 2016. Respondents to ED 60 generally supported the proposed scope and the exclusions. The IPSASB considered the responses, and agreed that no changes to the scope were required. In doing so, the IPSASB noted that the scope of the standard included combinations undertaken on a temporary basis, for example the bailout of a private sector company with the intention of selling that company as soon as it was returned to a sound financial position. The IPSASB noted that including such combinations within the scope of this Standard was consistent with the decision taken in developing IPSAS 35 not to require a different accounting treatment for temporarily controlled entities.

Classification of Public Sector Combinations (paragraphs 7–14)

BC17. As a result of the responses it received to ED 41, the IPSASB concluded that distinguishing between entity combinations arising from exchange transactions and entity combinations arising from non-exchange transactions did not provide a suitable basis for a future IPSAS. Relying on the definition of "exchange transactions" in the IPSASB's literature would mean that most government interventions during times of economic crisis, such as the global financial crisis in 2008, would not meet the definition of an acquisition. The IPSASB considered it inappropriate to define such "bailouts" as amalgamations.

BC18. The IPSASB also noted that IFRS 3 applied to a "business", not to an entity. As well as applying to an entity, the definition of a business could also apply to part of an entity that could be managed separately from the rest of the entity. The IPSASB had regard to these issues in developing its approach in the CP.

Classification Approach in the Consultation Paper, Public Sector Combinations

BC19. The approach taken in the CP was to distinguish between combinations where the parties to the combination are under common control, and combinations where the parties to the combination are not controlled by the same ultimate controlling party, i.e., not under common control. A further distinction was made between combinations where one party gains control of another party (considered by the CP to be acquisitions), and combinations where no party gains control of the other parties to the combination (considered by the CP to be amalgamations).

BC20. The IPSASB considered that the concept of control was important in determining the classification of a public sector combination. Control underpins much of financial reporting. IPSAS 35 requires an entity to consolidate those other entities that it controls, as does the predecessor standard, IPSAS 6, *Consolidated and Separate Financial Statements*. The IPSASB also noted that Government Finance Statistics adopts a similar approach to control as that adopted in both IPSAS 35 and IPSAS 6.

BC21. Similarly, control is an important factor when recognizing assets. Paragraph 5.6 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) defines an asset as "A resource presently controlled by the entity as a result of a past event."

BC22. The IPSASB determined, therefore, that control was an appropriate starting point for the classification of public sector combinations. As a result, the CP included the IPSASB's preliminary view as to the role of control in classifying public sector combinations:

"The sole definitive criterion for distinguishing an amalgamation from an acquisition is that, in an amalgamation, none of the combining operations gains control of the other operations."

BC23. In developing the CP, the IPSASB explained that the parties to a public sector combination under common control are ultimately controlled by the same entity both before and after the combination. This leads to economic differences between combinations that take place under common control and those that take place not under common control, as follows:

(a) Public sector combinations between entities within an economic entity (i.e., under common control) do not change the economic resources of that economic entity;

(b) Any surpluses and deficits resulting from a public sector combination under common control are eliminated in full in the ultimate controlling entity's consolidated GPFSs; and

(c) The ultimate controlling entity can specify whether any consideration is transferred (and if consideration is transferred, the amount of that consideration) in a public sector combination under common control.

These differences may have implications for the accounting treatment of a public sector combination under common control.

BC24. The approach in the CP reflected the IPSASB's views that:

(a) The economic differences between combinations that take place under common control and those that take place not under common control may have implications for their accounting treatment; and

(b) Acquisitions should be distinguished from amalgamations on the basis of control.

BC25. Similar numbers of respondents to the CP supported and disagreed with the proposals. Respondents who disagreed with the proposals suggested that distinguishing acquisitions from amalgamations based solely on control did not reflect public sector circumstances. In particular, these respondents noted that

(a) Public sector combinations may occur where it is not possible to identify an acquirer even if it is possible to identify an entity that has gained control of operations as a result of the public sector combination. Under IFRS 3, the acquirer can be identified by analyzing the ownership interests in the respective parties. However, in the public sector there may be no quantifiable ownership interests in the entities, making such an analysis impossible. The entity gaining control of the operations may not have existed prior to the combination, and if there are no quantifiable ownership interests in that entity, it will not be possible to identify an acquirer.

(b) Public sector combinations may be imposed on all parties to the combination by a higher level of government, for example when a central government reorganizes local government by legislating the combination of municipalities irrespective of the wishes of those municipalities.

BC26. Respondents who disagreed with the proposals in the CP suggested a number of alternative bases for classifying public sector combinations, including:

(a) Variations of whether consideration was transferred:

(i) Consideration was transferred as part of the combination;

(ii) Significant consideration was transferred as part of the combination;

(iii) The combination was effected at market value;

(iv) Distinguishing acquisitions (which include the transfer of consideration) not under common control from all other combinations; and

(v) Distinguishing between combinations under common control on the basis of whether the combination has "commercial substance" (which includes the transfer of consideration).

(b) Whether the public sector combination was effected voluntarily or involuntarily.

Development of the Classification Approach in ED 60, Public Sector Combinations

BC27. The IPSASB considered the responses to the CP. The IPSASB accepted that the classification approach adopted in the CP would not always reflect public sector circumstances. Consequently, the IPSASB agreed to revisit the classification of public sector combinations.

BC28. As part of this process, the IPSASB considered whether any of the approaches suggested by respondents might provide an alternative basis for classification. The IPSASB concluded that these approaches were not suitable, for the following reasons:

(a) The IPSASB came to the view that the transfer of consideration, on its own, was insufficient to distinguish an acquisition from an amalgamation. As noted in paragraph BC17 above, defining an acquisition as an exchange transaction would lead to bailouts being classified as amalgamations. Similarly, if an acquisition was defined as requiring consideration to be transferred by the acquirer, this could lead to bailouts being classified as amalgamations. Definitions of an acquisition that required the transfer of significant consideration, or for the public sector combination to take place at market value, would not address issues such as bargain purchases (discussed above in paragraph BC8(a)).

(b) The IPSASB came to the view that whether a public sector combination was effected voluntarily or involuntarily did not provide, on its own, sufficient information to classify a public sector combination. The voluntary or involuntary nature of a public sector combination provides information as to the process of the combination but not its outcome. Public sector combinations may have different economic outcomes irrespective of their voluntary or involuntary nature. The IPSASB did not consider that it was possible to classify a public sector combination without considering the outcome of that combination. Consequently, the IPSASB did not consider a classification based solely on the voluntary or involuntary nature of the public sector combination would meet the objectives of financial reporting.

BC29. The IPSASB reviewed the role of control in classifying public sector combinations, and concluded that control remained an important factor in determining whether a combination was an acquisition or an amalgamation. In coming to this conclusion, the IPSASB noted that an acquisition could only occur when a party to the combination gained control of one or more operations (this is discussed in more detail in paragraph BC25(a) above). Consequently, the IPSASB reviewed the factors suggested by respondents to the CP to determine which factors might usefully supplement the concept of control.

BC30. The IPSASB discussed the following factors, and agreed that they could be helpful in supplementing the concept of control in classifying public sector combinations:

(a) **Consideration**. The IPSASB agreed that whether a public sector combination includes the transfer of consideration is relevant to classifying the combination. Acquisitions generally include consideration, whereas consideration will be absent from amalgamations. For the reasons given in paragraph BC28(a) above, the IPSASB agreed that the transfer of consideration in itself was not conclusive, and that more information about the nature of a combination would be obtained by having regard to the reasons why consideration was or was not transferred.

(b) **Exchange transactions**. The IPSASB agreed that an acquisition was more likely to occur in an exchange transaction than in a non-exchange transaction. However, the IPSASB had already acknowledged that it may be difficult to establish a clear demarcation between all exchange and non-exchange entity combinations (see paragraph BC8(a) above). The IPSASB came to the conclusion that information about whether a public sector combination was an exchange transaction or a non-exchange transaction could be determined by having regard to the reasons why consideration was or was not transferred. Consequently, the IPSASB concluded that it is not necessary to assess this factor independently of consideration.

(c) **Quantifiable ownership interests**. The IPSASB noted that whether there are quantifiable ownership interests in an operation can influence the economic substance of a public sector combination. If there are no quantifiable ownership interests in an operation, no consideration can be transferred as there is no party with an entitlement to receive the consideration. This can distinguish the combination from an acquisition, where there is always an owner to receive the consideration. The IPSASB noted that that lack of quantifiable ownership interests could be a reason why consideration was not transferred. Consequently, the IPSASB concluded that it is not necessary to assess this factor independently of consideration.

(d) **Decision-making process**. The IPSASB agreed that having regard to which parties were able to make decisions regarding a public sector combination could provide useful information about the classification of that combination. In the private sector, combinations are usually entered into voluntarily, at least from the acquirer's perspective. In the public sector, other parties may be involved in the decision-making process. The freedom that the parties to the combination are able to exercise may influence the economic substance of the combination and hence its classification.

(e) **Compulsion**. In the public sector, a public sector combination may be imposed by a higher level of government, whether or not that higher level of government controls the parties to the combination for financial reporting purposes. For example, a central government may restructure local government by directing certain municipalities to combine. The IPSASB agreed that compulsion was relevant to the classification of a public sector combination, but considered that information about compulsion would be obtained by having regard to decision-making. Consequently, the IPSASB concluded that it is not necessary to assess this factor independently of the decision-making process.

(f) **Common control**. In developing the CP, the IPSASB identified the economic differences between public sector combinations that take place under common control and those that take place not under common control (see paragraph BC23 above). The IPSASB agreed that the ability of the controlling entity to specify whether any consideration is transferred is relevant to the classification of the combination, but considered this to be an element of the decision-making process. The fact that the economic resources of the economic entity do not change in a combination under common control, and that any surpluses or deficits would be eliminated on consolidation were seen as relevant to the controlling entity, but not the controlled entity. As the controlled entity will be the reporting entity for the combination, the IPSASB concluded that it is not necessary to assess this factor independently of the decision-making process.

(g) **Citizens' rights**. In some jurisdictions, citizens may be part of the decision-making process, for example where public sector combinations are subject to the approval of citizens through a referendum. The IPSASB agreed that citizens' rights to accept or reject the combination was relevant to the classification of the combination. However, the IPSASB considered these rights to be rights to participate in the decision-making process. Consequently, the IPSASB concluded that it is not necessary to assess this factor independently of the decision-making process.

BC31. The IPSASB did not consider that the following factors would be helpful in supplementing the concept of control in classifying public sector combinations:

(a) **Change of sector**. The IPSASB acknowledged that a change of sector would be an indicator of a public sector entity acquiring an operation. However, the IPSASB considered that this change of sector would be a consequence of a change in control rather than a separate factor to be considered. The IPSASB also noted that the classification of institutional units into sectors based on their economic nature of being government units was a feature of GFS that had no equivalent in the IPSASB's literature. This will continue to be a significant difference between macroeconomic statistical reporting and accounting and financial reporting. Consequently, the IPSASB did not consider a change of sector to be a useful factor in classifying public sector combinations.

(b) **Nature of the jurisdiction**. Some responses to the CP suggested that, in jurisdictions where there is significant interaction or redistribution between the different levels of government, the public sector can be seen as operating as part of a single quasi "group" entity. Such a view could have implications for the classification of public sector combinations. The IPSASB did not consider that from the reporting entity's perspective, the nature of the jurisdiction was relevant to the classification of public sector combinations. A reporting entity could make an assessment of control, consideration and decision-making without reference to a quasi-group entity. The IPSASB noted that the nature of the jurisdiction may form part of the assessment of the nature of the public sector combination, which an entity may need to consider when the analysis of all other factors has produced inconclusive results or does not provide sufficient evidence to determine the appropriate classification of a public sector combination.

(c) **Operation of government**. Some respondents to the CP suggested that the operation of government would be relevant to the classification of public sector combinations. Examples given included:

(i) The existence of a ministerial or other government power enabling the government to direct the entity's governing body to achieve the government's policy objectives;

(ii) Ministerial approval is required for operating budgets; and

(iii) The government has broad discretion, under existing legislation, to appoint or remove a majority of the members of the governing body of the entity.

The IPSASB concluded that the examples were indicators of control or common control rather than suggesting an independent factor. As such, the IPSASB did not consider that the operation of government was relevant to the classification of public sector combinations.

(d) **The entity directs public policy and/or engages in non-market activity mainly financed by public resources**. Some respondents to the CP suggested that control should be supplemented by having regard to whether the entity directs public policy and/or engages in non-market activity mainly financed by public resources. Where this was the case, this would suggest an amalgamation. The IPSASB noted that this approach would require the introduction of new concepts into the IPSASB's literature. For example, non-market activity is a GFS concept that the IPSASB has not adopted. The IPSASB did not consider it appropriate to introduce these concepts in ED 60. Consequently, the IPSASB did not consider that this factor was relevant to the classification of public sector combinations.

(e) **Accountability**. Some respondents suggested that accounting for a public sector combination at fair value provides more information about the effect of that combination, but that this is only useful for accountability purposes where the entity was responsible for the decision to combine. The IPSASB did not consider accountability to be a primary factor in its own right, but acknowledged that the information resulting from the classification of a public sector combination should meet the objectives of financial reporting. In exceptional circumstances, when an analysis of consideration and the decision-making process produces an inconclusive result or does not provide sufficient evidence as to the appropriate classification of a public sector combination, an entity may need to consider other matters, including what information would meet the objectives of financial reporting and satisfy the qualitative characteristics (QCs).

BC32. The IPSASB concluded, therefore, that control should be supplemented by two additional factors–whether consideration was transferred, and the reasons for the presence or absence of consideration; and the decision-making process. These factors are wide ranging, and encompass elements of other factors, as discussed above.

BC33. The IPSASB noted that these factors could be used either to supplement the indicators of control in IPSAS 35, or could be used to supplement the control concept in classifying public sector combinations. The IPSASB debated the merits of these two approaches. The IPSASB noted that using the factors to supplement the indicators of control was likely to result in a classification approach that better satisfied the QC of comparability. However, the IPSASB considered that using the factors to supplement the control concept was likely to produce a classification approach that provided more relevant and faithfully representative information. Using the factors to supplement the control concept was also more likely to address the concerns raised by respondents.

BC34. Respondents to the CP had identified difficulties with distinguishing between acquisitions and amalgamations based solely on control that were unlikely to be fully addressed by further development of the indicators of control.

The IPSASB agreed, and concluded that the gaining of control of operations by a party to the combination is an essential element of an acquisition, but is not sufficient in itself to determine whether a combination is an acquisition. Consequently, the IPSASB agreed to develop an approach to classifying public sector combinations that:

(a) Uses the factors to supplement the concept of control; and

(b) Considers control in the context of whether a party to the combination gains control of one or more operations as a result of the combination.

BC35. Having agreed to develop an approach that uses the factors to supplement control, the IPSASB discussed the relative importance to be attached to control and to the other factors in classifying public sector combinations. As part of this discussion, the IPSASB identified the following two approaches:

(a) **Rebuttable presumption approach**. Under this approach, when one party to the combination gains control of an operation, this creates a rebuttable presumption that the combination is an acquisition. This approach gives a strong weighting to the gaining of control, and the analysis of the other factors is focused on whether there is sufficient evidence to rebut this presumption.

(b) **Individual weighting approach.** Under this approach, the weightings given to the gaining of control, consideration and decision-making are a matter for professional judgment based on the individual circumstances of the combination. Preparers would identify which (if any) factors indicate an acquisition and which (if any) factors indicate an amalgamation. Where indicators of both an acquisition and an amalgamation are present, the weighting given to the respective factors by preparers using professional judgment would determine the classification.

BC36. The IPSASB noted that the rebuttable presumption approach provided greater clarity, and better satisfied the QC of comparability. The individual weighting approach was likely to be more subjective in practice. However, the IPSASB acknowledged that the individual weighting approach would enable practitioners to better reflect the economic substance of the combination, and might better meet the QCs of relevance and faithful representation.

BC37. Control was seen by most members as more important in determining the classification than the other factors, and the rebuttable presumption approach reflected this. Consequently, the IPSASB agreed to develop the rebuttable presumption approach.

BC38. In coming to this decision the IPSASB noted that an approach that considered other factors as supplementing control (which better satisfies the QCs of relevance and faithful representation at the expense of comparability) while at the same time incorporating a rebuttable presumption that one party to a combination gaining control of operations gives rise to an acquisition (which better satisfies the QC of comparability at the expense of relevance and faithful representation) is likely to produce an appropriate balance between the QCs.

BC39. The IPSASB also considered the possibility that, in rare circumstances, neither the consideration nor the decision-making indicators would be sufficient to rebut the presumption that a public sector combination was an acquisition even though this classification did not reflect the economic substance of the combination. The IPSASB agreed to require consideration of the economic substance of the combination when determining whether the presumption should be rebutted. To assist preparers in this determination, ED 60 also required, in these rare circumstances, an assessment as to which classification produces information that best satisfies the objectives of financial reporting and the QCs.

BC40. The IPSASB considered that the most common circumstances in which a public sector combination would be considered an acquisition are:

(a) One party to the combination gains control of an operation and pays consideration that is intended to compensate those with an entitlement to the net assets of the transferred operation for giving up that entitlement.

(b) One party to the combination gains control of an operation from outside the public sector without paying consideration to compensate those with an entitlement to the net assets of the transferred operations.

(c) One party to the combination gains control of an operation from outside the public sector by imposing the combination on the other party.

(d) One party to the combination gains control of an operation from a separate government.

The IPSASB noted that, except in exceptional cases, the classification approach adopted in ED 60 would result in such combinations being classified as acquisitions. This provided reassurance to the IPSASB that the approach adopted was appropriate.

Responses to ED 60

BC41. The IPSASB considered the responses to ED 60. The IPSASB noted that there was substantial support for the overall approach to classifying public sector combinations in the ED.

BC42. Respondents did, however, identify areas where they considered the approach could be improved. The main issues identified were:

(a) Having a rebuttable presumption that was expected to be rebutted significantly more frequently than not was confusing;

(b) The approach was seen as giving too much emphasis to control, with some stakeholders interpreting the ED as requiring the use of the acquisition method in most cases where one party to the combination gained control of operations; and

(c) In many jurisdictions, it will be easier to determine the economic substance of a public sector combination by reference to the indicators (consideration and decision making) than by reference to whether one party to the combination gained control of operations.

BC43. The IPSASB acknowledged these concerns. The IPSASB accepted that rebuttable presumptions are generally expected to be rebutted infrequently, and that the use of this term with an expectation that it would be frequently rebutted may be confusing for preparers. This confusion could result in a preparer classifying a public sector combination as an acquisition when this was not the IPSASB's intention.

BC44. The IPSASB considered that the potential confusion as to how the rebuttable presumption was to be interpreted might explain the concerns of some stakeholders that the acquisition method would be used inappropriately. The IPSASB did not intend that the approach in the ED would require the use of the acquisition method in most cases where one party to the combination gained control of operations. The IPSASB considered that acquisitions would arise in limited circumstances, as can be seen from the list in paragraph BC40 above.

BC45. The IPSASB accepted that, in many jurisdictions, the economic substance of a public sector combination could be more readily determined by reference to the indicators, in particular whether a combination occurred under common control. However, the IPSASB noted that this was not the case for all jurisdictions. The IPSASB noted that control remained a significant factor; in particular, an acquisition can only occur when a party to the combination gains control of one or more operations. The IPSASB also noted that the approach in ED 60 provided a suitable decision framework for ensuring all relevant factors were considered.

BC46. Consequently, the IPSASB agreed to reconsider the way the classification approach is expressed to address these concerns, without changing the substance of the approach. The rebuttable presumption and reference to control was intended to be the first step in the process of determining a classification based on the economic substance of the combination. In creating this first step, the IPSASB did not intend that, once it has been established that one party has gained control, control should be given greater weight than consideration and decision making in determining the economic substance of the combination. The IPSASB accepted that the reference in BC35(a) to the approach giving a strong weighting to the gaining of control could be misleading. Control remains important, as its absence eliminates the possibility of an acquisition, but its significance in determining the economic substance of a particular combination where one party has gained control is a matter of professional judgment. The IPSASB remains of the view that the classification approach in ED 60 was appropriate, and the changes introduced in this Standard are intended to provide greater clarity as to how the approach should be applied. These changes are not intended to produce different classifications from ED 60.

Comparison with IFRS 3

BC47. This Standard is not converged with IFRS 3. IFRS 3 considers all business combinations to be acquisitions, whereas this Standard provides for both amalgamations and acquisitions. The IPSASB considers this difference to be appropriate, for the following reasons:

(a) In developing IFRS 3, the IASB concluded that 'true mergers' or 'mergers of equals' in which none of the combining entities obtains control of the others are so rare as to be virtually non-existent. However, in the public sector, such combinations are common. Developing a Standard that did not address amalgamations would not meet the needs of the users of public sector GPFSs.

(b) IFRS 3 assumes that it is always possible to identify the acquirer, as the businesses to which IFRS 3 applies will always have owners. In the public sector, there may be no quantifiable ownership interests in a public sector entity, which can make it impossible to identify an acquirer. Developing a Standard that does not recognize this situation would not meet the needs of the users of public sector GPFSs.

Accounting for Amalgamations (paragraphs 15–57)

Reasons for Adopting the Modified Pooling of Interests Method of Accounting for Amalgamations

BC48. In developing the CP, the IPSASB identified three methods of accounting for public sector combinations that have either been applied in practice, or discussed. These are:

(a) The acquisition method;

(b) The pooling of interests method, including a possible modification to this method; and

(c) The fresh start method.

BC49. The acquisition method (which is applied by IFRS 3) requires that an acquirer is identified for all combinations. The IPSASB had already concluded that it may not be possible to identify an acquirer for all public sector combinations, and that any combination in which an acquirer could not be identified would be classified as an amalgamation. The IPSASB therefore concluded that the acquisition method of accounting would not be appropriate for amalgamations.

BC50. The pooling of interests method of accounting was previously used in IAS 22, *Business Combinations* (the predecessor standard to IFRS 3). It was intended for application to a combination in which an acquirer cannot be identified. The pooling of interests method of accounting was previously used by many jurisdictions as the basis for merger accounting or amalgamation accounting. It continues to be used by many entities when accounting for combinations under common control (which are outside the scope of IFRS 3).

BC51. The pooling of interests method accounts for the combining operations as though they were continuing as before, although now jointly owned and managed. The financial statement items of the combining operations for the period in which the combination occurs, and for any comparative periods disclosed, are included in the financial statements of the resulting entity as if they had been combined from the beginning of the earliest period presented. In other words, the recognition point is the beginning of the earliest period presented, and, consequently, comparative information is restated.

BC52. The IPSASB noted that some are of the view that the requirement to restate comparative information might be onerous and unnecessary. In the CP, the IPSASB consulted on a variation of the pooling of interests method of accounting, described as the modified pooling of interests method of accounting. Under the modified pooling of interests method, the resulting entity combines the items in the statement of financial position as at the date of the amalgamation.

BC53. The third method the IPSASB discussed in the CP was the fresh start method of accounting. In contrast to the pooling of interests method of accounting, the premise of the fresh start method is that the resulting entity is a new entity (irrespective of whether a new entity is formed) and therefore its history commences on that date. The modified pooling of interests method has a similar effect in practice.

BC54. The fresh start method requires recognition of all of the identifiable assets and liabilities of all the combining operations at fair value as at the date of the combination in the financial statements of the resulting entity. This includes recognizing identifiable assets and liabilities that were not previously recognized by the combining operations. In other words, the fresh start method uses the same recognition and measurement basis as the acquisition method, but applies it to all of the combining operations rather than just acquired operations.

BC55. In developing the CP, the IPSASB came to the conclusion that the pooling of interests method of accounting, the modified pooling of interests method of accounting and the fresh start method of accounting all provided a possible basis for accounting for amalgamations.

BC56. The IPSASB noted that the future cash flows and service potential of the resulting entity will generally be the same regardless of which method is used to account for the amalgamation. However, the presentation of the financial performance and financial position of the resulting entity differs significantly depending on the method applied. If preparers are given a free choice of method, this would reduce comparability between entities and over time.

BC57. Supporters of the pooling or modified pooling of interests method of accounting for amalgamations considered that these methods satisfy users' needs:

(a) For information for decision-making purposes; and

(b) To assess the accountability of the resulting entity for its use of resources.

This is because users of public sector entities' GPFSs use the information to assess how financial resources have been allocated and the financial condition of an entity. This information can be obtained by applying the pooling or modified pooling of interests methods of accounting.

BC58. These methods are seen as satisfying the QCs of relevance and faithful representation, because they reflect the amounts recognized in the financial statements of the combining operations before the amalgamation. The subsequent performance of the resulting entity, and its accountability for the management of those resources, can be assessed on the same basis as was used to assess accountability before the amalgamation.

BC59. The pooling or modified pooling of interests methods of accounting are seen as generally the least costly to apply, because they:

(a) Use the existing carrying amounts of the assets, liabilities, and net assets/equity of the combining operations; and

(b) Do not require identifying, measuring, and recognizing assets or liabilities not previously recognized before the amalgamation.

BC60. Supporters of the modified pooling of interests method of accounting consider it to be superior to the pooling of interests method because it portrays the amalgamation as it actually is. This is because it recognizes the assets and liabilities of the combining operations at the date of the amalgamation. Supporters consider this to be a faithful representation of the amalgamation.

BC61. Those who support the use of the modified pooling of interests method acknowledge that the history of the combining operations may help in assessing the performance of the resulting entity. In debating the merits of the different methods, the IPSASB acknowledged that adopting the modified pooling of interests method of accounting without addressing users' needs for historical information may not satisfy the objectives of financial reporting.

BC62. Others consider that the fresh start method of accounting is conceptually superior to both the pooling of interests method of accounting and its modified version, because the resulting entity is held accountable for the current value of the resources of the combining operations. It also provides more complete information of an amalgamation, because it recognizes the identifiable assets and liabilities of the combining operations, regardless of whether they were recognized prior to the amalgamation.

BC63. Supporters of the fresh start method of accounting consider that it satisfies users' needs:

(a) For information for decision-making purposes; and

(b) To assess the accountability of the resulting entity for its use of resources.

This is because it enables users to better assess the financial condition of the entity and how the financial resources have been allocated.

BC64. Supporters of the fresh start method of accounting consider that this method is, to a large extent, an extension of the use of fair value in the acquisition method of accounting. Consequently, they argue that if the acquisition method is adopted for acquisitions, there is no reason not to adopt similar accounting for amalgamations.

BC65. In developing the CP, the IPSASB came to the view that the modified pooling of interests method of accounting is the appropriate method to apply, because users' are able to assess the performance and accountability of the resulting entity without the entity having to remeasure its assets and liabilities. Furthermore, it recognizes the amalgamation on the date it takes place. The IPSASB noted that IPSASs permit revaluation to fair value subsequent to initial recognition if a resulting entity considers that this approach would provide more relevant information to users.

BC66. Respondents to the CP generally supported the IPSASB's view that the modified pooling of interests method of accounting is the appropriate method to apply to amalgamations. The IPSASB reconsidered the methods in developing ED 60, and identified no reason to change its previously stated view. The IPSASB therefore agreed that the modified pooling of interests method of accounting should be adopted for amalgamations in ED 60. In coming to this decision, the IPSASB agreed that the modified pooling of interests method of accounting should include appropriate disclosures to ensure that the users of public sector entities' GPFSs had access to the historical information they need.

BC67. Respondents to ED 60 generally agreed that the modified pooling of interests method of accounting is the appropriate method to apply to amalgamations. However, some respondents considered that the pooling of interests method of accounting provided better information, and only supported the modified pooling of interests method for cost/benefit reasons. These respondents considered that, in some circumstances, the benefits of providing prior period information would outweigh the cost of so doing. The IPSASB accepted this view, and agreed that resulting entities should be permitted, but not required, to present prior period information. The IPSASB decided that prior period information should not be restated, as doing so would require the use of a different recognition point, which would reduce comparability.

Exceptions to the Principle that Assets and Liabilities are Recognized and Measured at their Previous Carrying Amount

BC68. The modified pooling of interests method of accounting requires the resulting entity to recognize and measure the assets and liabilities of the combining operations at their previous carrying amounts, subject to the requirement to adjust the carrying amounts to conform to the resulting entity's accounting policies. The effects of all transactions between the combining operations, whether occurring before or after the amalgamation date, are eliminated in preparing the financial statements of the resulting entity.

BC69. The IPSASB considered the circumstances in which the application of these principles would not be appropriate. The IPSASB identified three circumstances in which an exception to the recognition and/or measurement principles would be appropriate:

(a) **Licenses and similar rights previously granted by one combining operation to another combining operation**. A license or similar right may have been granted by one combining operation to another combining operation and recognized as an intangible asset by the recipient. Applying the general principles would require this transaction to be eliminated. However, the IPSASB considered that, in granting the license or similar right, the recognition criteria for an intangible asset are met. Where internally generated intangible assets are not recognized, this is because of the problems in Identifying whether and when there is an identifiable asset that will generate expected future economic benefits or service potential; and in determining the cost of the asset reliably. Once a license or similar right has been granted to a recipient, this demonstrates that there is an identifiable asset that will generate future economic benefits or service potential. Similarly, the transaction will establish a cost for the asset. Consequently, the recognition criteria for an intangible asset are met. Because of this, the asset is not eliminated when combining operations that have granted and received the license or similar right are part of an amalgamation. The situation is similar to that where a tangible asset is sold by one combining operation to another combining operation. Eliminating the effect of the sale does not eliminate the tangible asset itself, as the asset was previously recognized by the seller. In the case of a license or similar right, eliminating the transaction does not eliminate the intangible asset, as the transaction provides sufficient evidence of the existence of the intangible asset, such that the grantor would itself recognize that intangible asset. The IPSASB noted that in some cases where a combining operation gains control of other operations, the right might be considered as a reacquired right. The IPSASB did not consider that this would warrant a different accounting treatment, and noted that reacquired rights are recognized as intangible assets under the acquisition method. For these reasons, the IPSASB concluded that the asset recognized in respect of a license or similar right previously granted by one combining operation to another should not be eliminated.

(b) **Income taxes**. In the public sector, amalgamations, especially those imposed by a higher level of government, may include tax forgiveness as part of the terms and conditions of the amalgamation. The IPSASB agreed that the resulting entity should recognize any tax items that exist following the amalgamation rather than those that existed prior to the amalgamation. Having considered comments by respondents to ED 60, the IPSASB agreed that there may be cases where any tax forgiveness arises subsequent to the amalgamation, rather than as part of the terms and conditions of the amalgamation. The IPSASB agreed to include provisions dealing with both cases in IPSAS 40.

(c) **Employee benefits**. The IPSASB noted that the assets and liabilities required to be recognized by IPSAS 39, *Employee Benefits*, in respect of a post-employment benefit plan following an amalgamation might differ from the combined carrying amounts of the combining operations' equivalent amounts. As an example, an amalgamation involves five combining operations who are the only participants in a multi-employer defined benefit plan. Prior to the amalgamation, the combining operations have insufficient information to determine each combining operation's proportionate share of the defined benefit obligation, plan assets, and cost associated with the plan. As a result, the combining operations account for the plan as if it is a defined contribution plan. Following the amalgamation, the resulting entity is the only participant in the plan, and is able to determine its defined benefit obligation, plan assets, and cost associated with the plan. It therefore accounts for the plan as a defined benefit plan from the date of the amalgamation. The IPSASB agreed that the resulting entity's opening statement of financial position should include the assets and liabilities measured in accordance with IPSAS 39.

Recognizing and Measuring Components of Net Assets/Equity Arising as a Result of an Amalgamation

BC70. In developing ED 60, the IPSASB noted that a residual amount might arise as a result of an amalgamation. The IPSASB considered how this should be recognized and measured. The IPSASB agreed that the residual amount does not reflect the financial performance of the resulting entity, and concluded that the residual amount should be recognized in the resulting entity's opening statement of financial position.

BC71. The IPSASB considered the nature of the residual amount. The IPSASB considered that, for amalgamations not under common control, the residual amount represents the past financial performance of the combining operations not included in their transferred net assets/equity. The IPSASB agreed that the residual amount should be included in the resulting entity's opening net assets/equity where the amalgamation takes place not under common control.

BC72. The IPSASB considered that, for amalgamations under common control, the residual amount represents the financial consequences of decisions made by the controlling entity in setting or accepting the terms of the amalgamation. Consequently, the IPSASB agreed that the residual amount should be treated as an ownership contribution or ownership distribution where the amalgamation takes place under common control.

BC73. The IPSASB considered the items that should be included in the residual amount. The IPSASB noted that the modified pooling of interests method of accounting usually recognizes an amalgamation as giving rise to, in substance, a new entity on the date the amalgamation takes place. As the new entity would not have generated other components of net assets/equity such as accumulated surplus or deficit, or revaluation surplus, all items within net assets/equity would be included as part of the residual amount.

BC74. The IPSASB considered that this approach best reflects the conceptual basis of an amalgamation and agreed that all items within net assets/equity at the amalgamation date should be considered to be part of the residual amount. In coming to this view, the IPSASB accepted that this approach may have consequences for some entities. For example, because the residual amount would include any previously recognized revaluation surplus, any future revaluation decreases are more likely to be recognized in surplus or deficit. This is because the previously recognized revaluation surplus would no longer be available to absorb future revaluation decreases.

BC75. Another consequence relates to amalgamations that take place under common control. The resulting entity would recognize a residual amount but the controlling entity would continue to recognize the previous components of net assets/equity in its consolidated financial statements, giving rise to ongoing consolidation adjustments. The IPSASB did not consider that these consequences outweighed the benefits of adopting the conceptual approach.

Responses to ED 60

BC76. Although the majority of respondents to ED 60 supported the IPSASB's approach to the residual amount, a significant minority did not. The main reasons respondents gave for not supporting the proposed treatment of the residual amount were as follows:

(a) Retaining existing reserves better represents the combination, is more transparent and better meets users' needs;

(b) The proposals will result in reliable information on the revaluation reserve being discarded;

(c) For amalgamations under common control, the combining entities may effectively be continuing as one entity rather than as two or more separate entities, as opposed to being a new entity;

(d) Reporting subsequent revaluation losses as an expense risks misrepresenting financial performance in future years;

(e) The proposals will produce ongoing consolidation adjustments where the amalgamation takes place under common control, and the need to prepare these adjustments outweighed the benefits of recognizing a single residual amount; and

(f) The proposals will impact on a wide range of reserves, including those relating to employee benefits, hedging and reserves restricted by legislation, which would be inconsistent with ED 60's requirement that the existing classifications and designations are maintained.

BC77. The IPSASB was persuaded by some of the reasons provided by respondents. In particular the IPSASB acknowledged that the proposals in ED 60 might be internally inconsistent.

BC78. The IPSASB therefore reconsidered the proposal to require all amounts recognized in net assets/equity to be recognized in the residual amount.

BC79. The IPSASB concluded that the most appropriate presentation of net assets/equity would depend on the circumstances of the amalgamation. In an amalgamation not under common control, and where there were no reserves such as those referred to in paragraph BC76(f) above, presenting a single opening balance in net assets/equity could provide faithfully representative information. In an amalgamation under common control, and with reserves such as those referred to in paragraph BC76(f) above, presenting a single opening balance in net assets/equity is unlikely to provide faithfully representative information. In these circumstances, presenting separate components of net assets/equity will provide more relevant and useful information.

BC80. Consequently, the IPSASB decided not to specify which components of net assets/equity should be presented, as preparers will be in the best position to judge the most appropriate treatment. The IPSASB agreed to amend the requirements accordingly.

Measurement Period

BC81. IFRS 3 permits acquirers a period of one year after the acquisition date to complete the accounting for the acquisition. This is to allow the acquirer sufficient time to obtain information to determine the fair value of an acquired operation's assets and liabilities.

BC82. The IPSASB considered whether such a period was required when accounting for an amalgamation. The modified pooling of interests method does not require assets and liabilities to be restated to fair value at the amalgamation date. However, the IPSASB noted that the combining operations may have different accounting policies, which could result in some assets and liabilities being required to be restated to conform to the resulting entity's accounting policies. For example, the resulting entity may adopt an accounting policy of revaluing certain assets such as property, plant and equipment. If one or more combining operations had previously adopted an accounting policy of measuring such assets at cost, the practical effect of determining the carrying amount of those assets under the revaluation model would be similar to that of determining their fair value. For this reason, the IPSASB agreed that it was appropriate to permit a resulting entity time to obtain the information needed to restate assets and liabilities to conform to its accounting policies. The IPSASB agreed that a period of one year was appropriate.

Combining Operations that Have Not Previously Adopted Accrual Basis IPSASs

BC83. In developing this Standard, the IPSASB considered whether it was necessary to include specific provisions to address the situation where one or more combining operations had not previously adopted accrual basis IPSASs. For example, one public sector entity that has previously applied accrual basis IPSASs may be amalgamated with a second public sector entity that has previously applied an alternative accrual basis of accounting. In such circumstances, recognizing and measuring the second public sector entity's assets and liabilities at their carrying amount may not be consistent with the requirements of accrual basis IPSASs.

BC84. The IPSASB concluded that no separate provisions were required in this Standard. Paragraph 27 of IPSAS 40 requires the resulting entity to adjust the carrying amounts of the identifiable assets and liabilities of the combining operations where required to conform to the resulting entity's accounting policies. The IPSASB considered this requirement to be sufficient to address most circumstances where one or more combining operations had not previously adopted accrual basis IPSASs.

BC85. The IPSASB came to the view that where adjusting the carrying amounts to conform to the resulting entity's accounting policies was insufficient to achieve compliance with accrual basis IPSASs, the resulting entity would be a first-time adopter of accrual basis IPSASs. This could occur where one or more combining operations had previously adopted the cash basis of accounting and had, therefore, not previously recognized certain assets and liabilities. In these circumstances, the resulting entity would apply IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* in preparing its first post-combination financial statements.

Accounting for Acquisitions (Paragraphs 58–125)

Reasons for Adopting the Acquisition Method of Accounting for Acquisitions

BC86. In developing the CP, the IPSASB did not reach a conclusion as to "whether the use of fair value as the measurement basis, is appropriate for some or all acquisitions in the public sector. This is because the most prevalent types of acquisition occur where operations are acquired for the achievement of objectives relating to the delivery of goods and/or services, instead of generating economic benefits to return to equity holders. Moreover, many acquisitions do not include the transfer of consideration. Some consider that these types of acquisitions are different in nature from business combinations as identified in IFRS 3, because the concept of acquiring an operation directly in exchange for the transfer of consideration is missing." Respondents to the CP generally supported the use of fair value for acquisitions in which consideration was transferred. For acquisitions in which no consideration was transferred, there was broadly equal support for fair value measurement and measurement at carrying amount.

BC87. The arguments developed in the CP reflected the classification approach in the CP. In the CP, the IPSASB proposed that the gaining of control was the sole definitive criterion for distinguishing an amalgamation from an acquisition. The IPSASB has subsequently decided to supplement the gaining of control with two other factors, consideration and decision-making. The IPSASB considers that this will result in fewer public sector combinations being classified as acquisitions than under the approach in the CP. Those public sector combinations that are classified as acquisitions will be similar in nature to the business combinations addressed by IFRS 3.

BC88. Having regard to the revised classification approach that it had agreed to adopt, the IPSASB reconsidered which accounting method would be appropriate for acquisitions. The IPSASB concluded that the acquisition method was appropriate, and agreed to adopt the acquisition method as set out in IFRS 3 as the accounting method for acquisitions in this Standard. This approach was supported by respondents to ED 60.

Differences to the Accounting Treatments in IFRS 3

BC89. IFRS 3 includes accounting treatments that are based on other IFRS Standards for which there is no equivalent IPSAS, for example income taxes and share-based payment. The IPSASB agreed not to include the detailed requirements specified in IFRS 3, but to include references to the relevant international or national accounting standard dealing with the issue.

BC90. The IPSASB considered whether any additional guidance to that provided by IFRS 3 was required. The IPSASB noted that acquisitions in the public sector may include assets and liabilities arising from non-exchange transactions that are not addressed in IFRS 3. Consequently, the IPSASB agreed to include additional guidance on the following non-exchange items:

(a) Tax forgiveness; and

(b) The subsequent measurement of transfers, concessionary loans and similar benefits received by a combining operation on the basis of criteria that may change as a result of an acquisition.

BC91. The IPSASB considered comments from respondents to ED 60 regarding the acquisition method. As a result, the IPSASB agreed to make minor changes to the requirements:

The tax forgiveness requirements have been amended to allow for those cases where tax forgiveness occurs subsequent to the acquisition as well as where it forms part of the terms of the acquisition.

The IPSASB considered whether any additional exemptions to the recognition and measurement principles or any additional guidance on the acquisition method were required. The IPSASB concluded that no further provisions were necessary, as the Board considered that the provisions in this Standard or in other IPSASs were already sufficiently clear.

Acquired Operations that Have Not Previously Adopted Accrual Basis IPSASs

BC92. In developing this Standard, the IPSASB considered whether it was necessary to include specific provisions to address the situation where one or more acquired operations had not previously adopted accrual basis IPSASs. The IPSASB concluded that no separate provisions were required in this Standard. Paragraph 64 of IPSAS 40 requires an acquirer to recognize the identifiable assets acquired, the liabilities assumed and any non-controlling interest in an acquired operation. Paragraph 72 of the Standard requires the acquirer to measure the assets and liabilities acquired at their acquisition-date fair values. Consequently, the acquirer will measure all assets and liabilities in accordance with accrual basis IPSASs, irrespective of the accounting basis previously adopted by an acquired operation.

Fair Value Cannot be Determined

BC93. Respondents to ED 60 commented that, in exceptional circumstances, it may be impracticable for an acquirer to determine the fair value of an item and suggested that the use of the item's previous carrying amount may be an appropriate alternative. The IPSASB considered this suggestion but concluded that using carrying amount may not be appropriate in all instances, particularly if the acquired operation does not apply accrual based IPSASs. The IPSASB agreed that entities should apply the existing requirements in IPSASs. In particular, the IPSASB noted that, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. IPSAS 3 provides additional guidance. In such cases, the acquirer would measure the item as of the acquisition date in a manner that is consistent with other IPSASs and the acquirer's accounting policies, and make the disclosures required by other IPSASs. The IPSASB considered that it would be appropriate to measure the item at its previous carrying amount only where that carrying amount is consistent with other IPSASs and the acquirer's accounting policies.

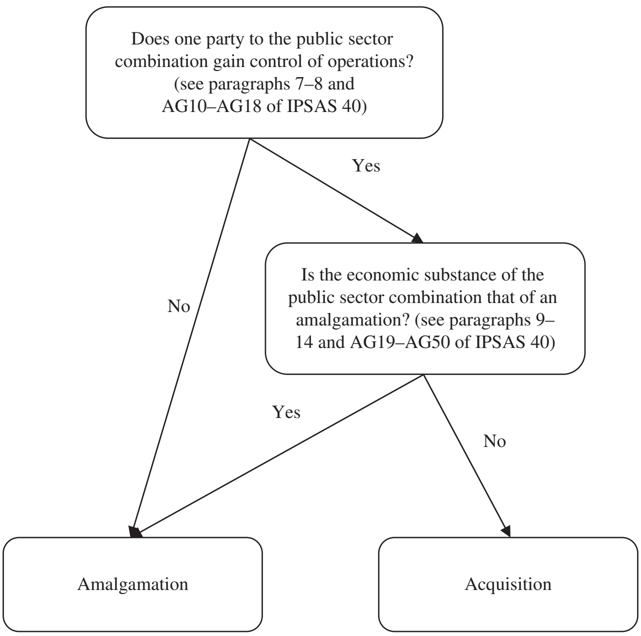
Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 40.

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of IPSAS 40.

Classification of Public Sector Combinations

IG2. The diagram below summarizes the process established by IPSAS 40 for classifying public sector combinations.



Illustrative Examples

These examples accompany, but are not part of, IPSAS 40.

Classification of Public Sector Combinations

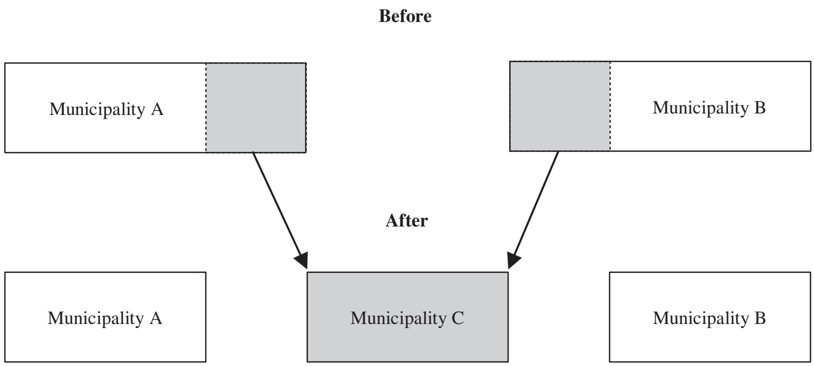
Illustrating the Consequences of Applying Paragraphs 7–14 and AG10–AG50 of IPSAS 40

IE1. The following scenarios illustrate the process for classifying public sector combinations. These scenarios portray hypothetical situations. Although some aspects of the scenarios may be present in actual fact patterns, all facts and circumstances of a particular fact pattern would need to be evaluated when applying IPSAS 40.

IE2. Each scenario is illustrated by a diagram. Where a public sector combination involves operations which form part of an economic entity, but not the whole economic entity, the operations that are involved in the combination, and the entity that is formed by the combination, are shaded in the diagram. Where more than one reporting entity is included in an economic entity, the boundary of the economic entity is shown by a dotted line.

Scenario 1: Reorganization of Local Government by Rearranging Territorial Boundaries

IE3. The following diagram illustrates the creation of a new municipality by combining some operations from two existing municipalities.



IE4. In this scenario, the territorial boundaries of two existing municipalities, Municipality A and Municipality B, are redrawn by Parliament through legislation; neither Parliament nor Central Government controls Municipality A or Municipality B. Responsibility for part of each municipality's former territory is transferred to a new municipality, Municipality C. Operations in respect of the transferred territory are combined to form Municipality C. A public sector combination occurs.

IE5. Municipality A and Municipality B remain otherwise unchanged and retain their governing bodies. A new governing body (unrelated to the governing bodies of Municipality A and Municipality B) is elected for Municipality C to manage the operations that are transferred from the other municipalities.

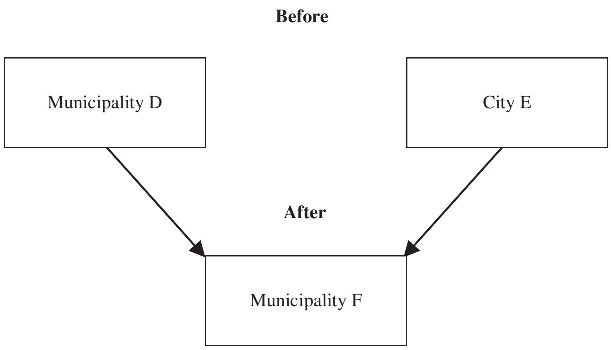
IE6. The creation of Municipality C is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE7. Municipality C has a newly elected governing body, unrelated to the governing bodies of Municipality A and Municipality B. Neither Municipality A nor Municipality B has power over the Municipality C. Neither do they have exposure, or rights, to variable benefits from any involvement with Municipality C.

IE8. Neither Municipality A nor Municipality B have gained control over Municipality C as a result of the public sector combination. Consequently the combination is classified as an amalgamation.

Scenario 2: Reorganization of Local Government by Combining Municipalities into a New Legal Entity

IE9. The following diagram illustrates the creation of a new municipality by combining all of the operations of two existing municipalities into a new legal entity.



IE10. In this scenario, a public sector combination occurs in which Municipality F is formed to combine the operations (and the related assets, liabilities and components of net assets/equity) of Municipality D and City E. Prior to the combination, Municipality D and City E are not under common control. The combination is imposed by the provincial government (a third party) through legislation. The provincial government has the legal power to direct the two entities to combine, through legislation, even though it does not control them.

IE11. The legislation that creates Municipality F provides for the formation of a new governing body with no links to Municipality D or City E. Municipality D and City E have no role in determining the terms of the combination. After the combination, Municipality D and City E cease to exist.

IE12. The creation of Municipality F is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE13. Municipality F has a newly formed governing body, unrelated to the governing bodies of Municipality D and City E. Neither Municipality D nor City E has power over Municipality F. Neither do they have exposure, or rights, to variable benefits from any involvement with Municipality F.

IE14. Neither Municipality D nor City E have gained control over Municipality F as a result of the public sector combination. Consequently the combination is classified as an amalgamation.

Scenario 2: Variation

IE15. In scenario 2, the legislation that creates Municipality F provides for the formation of a new governing body with no links to Municipality D or City E. In this variation, the legislation that creates Municipality F provides for the governing body of Municipality D to become the governing body of Municipality F.

IE16. This suggests that as part of the public sector combination that creates Municipality F, Municipality D is gaining control of the operations of City E. However, the assessment as to whether Municipality D is gaining control is based on the substance of the combination, not its legal form. In preparing its first financial statements, Municipality F considers the guidance in paragraphs 7–8 and AG10–AG18 of IPSAS 40.

IE17. In this variation, it is assumed that the legislation that provides for the governing body of Municipality D to become the governing body of Municipality F results in Municipality D gaining:

(a) Power over the operations of City E;

(b) Exposure, or rights, to variable benefits from its involvement with those operations; and

(c) The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.

IE18. Municipality F concludes that, as a result of the public sector combination, Municipality D has gained control of City E. Municipality F considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE19. In considering the economic substance of the public sector combination, Municipality F notes that the combination does not result in a controlling entity/controlled entity relationship between Municipality D and City E. This is consistent with both an amalgamation and an acquisition. Municipality F also notes that Municipality D obtains access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement; this may suggest that the economic substance of the combination is that of an acquisition, but is not conclusive.

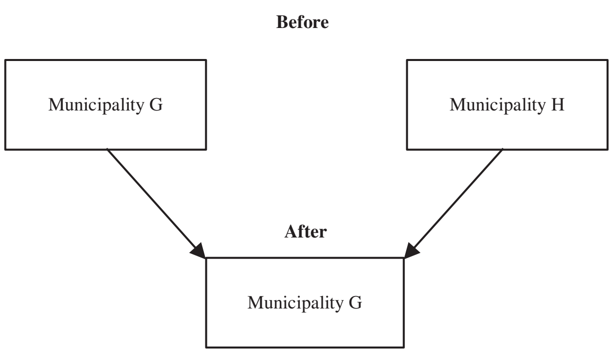
IE20. In considering the indicators relating to consideration, Municipality F notes that the public sector combination does not include the payment of consideration because there is no party with an entitlement to the net assets of City E (i.e., there are no former owners of City E with quantifiable ownership interests). This suggests that the economic substance of the combination is that of an amalgamation.

IE21. In considering the indicators relating to the decision-making process, Municipality F notes that the public sector combination was imposed by the provincial government (a third party) and that Municipality D and City E had no role in determining the terms of the combination. This may suggest that the economic substance of the combination is that of an amalgamation.

IE22. Taking these factors together, Municipality F considers that the public sector combination should be classified as an amalgamation. In coming to this decision, Municipality F considers the absence of consideration because there is no party with an entitlement to the net assets of an operation to be the most significant factor in determining the economic substance of the combination.

Scenario 3: Reorganization of Local Government by Combining Municipalities into an Existing Legal Entity

IE23. The following diagram illustrates the combining of all of the operations of two existing municipalities into an existing legal entity.



IE24. In this scenario, a public sector combination occurs in which the operations of Municipality G and Municipality H (and their related assets, liabilities and components of net assets/equity) are combined into the legal entity of Municipality G. Prior to the combination, Municipality G and Municipality H are not under common control. The combination is imposed by Central Government (a third party) through legislation. Central Government has the legal power to direct the two entities to combine, through legislation, even though it does not control them.

IE25. The legislation that effects the combination provides for the governing body of Municipality G to continue as the governing body of the combined entity. Municipality G and Municipality H have no role in determining the terms of the combination. After the public sector combination, Municipality H ceases to exist.

IE26. These facts suggest that as part of the public sector combination, Municipality G is gaining control of the operations of Municipality H. However, the assessment as to whether Municipality G is gaining control is based on the substance of the combination, not its legal form. Municipality G considers the guidance in paragraphs 7–8 and AG10–AG18 of IPSAS 40 in determining whether to classify the combination as an amalgamation or an acquisition.

IE27. In this scenario, it is assumed that the legislation that provides for the governing body of Municipality G to continue as the governing body of combined entity results in Municipality G gaining:

(a) Power over the operations of Municipality H;

(b) Exposure, or rights, to variable benefits from its involvement with those operations; and

(c) The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.

IE28. Municipality G concludes that, as a result of the public sector combination, it has gained control of Municipality H. Municipality G considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE29. In considering the economic substance of the public sector combination, Municipality G notes that the combination does not result in a controlling entity/controlled entity relationship between Municipality G and Municipality H. This is consistent with both an amalgamation and an acquisition. Municipality G also notes that it obtains access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement; this may suggest that the economic substance of the combination is that of an acquisition, but is not conclusive.

IE30. In considering the indicators relating to consideration, Municipality G notes that the public sector combination does not include the payment of consideration because there is no party with an entitlement to the net assets of Municipality H (i.e., there are no former owners of Municipality H with quantifiable ownership interests). This suggests that the economic substance of the combination is that of an amalgamation.

IE31. In considering the indicators relating to the decision-making process, Municipality G notes that the public sector combination was imposed by Central Government (a third party) and that Municipality G and Municipality H had no role in determining the terms of the combination. This may suggest that the economic substance of the combination is that of an amalgamation.

IE32. Taking these factors together, Municipality G considers that the public sector combination should be classified as an amalgamation. In coming to this decision, Municipality G considers the absence of consideration because there is no party with an entitlement to the net assets of an operation to be the most significant factor in determining the economic substance of the combination.

Scenario 3: Variation

IE33. In scenario 3, the legislation provides for the governing body of Municipality G to become the governing body of the combined entity. In this variation, the legislation provides for a new governing body to be formed that has no links to Municipality G or Municipality H.

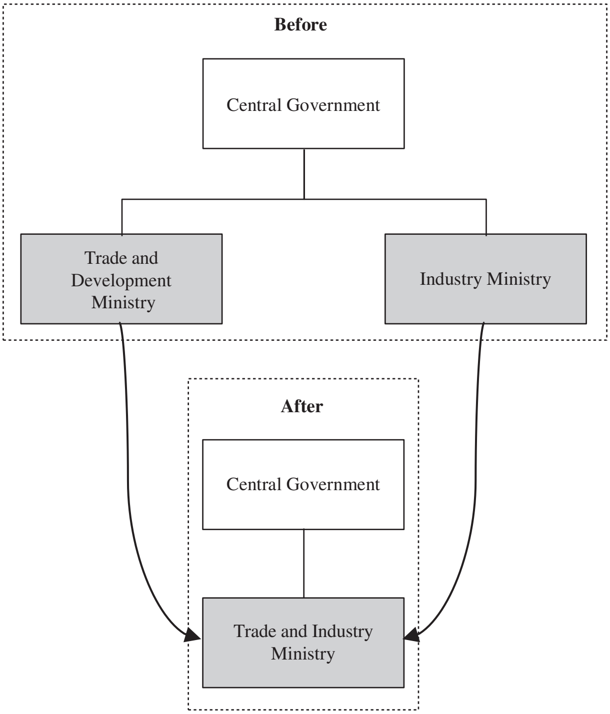
IE34. In determining whether this public sector combination should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE35. Despite its legal form continuing, Municipality G has a newly formed governing body, unrelated to its previous governing body or that of Municipality H. Consequently, the previous Municipality G does not gain power over Municipality H. Neither does it have exposure, or rights, to variable benefits from any involvement with Municipality H.

IE36. Municipality G has not gained control over Municipality H as a result of the public sector combination. Consequently the combination is classified as an amalgamation.

Scenario 4: Restructuring of Central Government Ministries

IE37. The following diagram illustrates the reorganization of Central Government ministries by combining the Trade and Development Ministry and the Industry Ministry into the newly formed Trade and Industry Ministry.



IE38. In this scenario, a public sector combination occurs in which the Trade and Industry Ministry is formed to combine the operations (and the related assets, liabilities and components of net assets/equity) of the Trade and Development Ministry and the Industry Ministry. All the ministries, both prior to and after the combination, are controlled by Central Government. The combination is imposed by Central Government using this control. The Trade and Development Ministry and the Industry Ministry have no role in determining the terms of the combination.

IE39. In effecting the combination, Central Government gives responsibility for the new Trade and Industry Ministry to the Minister of Industry and the governing body of the Industry Ministry. After the combination, the Trade and Development Ministry and the Industry Ministry cease to exist.

IE40. As Central Government controls the same operations both before and after the public sector combination, Central Government does not report a combination in its consolidated financial statements. The combination is reported by the Trade and Industry Ministry.

IE41. The creation of the Trade and Industry Ministry is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE42. Central Government gives responsibility for the new Trade and Industry Ministry to the Minister of Industry and the governing body of the Industry Ministry. This suggests that as part of the public sector combination that creates the new Trade and Industry Ministry, the Industry Ministry is gaining control of the operations of the Trade and Development Ministry. However, the assessment as to whether the Industry Ministry is gaining control is based on the substance of the combination, not its form. In determining whether the combination should be classified as an amalgamation or an acquisition, the Trade and Industry Ministry considers the guidance in paragraphs 7–8 and AG10–AG18 of IPSAS 40.

IE43. In this scenario, it is assumed that the decision of Central Government to give responsibility for the new Trade and Industry Ministry to the Minister of Industry and the governing body of the Industry Ministry results in the Industry Ministry gaining:

(a) Power over the operations of the Trade and Development Ministry;

(b) Exposure, or rights, to variable benefits from its involvement with those operations; and

(c) The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.

IE44. The Trade and Industry Ministry concludes that, as a result of the public sector combination, the Industry Ministry has gained control of the Trade and Development Ministry. The Trade and Industry Ministry considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE45. In considering the economic substance of the public sector combination, the Trade and Industry Ministry notes that the combination does not result in a controlling entity/controlled entity relationship between the Trade and Development Ministry and the Industry Ministry. This is consistent with both an amalgamation and an acquisition. The Trade and Development Ministry also notes that the Industry Ministry obtains access to economic benefits or service potential that are similar to those that could have been obtained by mutual agreement; this may suggest that the economic substance of the combination is that of an acquisition.

IE46. In considering the indicators relating to consideration, the Trade and Industry Ministry notes that the public sector combination does not include the payment of consideration because the combination took place under common control, and Central Government, the controlling entity, did not specify any consideration in the terms of the combination. Consequently, although the absence of consideration may suggest that the economic substance of the combination is that of an amalgamation, this is not of itself conclusive and other factors also need to be taken into account.

IE47. In considering the indicators relating to the decision-making process, the Trade and Industry Ministry notes that the public sector combination takes place under common control. The combination was directed by Central Government and the Trade and Development Ministry and the Industry Ministry had no role in determining the terms of the combination. This provides evidence that the ultimate decision as to whether the combination took place, and the terms of the combination, are determined by the Central Government, the controlling entity. This provides evidence that the economic substance of the combination is that of an amalgamation.

IE48. Taking these factors together, the Trade and Industry Ministry considers that the public sector combination should be classified as an amalgamation. In coming to this decision, the fact that the public sector combination takes place under common control is considered to be the most significant factor in determining the economic substance of the combination.

Scenario 4: Variation

IE49. In scenario 4, Central Government gives responsibility for the new Trade and Industry Ministry to the Minister of Industry and the governing body of the Industry Ministry. In this variation, Central Government appoints a new Minister and governing body.

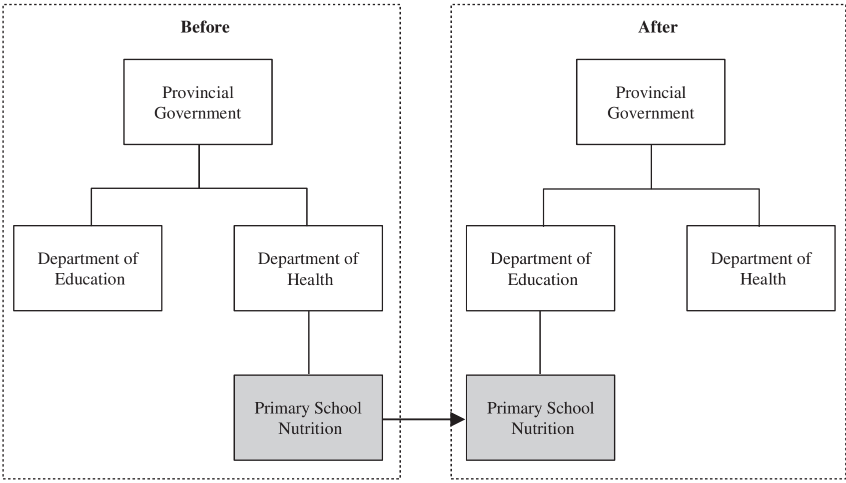
IE50. The creation of the Trade and Industry Ministry is a public sector combination under common control. In determining whether this should be classified as an amalgamation or an acquisition, the first question to consider is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE51. The Trade and Industry Ministry has a new Minister and a newly formed governing body, unrelated to the governing bodies of the Trade and Development Ministry and the Industry Ministry. Neither the Trade and Development Ministry or the Industry Ministry has gained power over the operations of the other ministry. Neither do they have exposure, or rights, to variable benefits from any involvement with the operations of the other ministry.

IE52. Neither of the Trade and Development Ministry nor the Industry Ministry has gained control over the Trade and Industry Ministry as a result of the public sector combination. Consequently the combination is classified as an amalgamation.

Scenario 5: Transfer of Operations Under Common Control

IE53. The following diagram illustrates the transfer of operations between two public sector entities that are under common control.



IE54. In this scenario, a public sector combination occurs in which the Primary School Nutrition operation is transferred from the Provincial Government's Department of Health to its Department of Education. Both departments are controlled by the Provincial Government prior to and after the combination.

IE55. As the Provincial Government controls the same operations both before and after the public sector combination, the Provincial Government does not report a combination in its consolidated financial statements. The combination is reported by the Department of Education.

IE56. The transfer of the Primary School Nutrition operation is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question the Department of Education considers is whether one of the parties to the combination has gained control of operations as a result of the combination.

IE57. In this scenario, the Department of Education gains:

(a) Power over the Primary School Nutrition operation;

(b) Exposure, or rights, to variable benefits from its involvement with that operation; and

(c) The ability to use its power over that operation to affect the nature or amount of the benefits from its involvement with that operation.

IE58. The Department of Education concludes that, as a result of the public sector combination, it has gained control of the Primary School Nutrition operation. The Department of Education considers the guidance in paragraphs 9–14 and

AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE59. In considering the economic substance of the public sector combination, the Department of Education notes that it obtains access to economic benefits or service potential that are similar to those that could have been obtained in a voluntary transaction; this may suggest that the economic substance of the combination is that of an acquisition.

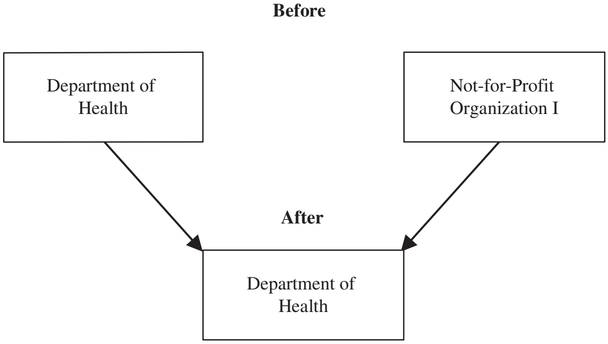
IE60. In considering the indicators relating to consideration, the Department of Education notes that the public sector combination does not include the payment of consideration because the combination took place under common control, and the Provincial Government, the controlling entity, did not specify any consideration in the terms of the combination. Consequently, although the absence of consideration may suggest that the economic substance of the combination is that of an amalgamation, this is not of itself conclusive and other factors also need to be taken into account.

IE61. In considering the indicators relating to the decision-making process, the Department of Education notes that the public sector combination takes place under common control. The combination was directed by the Provincial Government. This provides evidence that the ultimate decision as to whether the combination took place, and the terms of the combination, are determined by the Provincial Government, the controlling entity. This provides evidence that the economic substance of the combination is that of an amalgamation.

IE62. Taking these factors together, the Department of Education considers that the public sector combination should be classified as an amalgamation. In coming to this decision, the fact that the public sector combination takes place under common control is considered to be the most significant factor in determining the economic substance of the combination.

Scenario 6: Combination of a Public Sector Entity with a Not-For-Profit Organization

IE63. The following diagram illustrates the combination of a public sector entity with a not-for-profit organization providing similar services.



IE64. In this scenario, a public sector combination occurs in which Not-for-Profit Organization I, a charity which provides paramedic services, voluntarily agrees to combine with the Department of Health in order to improve the delivery of services to the public. The operations of Not-for-Profit Organization I are integrated with similar operations provided by the Department of Health. Prior to the combination, the Department of Health has provided funding for Not-for-Profit Organization I. The Department of Health meets the cost of transferring the title to the assets and liabilities of Not-for-Profit Organization I incurred by the trustees of the charity.

IE65. The combination of the Department of Health and Not-for-Profit Organization I is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question the Department of Health considers is whether it has gained control of operations as a result of the combination.

IE66. In this scenario, the Department of Health gains:

(a) Power over Not-for-Profit Organization I and its operations;

(b) Exposure, or rights, to variable benefits from its involvement with those operations; and

(c) The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.

IE67. The Department of Health concludes that, as a result of the public sector combination, it has gained control of Not-for-Profit Organization I. The Department of Health considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE68. In considering the economic substance of the public sector combination, the Department of Health notes that the combination does not result in a controlling entity/controlled entity relationship between the Department and Not-for-Profit Organization I. This is consistent with both an amalgamation and an acquisition.

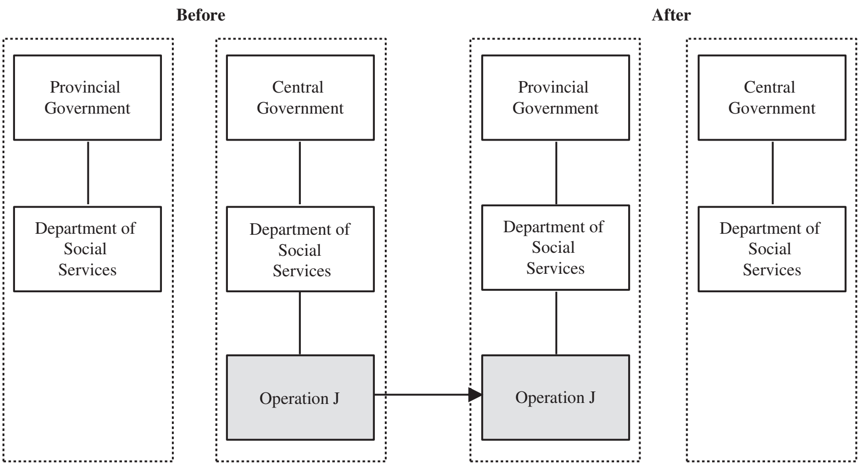
IE69. In considering the indicators relating to consideration, the Department of Health notes that the public sector combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. Although the Department of Health makes a payment to the trustees, this is to compensate them for costs incurred in effecting the combination, not to compensate them for giving up their entitlement to the net assets of Not-for-Profit Organization I. Although Not-for-Profit Organization I has a Board of Trustees, these individuals are not entitled to the net assets of the operation. This means there is no party with an entitlement to the net assets of Not-for-Profit Organization I (i.e., there are no former owners of Not-for-Profit Organization I with quantifiable ownership interests).This suggests that the economic substance of the combination is that of an amalgamation. In this scenario, this is confirmed by the fact that the purpose of the combination is to improve the delivery of services to the public.

IE70. In considering the indicators relating to the decision-making process, the Department of Health notes that the public sector combination was a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE71. Taking these factors together, the Department of Health considers that the public sector combination should be classified as an amalgamation. In coming to this decision, the Department of Health considers the absence of consideration because there is no party with an entitlement to the net assets of an operation to be the most significant factor in determining the economic substance of the combination. In this scenario, this view is reinforced by the fact that that Board of Trustees is voluntarily giving up control over the operations to improve the delivery of services to the public.

Scenario 7: Transfer of an Operation Between Levels of Government

IE72. The following diagram illustrates the transfer of an operation between levels of government.



IE73. In this scenario, Central Government adopts a policy of devolving responsibility for some social services to the Provincial Government. Consequently, it proposes transferring Operation J, which provides residential care services, from Central Government's Department of Social Services to the Provincial Government's Department of Social Services. The Provincial Government supports the policy and agrees to accept Operation J. Operation J has net assets of CU1,000[2]. There is no transfer of consideration by the Provincial Government to the Central Government. However, the transfer agreement imposes an obligation on the Provincial Government to continue to provide the residential care services for a minimum of 10 years. Operation J does not recover all its costs from charges; the Provincial Government therefore assumes the responsibility for providing resources to meet the shortfall. Following the transfer, the Provincial Government operates Operation J as a stand-alone entity (i.e., there is a controlling entity/controlled entity relationship between the Provincial Government and Operation J), although it plans to integrate the operation with its other operations at a later date, which would remove the controlling entity/controlled entity relationship.

IE74. The transfer of Operation J is a public sector combination that will need to be reported in both the Provincial Government's financial statements and those of the Provincial Government's Department of Social Services. As the analysis required will be the same for both entities, this example uses the term Provincial Government to refer to both entities.

IE75. In determining whether this should be classified as an amalgamation or an acquisition, the first question the Provincial Government considers is whether it has gained control of operations as a result of the combination.

IE76. In this scenario, the Provincial Government gains:

(a) Power over Operation J;

(b) Exposure, or rights, to variable benefits from its involvement with Operation J; and

(c) The ability to use its power over Operation J to affect the nature or amount of the benefits from its involvement with the operation.

IE77. The Provincial Government concludes that, as a result of the public sector combination, it has gained control of Operation J. The Provincial Government considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE78. In considering the economic substance of the public sector combination, the Provincial Government notes that the combination results in a controlling

[2] In these examples monetary amounts are denominated in 'currency units (CU)'

entity/controlled entity relationship between the Provincial Government and Operation J. This is inconsistent with the economic substance of an amalgamation.

IE79. In considering the indicators relating to consideration, the Provincial Government notes that the public sector combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, the transfer agreement requires the Provincial Government to continue to provide the services. As Operation J does not recover all its costs from charges, the Provincial Government will need to provide the necessary resources to cover the shortfall. The Provincial Government considers that the cost of providing services for the agreed 10 year period is likely to be approximately equal to the value of the net assets received. It therefore considers that a market participant would estimate the fair value of Operation J (with the obligation to provide services for 10 years) to be zero. Although no consideration is transferred, this reflects the fair value of the combination. The Provincial Government concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE80. In considering the indicators relating to the decision-making process, the Provincial Government notes that the public sector combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE81. Taking these factors together, the Provincial Government concludes that there is no evidence that economic substance of the combination is that of an amalgamation, and that the public sector combination should, therefore, be classified as an acquisition.

Scenario 7: Variation

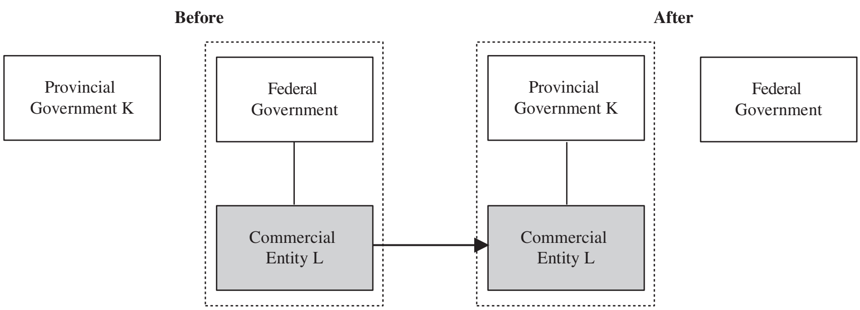
IE82. In scenario 7, the Provincial Government considers that a market participant would estimate the fair value of Operation J (with the obligation to provide services for 10 years) to be zero. This is the reason that no consideration is paid. In this variation, Operation J is assumed to cover its costs from charges. Consequently, a market participant would estimate the fair value of Operation J (with the obligation to provide services for 10 years) to be greater than zero.

IE83. In these circumstances, the fact that the combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation may provide evidence that the economic substance of the combination is that of an amalgamation.

IE84. In determining the classification of the public sector combination, the Provincial Government considers which factor or factors are the most significant. The Provincial Government considers the fact that it has gained control of Operation J and the fact that the combination does not involve the integration of its operations and those of Operation J to be the most significant factors in determining the economic substance of the combination. This suggests that the combination should be classified as an acquisition. The indicators relating to the decision-making process support this classification; only the indicators relating to consideration suggest that the economic substance of the combination may be an amalgamation. The Provincial Government therefore classifies the combination as an acquisition.

Scenario 8: Transfer of a Commercial Entity between Levels of Government

IE85. The following diagram illustrates the transfer of a commercial entity between levels of government.



IE86. In this scenario, the Federal Government agrees to transfer Commercial Entity L to Provincial Government K. Provincial Government K pays consideration to the Federal Government in respect of the transfer. Following the combination, Provincial Government K operates Commercial Entity L as an arms-length, stand-alone entity.

IE87. The transfer of Commercial Entity L is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Provincial Government K considers is whether it has gained control of operations as a result of the combination.

IE88. In this scenario, Provincial Government K gains:

(a) Power over Commercial Entity L and its operations;

(b) Exposure, or rights, to variable benefits from its involvement with those operations; and

(c) The ability to use its power over those operations to affect the nature or amount of the benefits from its involvement with those operations.

IE89. Provincial Government K concludes that, as a result of the public sector combination, it has gained control of Commercial Entity L. Provincial Government K considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE90. In considering the economic substance of the public sector combination, Provincial Government K notes that the combination results in a controlling entity/controlled entity relationship between the Provincial Government and Commercial Entity L. This is inconsistent with the economic substance of an amalgamation. Provincial Government K also notes that the combination has commercial substance, which is suggestive of an acquisition.

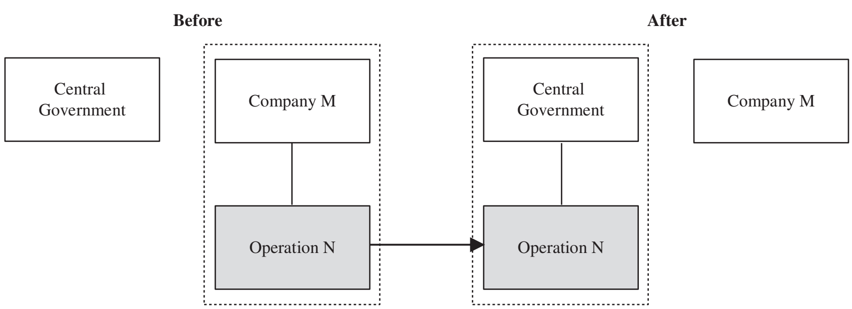
IE91. In considering the indicators relating to consideration, Provincial Government K notes that the public sector combination includes the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. Provincial Government K concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE92. In considering the indicators relating to the decision-making process, Provincial Government K notes that the public sector combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE93. Taking these factors together, Provincial Government K concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the public sector combination should, therefore, be classified as an acquisition.

Scenario 9: Purchase of a Private Sector Operation

IE94. The following diagram illustrates the purchase of a private sector operation by a public sector entity.



IE95. In this scenario, Central Government purchases Operation N from Company M. Central Government pays the market value of Operation N, and Company M acts voluntarily. Following the purchase, Operation N is managed as an arms-length, stand-alone entity.

IE96. The purchase of Operation N is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Central Government considers is whether it has gained control of operations as a result of the combination.

IE97. In this scenario, Central Government gains:

(a) Power over Operation N;

(b) Exposure, or rights, to variable benefits from its involvement with Operation N; and

(c) The ability to use its power over Operation N to affect the nature or amount of the benefits from its involvement with that operation.

IE98. Central Government concludes that, as a result of the public sector combination, it has gained control of Operation N. Central Government considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE99. In considering the economic substance of the public sector combination, Central Government notes that the combination results in a controlling entity/controlled entity relationship between Central Government and Operation N. This is inconsistent with the economic substance of an amalgamation. Central Government also notes that the combination has commercial substance, which is suggestive of an acquisition.

IE100. In considering the indicators relating to consideration, Central Government notes that the public sector combination includes the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. Central Government concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE101. In considering the indicators relating to the decision-making process, Central Government notes that the public sector combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE102. Taking these factors together, Central Government concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the public sector combination should, therefore, be classified as an acquisition.

Scenario 9: Variation

IE103. In scenario 9, Company M enters into the transaction voluntarily. In this variation, Central Government nationalizes Operation N through a compulsory purchase. The purchase is still effected at the market value of Operation N.

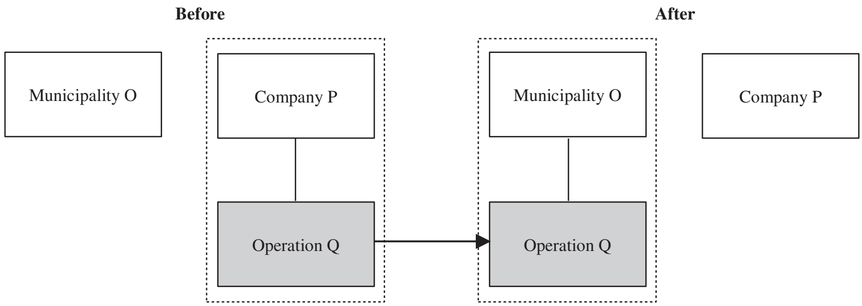
IE104. The change from a voluntary transaction to a compulsory purchase does not affect the assessments of control or the indicators related to consideration.

IE105. In considering the indicators relating to the decision-making process, Central Government notes that Company M does not act voluntarily. The fact that Central Government (a party to the combination) is able to impose the public sector combination on Company M provides evidence that the economic substance of the combination is that of an acquisition.

IE106. Consequently, Central Government classifies the public sector combination as an acquisition.

Scenario 10: Bargain Purchase

IE107. The following diagram illustrates a bargain purchase by a public sector entity.



IE108. In this scenario, Municipality O purchases Operation Q from Company P in a bargain purchase. Company P is seeking to sell Operation Q quickly to release cash for its other operations, and is willing to accept a price below the market value of Operation Q for an early sale. In entering into the bargain purchase, Company P acts voluntarily. Following the purchase, Operation Q is managed as an arms-length, stand-alone entity by Municipality O.

IE109. The bargain purchase of Operation Q is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Municipality O considers is whether it has gained control of operations as a result of the combination.

IE110. In this scenario, Municipality O gains:

(a) Power over Operation Q;

(b) Exposure, or rights, to variable benefits from its involvement with Operation Q; and

(c) The ability to use its power over Operation Q to affect the nature or amount of the benefits from its involvement with that operation.

IE111. Municipality O concludes that, as a result of the public sector combination, it has gained control of Operation Q. Municipality O considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE112. In considering the economic substance of the public sector combination, Municipality O notes that the combination results in a controlling entity/controlled entity relationship between Municipality O and Operation Q. This is inconsistent with the economic substance of an amalgamation. Municipality O also notes that the combination has commercial substance (even though the price paid was below the market price of Operation Q), which is suggestive of an acquisition.

IE113. In considering the indicators relating to consideration, Municipality O notes that the public sector combination includes the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation, even though that price was below market value. Company P voluntarily accepted a lower price for a quick sale, and the purpose of the consideration paid was to provide Company P with the level of compensation for giving up its entitlement to the net assets of Operation Q that it was willing to accept. Municipality O concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE114. In considering the indicators relating to the decision-making process, Municipality O notes that the public sector combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE115. Taking these factors together, Municipality O concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the public sector combination should, therefore, be classified as an acquisition.

Scenario 10: Variation

IE116. In scenario 10, Company P enters into the transaction voluntarily. In this variation, Municipality O seizes Operation Q through a compulsory purchase. The purchase is still effected at a price below the market value of Operation

Q. Company P would not have sold Operation Q for a price below market value voluntarily.

IE117. The change from a voluntary transaction to a compulsory purchase does not affect the assessment of control.

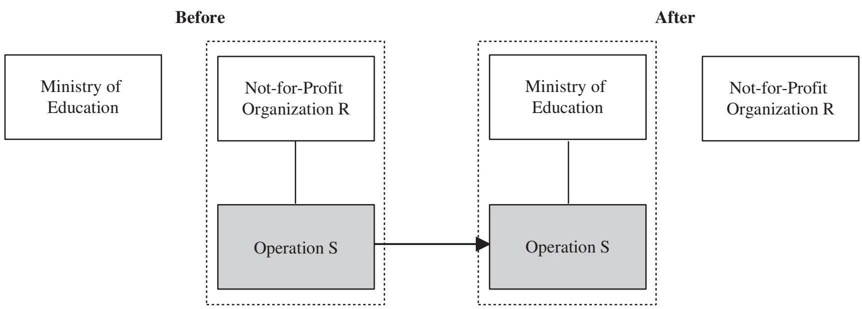
IE118. In considering the indicators relating to consideration, Municipality O notes that the public sector combination includes consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, the level of compensation is less than Company P would have accepted voluntarily. Consequently, these indicators provide only weak evidence that the economic substance of the combination is that of an acquisition, and greater reliance is placed on other factors.

IE119. In considering the indicators relating to the decision-making process, Municipality O notes that Company P does not act voluntarily. The fact that Municipality O (a party to the combination) is able to impose the public sector combination on Company P provides evidence that the economic substance of the combination is that of an acquisition.

IE120. Taking all the factors into account, Municipality O classifies the public sector combination as an acquisition.

Scenario 11: Donated Operations

IE121. The following diagram illustrates the receipt of a donated operation by a public sector entity.



IE122. In this scenario, Not-for-Profit Organization R, a charity providing education services, voluntarily transfers Operation S, a school, to the Ministry of Education at no cost. Not-for-Profit Organization R does this because it considers that this will result in improved services to the public, and enable it to meet its objectives.

IE123. The donation of Operation S is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question the Ministry of Education considers is whether it has gained control of operations as a result of the combination.

IE124. In this scenario, the Ministry of Education gains:

(a) Power over Operation S;

(b) Exposure, or rights, to variable benefits from its involvement with Operation S; and

(c) The ability to use its power over Operation S to affect the nature or amount of the benefits from its involvement with that operation.

IE125. The Ministry of Education concludes that, as a result of the public sector combination, it has gained control of Operation S. The Ministry of Education considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE126. In considering the economic substance of the public sector combination, the Ministry of Education notes that the combination has commercial substance (even though no price was paid for Operation S), which is suggestive of an acquisition.

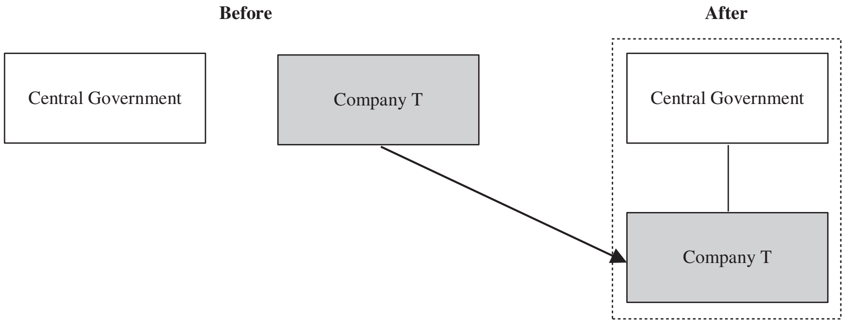
IE127. In considering the indicators relating to consideration, the Ministry of Education notes that the public sector combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, the reason for this is that Not-for-Profit Organization R voluntarily surrendered those rights. The situation is similar to that of a bargain purchase. In a bargain purchase, a seller may be willing to accept a price below market value where this meets their needs, for example in enabling a quick sale. With a donated operation, the former owner is willing to transfer the operation for no consideration to their preferred counterparty. In this scenario, Not-for-Profit Organization R is willing to transfer Operation S to the Ministry of Education because this will provide improved services to the public. Consequently, the Ministry of Education concludes that the indicators of consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE128. In considering the indicators relating to the decision-making process, the Ministry of Education notes that the public sector combination is a voluntary combination. Consequently, these indicators do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE129. Taking these factors together, the Ministry of Education concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the public sector combination should, therefore, be classified as an acquisition.

Scenario 12: Nationalization of a Private Sector Entity–Forced Seizure

IE130. The following diagram illustrates the nationalization of a private sector entity by a public sector entity by means of a forced seizure.



IE131. In this scenario, Central Government nationalizes Company T through legislation. Central Government does not pay any consideration to the shareholders of Company T. Following the purchase, Company T is managed as an arms-length, stand-alone entity.

IE132. The nationalization of Company T is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Central Government considers is whether it has gained control of operations as a result of the combination.

IE133. In this scenario, Central Government gains:

(a) Power over Company T;

(b) Exposure, or rights, to variable benefits from its involvement with Company T; and

(c) The ability to use its power over Company T to affect the nature or amount of the benefits from its involvement with Company T.

IE134. Central Government concludes that, as a result of the public sector combination, it has gained control of Company T. Central Government considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE135. In considering the economic substance of the public sector combination, Central Government notes that the combination results in a controlling entity/controlled entity relationship between Central Government and Company T. This is inconsistent with the economic substance of an amalgamation.

Central Government also notes that, by depriving the former shareholders of their rights to Company T, the combination has commercial substance, which is suggestive of an acquisition.

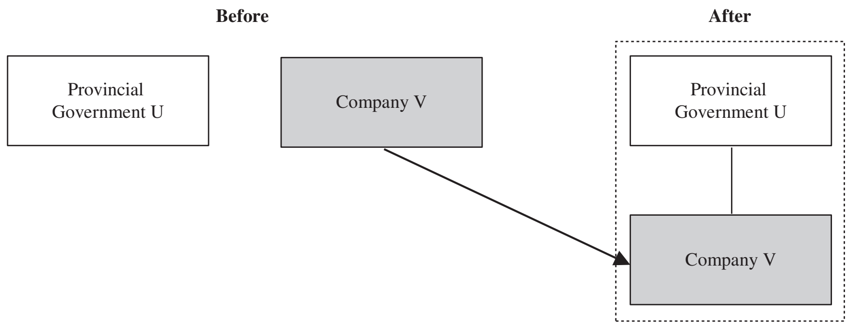
IE136. In considering the indicators relating to consideration, Central Government notes that the public sector combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, the former shareholders of Company T have had their entitlements extinguished through compulsion, which provides evidence that the economic substance of the combination is that of an acquisition. Central Government concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE137. In considering the indicators relating to the decision-making process, Central Government notes that Company T does not act voluntarily. The fact that Central Government (a party to the combination) is able to impose the public sector combination on Company T provides evidence that the economic substance of the combination is that of an acquisition.

IE138. Taking these factors together, Central Government concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the public sector combination should, therefore, be classified as an acquisition.

Scenario 13: Nationalization of a Private Sector Entity–Bailout

IE139. The following diagram illustrates the nationalization of a private sector entity by a public sector entity by means of a bailout.



IE140. In this scenario, Provincial Government U nationalizes Company V through legislation as a result of a bailout. Prior to the nationalization, Company V was in financial distress. Provincial Government U does not pay any consideration to the shareholders of Company V but does assume Company V's net liabilities. Following the purchase, Company V is managed as an arms-length, stand-alone entity.

IE141. The nationalization of Company V is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question Provincial Government U considers is whether it has gained control of operations as a result of the combination.

IE142. In this scenario, Provincial Government U gains:

(a) Power over Company V;

(b) Exposure, or rights, to variable benefits from its involvement with Company V; and

(c) The ability to use its power over Company V to affect the nature or amount of the benefits from its involvement with Company V.

IE143. Provincial Government U concludes that, as a result of the public sector combination, it has gained control of Company V. Provincial Government U considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE144. In considering the economic substance of the public sector combination, Provincial Government U notes that the combination results in a controlling entity/controlled entity relationship between Provincial Government U and Company V. This is inconsistent with the economic substance of an amalgamation. Provincial Government U also notes that, by assuming the net liabilities of Company V, the combination has commercial substance, which is suggestive of an acquisition.

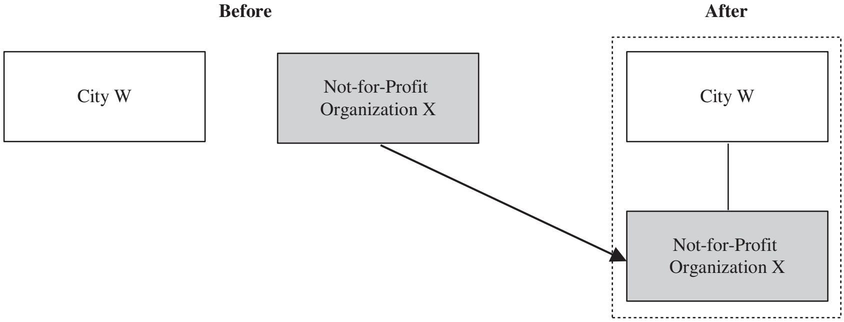
IE145. In considering the indicators relating to consideration, Provincial Government U notes that the public sector combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. However, Company V has net liabilities that are assumed by Provincial Government U as part of the combination. The lack of consideration reflects the fair value of Company V rather than suggesting that the economic substance of the combination is that of an amalgamation. Provincial Government U concludes that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE146. In considering the indicators relating to the decision-making process, Provincial Government U notes that Company V does not act voluntarily. The fact that Provincial Government U (a party to the combination) is able to impose the public sector combination on Company V provides evidence that the economic substance of the combination is that of an acquisition.

IE147. Taking these factors together, Provincial Government U concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the public sector combination should, therefore, be classified as an acquisition.

Scenario 14: Nationalization of a Not-For-Profit Organization–Bailout

IE148. The following diagram illustrates the nationalization of a not-for-profit organization by a public sector entity by means of a bailout.



IE149. In this scenario, City W nationalizes Not-for-Profit Organization X (a charity) as a result of a voluntary bailout. Prior to the nationalization, Not-for-Profit Organization X was in financial distress and approached City W for support. City W assumes Not-for-Profit Organization X's net liabilities. Following the purchase, Not-for-Profit Organization X is managed as an arms-length, stand-alone entity.

IE150. The nationalization of Not-for-Profit Organization X is a public sector combination. In determining whether this should be classified as an amalgamation or an acquisition, the first question City W considers is whether it has gained control of operations as a result of the combination.

IE151. In this scenario, City W gains:

(a) Power over Not-for-Profit Organization X;

(b) Exposure, or rights, to variable benefits from its involvement with Not-for-Profit Organization X; and

(c) The ability to use its power over Not-for-Profit Organization X to affect the nature or amount of the benefits from its involvement with Not-for-Profit Organization X.

IE152. City W concludes that, as a result of the public sector combination, it has gained control of Not-for-Profit Organization X. City W considers the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 in determining whether the economic substance of the combination is that of an amalgamation.

IE153. In considering the economic substance of the public sector combination, City W notes that the combination results in a controlling entity/controlled entity relationship between City W and Not-for-Profit Organization X. This is inconsistent with the economic substance of an amalgamation. City W also notes that, by assuming the net liabilities of Not-for-Profit Organization X, the combination has commercial substance, which is suggestive of an acquisition.

IE154. In considering the indicators relating to consideration, City W notes that the public sector combination does not include the payment of consideration that is intended to compensate the seller for giving up their entitlement to the net assets of an operation. This is because there is no party with an entitlement to the net assets of Not-for-Profit Organization X (i.e., there is no former owner) as the trustees have no entitlement to the net assets. This would usually provide evidence that the economic substance of the combination is that of an amalgamation. However, in this scenario Not-for-Profit Organization X has net liabilities that are assumed by City W as part of the combination. By assuming the net liabilities, City W relieves the trustees of Not-for-Profit Organization X of the responsibility for settling the liabilities, which is analogous to paying consideration. City W concludes, therefore, that the indicators relating to consideration do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE155. In considering the indicators relating to the decision-making process, City W notes that Not-for-Profit Organization X voluntarily initiated the combination. City W concludes that the indicators relating to decision-making do not provide any evidence to suggest that the economic substance of the combination is that of an amalgamation.

IE156. Taking these factors together, City W concludes that there is no evidence that the economic substance of the combination is that of an amalgamation, and that the public sector combination should, therefore, be classified as an acquisition.

Accounting for Amalgamations

Eliminating Transactions between the Combining Operations - Loans

Illustrating the Consequences of Applying Paragraphs 22 and AG51–AG52 of IPSAS 40

IE157. The following example illustrates the process for eliminating a loan between two combining operations not under common control.

IE158. On 30 June 20X5 Resulting Entity (RE) is formed by an amalgamation of two municipalities, Combining Operation A (COA) and Combining Operation B (COB). Four years previously, COA had provided COB with a ten year, fixed interest rate loan of CU250. Interest on the loan is payable annually, with the principal repayable on maturity.

IE159. COB has recently experienced financial difficulties, and at the amalgamation date was in arrears on making the interest payments. The carrying amount of the financial liability (the amortized cost of the loan) in its financial statements at the amalgamation date is CU260.

IE160. Because of the arrears and the fact that COB was experiencing financial difficulties, COA had impaired the loan. The carrying amount of the financial asset (the loan) in its financial statements at the amalgamation date is CU200.

IE161. At the amalgamation date, RE eliminates the financial asset received from COA and the financial liability assumed from COB and credits components of net assets/equity with CU60, the difference between the carrying amounts of the financial asset and the financial liability associated with the loan.

Eliminating Transactions between the Combining Operations - Transfers

Illustrating the Consequences of Applying Paragraphs 22 and AG51–AG52 of IPSAS 40

IE162. The following example illustrates the process for eliminating a transfer between two combining operations not under common control.

IE163. On 30 June 20X9, Resulting Entity (RE) is formed by an amalgamation of two government agencies, Combining Operation A (COA) and Combining Operation B (COB). On 1 January 20X9, COA had provided COB with a grant of CU700 to be used in the provision of an agreed number of training courses.

IE164. The grant was subject to a condition that the grant would be returned proportionately to the number of training courses not delivered. At the amalgamation date, COB had delivered half of the agreed number of courses, and recognized a liability of CU350 in respect of its performance obligation, in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. Based on past experience, COA considered that COB was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to COA, and COA did not recognize an asset in respect of the grant, but accounted for the full CU700 as an expense.

IE165. At the amalgamation date, the transaction is eliminated. There is no longer an obligation to an external party. The resulting entity does not recognize a liability for the CU350, but instead recognizes this amount in net assets/equity.

Adjusting the Carrying Amounts of the Identifiable Assets and Liabilities of the Combining Operations to Conform to the Resulting Entity's Accounting Policies in an Amalgamation

Illustrating the Consequences of Applying Paragraphs 26–27 and 36 of IPSAS 40

IE166. The following example illustrates the process for adjusting the carrying amounts of the identifiable assets and liabilities of the combining operations to conform to the resulting entity's accounting policies in an amalgamation under common control.

IE167. On 1 October 20X5 RE is formed by an amalgamation of two government departments, COA and COB. COA has previously adopted an accounting policy of measuring property, plant and equipment using the cost model in IPSAS 17, *Property, Plant and Equipment*. COB has previously adopted an accounting policy of measuring property, plant and equipment using the revaluation model in IPSAS 17.

IE168. RE adopts an accounting policy of measuring property, plant and equipment using the revaluation model. RE seeks an independent valuation for the items of property, plant and equipment previously controlled by COA.

IE169. On receiving the independent valuation for the items of property, plant and equipment previously controlled by COA, RE adjusts the carrying amounts of the items of property, plant and equipment as follows, with the corresponding entry being made to components of net assets/equity:

Class of Asset	**Carrying Amount (CU)**	**Valuation (CU)**	**Adjustment (CU)**
Land	17,623	18,410	787
Buildings	35,662	37,140	1,478
Vehicles	1,723	1,605	(118)

IE170. RE also reviews the carrying amounts of the items of property, plant and equipment previously controlled by COB to ensure the amounts are up to date as at 1 October 20X5. The review confirms the carrying amounts of the items of property, plant and equipment previously controlled by COB are up to date and that no adjustment is required.

IE171. RE recognizes the items of property, plant and equipment previously controlled by COB at their carrying amounts. In accordance with paragraph 67 of IPSAS 17, RE will review the residual values and useful lives of the plant and equipment previously controlled by both COA and COB at least at each annual reporting date. If expectations differ from previous estimates, RE will account for these changes as changes in accounting estimates, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Forgiveness of Amounts of Tax Due in an Amalgamation

Illustrating the Consequences of Accounting for Tax Forgiveness in an Amalgamation by Applying Paragraphs 33–34 and AG57–AG58 of IPSAS 40

IE172. The following example illustrates the accounting for an amalgamation not under common control in which the resulting entity's tax liability is forgiven as part of the terms of the amalgamation.

IE173. On 1 January 20X6 RE is formed by an amalgamation of two public sector entities, COA and COB. The amalgamation is directed by the national government. RE, COA and COB have the same accounting policies; no adjustment to the carrying amounts of the identifiable assets and liabilities of the COA and COB to conform to the resulting entity's accounting policies is required. At the date of the amalgamation, there are no amounts outstanding between COA and COB.

IE174. In its statement of financial position as at 1 January 20X6, RE recognizes and measures the assets and liabilities of COA and COB at their carrying amounts in their respective financial statements as of the amalgamation date:

Statement of Financial Position:	**COA (CU)**	**COB (CU)**	**RE (CU)**
Financial assets	1,205	997	2,202
Inventory	25	42	67
Property, plant and equipment	21,944	18,061	40,005
Identifiable intangible assets	0	3,041	3,041
Financial liabilities	(22,916)	(22,020)	(44,936)
Tax liabilities	(76)	(119)	(195)
Total net assets	182	2	184
Net Assets/Equity	182	2	184

IE175. Suppose that the terms of the amalgamation include the Ministry of Finance (MF) (the tax authority) forgiving RE's tax liability. RE would derecognize the tax liability and make the adjustment to net assets/equity. The statement of financial position as at 1 January 20X6 for RE would be as follows:

Statement of Financial Position:	**RE (CU)**
Financial assets	2,202
Inventory	67
Property, plant and equipment	40,005
Intangible assets	3,041
Financial liabilities	(44,936)
Tax liabilities	0
Total net assets	379
Net Assets/Equity	379

IE176. MF accounts for tax receivable in accordance with IPSAS 23, and would recognize an adjustment for the tax forgiven.

Recognizing and Measuring Components of Net Assets/Equity Arising as a Result of an Amalgamation

Illustrating the Consequences of Applying Paragraphs 37–39 of IPSAS 40

IE177. The following example illustrates the accounting for recognizing and measuring components of net assets/equity in an amalgamation.

IE178. On 1 June 20X4, a new municipality RE is formed by the amalgamation of operations COA and COB relating to two geographical areas of other municipalities, not previously under common control.

IE179. COB has previously performed services for COA for which it was to be paid CU750. Payment was outstanding at the amalgamation date. This transaction formed part of the carrying amount of financial liabilities for COA and part of the carrying amount of financial assets for COB.

IE180. COA has previously adopted an accounting policy of measuring property, plant and equipment using the cost model. COB has previously adopted an accounting policy of measuring property, plant and equipment using the revaluation model. RE has adopted an accounting policy of measuring property, plant and equipment using the revaluation model. RE obtains an independent valuation for the items of property, plant and equipment previously controlled by COA. As a result, it increases its carrying amount for those items of the property, plant and equipment by CU5,750 and makes the corresponding adjustment to components of net assets/equity.

IE181. The carrying amounts of the assets, liabilities and components of net assets/equity transferred are summarized below. Adjustments to eliminate transactions between COA and COB (see paragraph 22), and to conform the carrying amounts to the resulting entity›s accounting policies are also shown.

	COA (CU)	COB (CU)	Elimination Adjustments (CU)	Accounting Policy Adjustments (CU)	RE Opening Balance (CU)
Financial Assets	11,248	17,311	(750)		27,809
Inventory	1,072	532			1,604
Property, plant and equipment	5,663	12,171		5,750	23,584
Intangible assets	0	137			137
Financial liabilities	(18,798)	(20,553)	750		(38,601)
Total net assets/ (liabilities)	(815)	9,598		5,750	14,533
Revaluation surplus	0	6,939		5,750	12,689
Accumulated surpluses or deficits	(815)	2,659			1,844
Total net assets/equity	(815)	9,598	0	5,750	14,533

IE182. In accordance with paragraphs 37–39 of IPSAS 40, RE may present net assets/ equity as either a single opening balance of CU14,533 or as the separate components shown above.

IE183. The other municipalities that, prior to the amalgamation, controlled COA and COB would derecognize the assets, liabilities and components of net assets/ equity transferred to RE in accordance with other IPSASs.

Measurement Period in an Amalgamation

Illustrating the Consequences of Applying Paragraphs 40–44 of IPSAS 40.

IE184. If the initial accounting for an amalgamation is not complete at the end of the financial reporting period in which the amalgamation occurs, paragraph 40 of IPSAS 40 requires the resulting entity to recognize in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the resulting entity recognizes adjustments to the provisional amounts needed to reflect new information obtained about facts and circumstances that existed as of the amalgamation date and, if known, would have affected the measurement of the amounts recognized as of that date. Paragraph 43 of IPSAS 40 requires the resulting entity to recognize such adjustments as if the accounting for the amalgamation had been completed at the amalgamation date. Measurement period adjustments are not included in surplus or deficit.

IE185. Suppose that RE is formed by the amalgamation of COA and COB (two municipalities that were not under common control prior to the amalgamation) on 30 November 20X3. Prior to the amalgamation, COA had an accounting policy of using the revaluation model for measuring land and buildings, whereas COB's accounting policy was to measure land and buildings using the cost model. RE adopts an accounting policy of measuring land and buildings using the revaluation model, and seeks an independent valuation for the land and buildings previously controlled by COB. This valuation was not complete by the time RE authorized for issue its financial statements for the year ended 31 December 20X3. In its 20X3 annual financial statements, RE recognized provisional values for the land and buildings of CU150,000 and CU275,000 respectively. At the amalgamation date, the buildings had a remaining useful life of fifteen years. The land had an indefinite life. Four months after the amalgamation date, RE received the independent valuation, which estimated the amalgamation-date value of the land as CU160,000 and the amalgamation-date value of the buildings as CU365,000.

IE186. In its financial statements for the year ended 31 December 20X4, RE retrospectively adjusts the 20X3 prior year information as follows:

(a) The carrying amount of the land as of 31 December 20X3 is increased by CU10,000. As the land has an indefinite life, no depreciation is charged.

(b) The carrying amount of the buildings as of 31 December 20X3 is increased by CU89,500. That adjustment is measured as the valuation adjustment at the amalgamation date of CU90,000 less the additional depreciation that would have been recognized if the asset's value at the amalgamation date had been recognized from that date (CU500 for one months' depreciation).

(c) An adjustment of CU100,000 is recognized in net assets/equity as of 31 December 20X3.

(d) Depreciation expense for 20X3 is increased by CU500.

IE187. In accordance with paragraph 56 of IPSAS 40, RE discloses:

(a) In its 20X3 financial statements, that the initial accounting for the amalgamation has not been completed because the valuation of land and buildings previously controlled by COB has not yet been received.

(b) In its 20X4 financial statements, the amounts and explanations of the adjustments to the provisional values recognized during the current reporting period. Therefore, RE discloses that the 20X3 comparative information is adjusted retrospectively to increase the value of the land and buildings by CU99,500 (CU100,000 at the amalgamation date), an increase in depreciation expense of CU500 and an increase in net assets/equity of CU100,000.

Subsequent Measurement of a Transfer Received by a Combining Operation on the Basis of Criteria that May Change as a Result of an Amalgamation

Illustrating the Consequences of Applying the Requirements in Paragraphs 48 and AG61–AG63 of IPSAS 40.

IE188. The following example illustrates the subsequent accounting for a transfer received by a combining operation on the basis of criteria that may change as a result of an amalgamation.

IE189. On 1 January 20X3, a national government provides an annual grant to those municipalities where the average household income is below a threshold. On 1 June 20X3, RE, a new municipality, is formed by the amalgamation of two existing municipalities, COA and COB. COA had previously received a grant of CU1,000, based on its average household income. COB has received no grant as its average household income was above the threshold.

IE190. Following the amalgamation on 1 June 20X3, the average household income of RE is above the threshold that the government had set when allocating grants.

IE191. On 1 July 20X3, the national government requires RE to repay a portion (CU200) of the grant previously paid to COA. RE recognizes a liability and an expense of CU200 on 1 July 20X3.

Disclosure Requirements Relating to Amalgamations

Illustrating the Consequences of Applying the Disclosure Requirements in Paragraphs 53–57 of IPSAS 40.

IE192. The following example illustrates some of the disclosure requirements relating to amalgamations of IPSAS 40; it is not based on an actual transaction. The example assumes that RE is a newly created municipality formed by amalgamating the former municipalities COA and COB. The illustration presents the disclosures in a tabular format that refers to the specific disclosure requirements illustrated. An actual footnote might present many of the disclosures illustrated in a simple narrative format.

Paragraph reference		
54(a)–(c)	On 30 June 20X2 RE was formed by an amalgamation of the former municipalities COA and COB. Neither COA nor COB gained control of RE in the amalgamation. The amalgamation was mutually agreed by COA and COB, and enacted by the Government through legislation. The amalgamation aims to reduce costs through economies of scale, and to provide improved services to residents.	
54(d)	**Amounts recognized for each major class of assets and liabilities transferred as at 30 June 20X2**	
		CU
	Financial assets	1,701
	Inventory	5
	Property, plant and equipment	74,656
	Intangible assets	42
	Financial liabilities	(2,001)
	Total net assets	74,403
54(e)	The following adjustments have been made to the carrying amounts of assets and liabilities recorded by COA and COB as at 30 June 20X2 prior to the amalgamation:	

Paragraph reference		Original Amount (CU)	Adjustment (CU)	Revised Amount (CU)
54(e)(i)	Restatement of financial assets reorded by COA to eliminate transactions with COB	822	(25)	797
54(e)(i)	Restatement of financial liabilities recorded by COB to eliminate transactions with COA	(1,093)	25	(1,068)
54(e)(ii)	Restatement of property plant and equipment recorded by COA to measure the items using the revaluation model	12,116	17,954	30,070

54(f) **Amounts recognized in Net assets/equity as at 30 June 20X2**

	COA (CU)	COB (CU)	Adjust-ment (CU)	RE (CU)
Revaluation surplus	0	18,332	17,954	36,286
Accumulated surpluses or deficits	12,047	26,070	0	38,117
Total net assets/equity	12,047	44,402	17,954	74,403

Paragraph reference			
54(h)	At the time these financial statements were authorized for issue, the last reporting date for COA and COB was 31 December 20X1. The revenue and expense, and surplus or deficit for COA and COB from 1 January 20X2 to the amalgamation date (30 June 20X2), and the amounts reported by COA and COB for each major class of assets and liabilities, and for components of net assets/equity, is shown below:		
		COA (CU)	**COB (CU)**
54(h)(i)	**Revenue**		
	Property taxes	45,213	70,369
	Revenue from exchange transactions	2,681	25,377
	Transfers from other government entities	32,615	19,345
	Total revenue	80,509	115,091
54(h)(i)	**Expenses**		
	Wages, salaries and employee benefits	(51,263)	(68,549)
	Grants and other transfer payments	(18,611)	(26,445)
	Supplies and consumables used	(7,545)	(13,391)
	Depreciation expense	(677)	(2,598)
	Impairment of property, plant and equipment	(17)	(33)
	Finance costs	(2)	(3)
	Total expenses	(78,115)	(111,019)
54(h)(i)	**Surplus or (deficit) for the period 1 January 20X2 to 30 June 20X2**	2,394	4,072

54(h)(ii)	**Assets as at 30 June 20X2**		
	Financial assets	822	904
	Inventory	0	5
	Property, plant and equipment	12,116	44,586
	Intangible assets	42	0
	Total Assets	12,980	45,495
54(h)(ii)	**Liabilities as at 30 June 20X2**		
	Financial liabilities	(933)	(1,093)
	Total liabilities	(933)	(1,093)
54(h)(iii)	**Net assets as at 30 June 20X2**	12,047	44,402
	Net assets/equity as at 30 June 20X2		
	Revaluation surplus	0	18,332
	Accumulated surpluses or deficits	12,047	26,070
	Total net assets/equity as at 30 June 20X2	12,047	44,402

In considering the disclosures related to an amalgamation, an entity may find it helpful to refer to the discussion of materiality in IPSAS 1, *Presentation of Financial Statements*.

Accounting for Acquisitions

Reverse Acquisitions

Illustrating the Consequences of Recognizing a Reverse Acquisition by Applying Paragraphs AG66–AG71 of IPSAS 40

IE193. This example illustrates the accounting for a reverse acquisition in which Entity B, the legal controlled entity, acquires Entity A, the entity issuing equity instruments and therefore the legal controlling entity, in a reverse acquisition on 30 September 20X6. This example ignores the accounting for any income tax effects.

IE194. The statements of financial position of Entity A and Entity B immediately before the acquisition are:

	Entity A (legal controlling entity, accounting acquired operation) CU	**Entity B (legal controlled entity, accounting acquirer) CU**
Current assets	500	700
Non-current assets	1,300	3,000
Total assets	1,800	3,700
Current liabilities	300	600
Non-current liabilities	400	1,100
Total liabilities	700	1,700
Shareholders' equity		
Accumulated surplus or deficit	800	1,400
Issued equity		
100 ordinary shares	300	
60 ordinary shares		600
Total shareholders' equity	1,100	2,000
Total liabilities and shareholders' equity	1,800	3,700

IE195. This example also uses the following information:

(a) On 30 September 20X6 Entity A issues 2.5 shares in exchange for each ordinary share of Entity B. Entity B's sole shareholder, a government, exchanges its shares in Entity B. Therefore, Entity A issues 150 ordinary shares in exchange for all 60 ordinary shares of Entity B.

(b) The fair value of each ordinary share of Entity B at 30 September 20X6 is CU40. The quoted market price of Entity A's ordinary shares at that date is CU16.

(c) The fair values of Entity A's identifiable assets and liabilities at 30 September 20X6 are the same as their carrying amounts, except that the fair value of Entity A's non-current assets at 30 September 20X6 is CU1,500.

Calculating the Fair Value of the Consideration Transferred

IE196. As a result of Entity A (legal controlling entity, accounting acquired operation) issuing 150 ordinary shares, Entity B's shareholder (the government) owns 60 percent of the issued shares of the combined entity (i.e., 150 of 250 issued shares). The remaining 40 percent are owned by Entity A's shareholders. If the acquisition had taken the form of Entity B issuing additional ordinary shares to Entity A's shareholders in exchange for their ordinary shares in Entity A, Entity B would have had to issue 40 shares for the ratio of ownership interest in the combined entity to be the same. Entity B's shareholder (the government) would then own 60 of the 100 issued shares of Entity B—60 percent of the combined entity. As a result, the fair value of the consideration effectively transferred by Entity B and the group's interest in Entity A is CU1,600 (40 shares with a fair value per share of CU40).

IE197. The fair value of the consideration effectively transferred should be based on the most reliable measure. In this example, the quoted price of Entity A's shares in the principal (or most advantageous) market for the shares provides a more reliable basis for measuring the consideration effectively transferred than the fair value of the shares in Entity B, and the consideration is measured using the market price of Entity A's shares—100 shares with a fair value per share of CU16.

Measuring Goodwill

IE198. Goodwill is measured as the excess of the fair value of the consideration effectively transferred (the group's interest in Entity A) over the net amount of Entity A's recognized identifiable assets and liabilities, as follows:

	CU	**CU**
Consideration effectively transferred		1,600
Net recognized values of Entity A's identifiable assets and liabilities		
Current assets	500	
Non-current assets	1,500	
Current liabilities	(300)	

	CU	CU
Non-current liabilities	(400)	(1,300)
Goodwill		300

Consolidated Statement of Financial Position at 30 September 20X6

IE199. The consolidated statement of financial position immediately after the acquisition is:

	CU
Current assets [CU700 + CU500]	1,200
Non-current assets [CU3,000 + CU1,500]	4,500
Goodwill	300
Total assets	6,000
Current liabilities [CU600 + CU300]	900
Non-current liabilities [CU1,100 + CU400]	1,500
Total liabilities	2,400
Shareholders' equity	
Accumulated surplus or deficit	1,400
Issued equity	
250 ordinary shares [CU600 + CU1,600]	2,200
Total shareholders' equity	3,600
Total liabilities and shareholders' equity	6,000

IE200. The amount recognized as issued equity interests in the consolidated financial statements (CU2,200) is determined by adding the issued equity of the legal controlled entity immediately before the acquisition (CU600) and the fair value of the consideration effectively transferred (CU1,600). However, the equity structure appearing in the consolidated financial statements (i.e., the number and type of equity interests issued) must reflect the equity structure of the legal controlling entity, including the equity interests issued by the legal controlling entity to effect the combination.

Non-Controlling Interest

IE201. Assume the same facts as above, except that Entity B has more than one shareholder, and that only 56 of Entity B's 60 ordinary shares are exchanged. Because Entity A issues 2.5 shares in exchange for each ordinary share of Entity B, Entity A issues only 140 (rather than 150) shares. As a result, Entity B's shareholders own 58.3 percent of the issued shares of the combined entity (140 of 240 issued shares). The fair value of the consideration transferred for Entity A, the accounting acquired operation, is calculated by assuming that the combination had been effected by Entity B issuing additional ordinary shares to the shareholders of Entity A in exchange for their ordinary shares in Entity A. That is because Entity B is the accounting acquirer, and paragraph AG67 of IPSAS 40 requires the acquirer to measure the consideration exchanged for the accounting acquired operation.

IE202. In calculating the number of shares that Entity B would have had to issue, the non-controlling interest is excluded from the calculation. The majority shareholder (the government) owns 56 shares of Entity B. For that to represent a 58.3 percent equity interest, Entity B would have had to issue an additional 40 shares. The majority shareholder (the government) would then own 56 of the 96 issued shares of Entity B and, therefore, 58.3 percent of the combined entity. As a result, the fair value of the consideration transferred for Entity A, the accounting acquired operation, is CU1,600 (i.e., 40 shares, each with a fair value of CU40). That is the same amount as when Entity B's sole shareholder tenders all 60 of its ordinary shares for exchange. The recognized amount of the group's interest in Entity A, the accounting acquired operation, does not change if some of Entity B's shareholders do not participate in the exchange.

IE203. The non-controlling interest is represented by the four shares of the total 60 shares of Entity B that are not exchanged for shares of Entity A. Therefore, the non-controlling interest is 6.7 percent. The non-controlling interest reflects the proportionate interest of the non-controlling shareholders in the pre-combination carrying amounts of the net assets of Entity B, the legal controlled entity. Therefore, the consolidated statement of financial position is adjusted to show a non-controlling interest of 6.7 percent of the pre-combination carrying amounts of Entity B's net assets (i.e., CU134 or 6.7 percent of CU2,000).

IE204. The consolidated statement of financial position at 30 September 20X6, reflecting the non-controlling interest, is as follows:

	CU
Current assets [CU700 + CU500]	1,200
Non-current assets [CU3,000 + CU1,500]	4,500

	CU
Goodwill	300
Total assets	6,000
Current liabilities [CU600 + CU300]	900
Non-current liabilities [CU1,100 + CU400]	1,500
Total liabilities	2,400
Shareholders' equity	
Accumulated surplus or deficit [CU1,400 × 93.3 percent]	1,306
Issued equity	
240 ordinary shares [CU560 + CU1,600]	2,160
Non-controlling interest	134
Total shareholders' equity	3,600
Total liabilities and shareholders' equity	6,000

IE205. The non-controlling interest of CU134 has two components. The first component is the reclassification of the non-controlling interest's share of the accounting acquirer's retained earnings immediately before the acquisition (CU1,400 × 6.7 percent or CU93.80). The second component represents the reclassification of the non-controlling interest's share of the accounting acquirer's issued equity (CU600 × 6.7 percent or CU40.20).

Identifiable Intangible Assets in an Acquisition

Illustrating the Consequences of Applying Paragraphs 64–68 and AG75–AG84 of IPSAS 40

IE206. The following are examples of identifiable intangible assets acquired in an acquisition. Some of the examples may have characteristics of assets other than intangible assets. The acquirer should account for those assets in accordance with their substance. The examples are not intended to be all-inclusive.

IE207. Intangible assets identified as having a 'binding arrangement' basis are those that arise from binding arrangements (including rights from contracts or other legal rights). Those designated as having a 'no binding arrangement' basis do not arise from binding arrangements but are separable. Intangible assets identified as having a binding arrangement basis might also be separable but separability is not a necessary condition for an asset to meet the binding arrangement criterion.

Marketing-Related Intangible Assets

IE208. Marketing-related intangible assets are used primarily in the marketing or promotion of products or services. Examples of marketing-related intangible assets are:

Class	**Basis**
Trademarks, trade names, service marks, collective marks and certification marks	Binding arrangement
Trade dress (unique color, shape or package design)	Binding arrangement
Newspaper mastheads	Binding arrangement
Internet domain names	Binding arrangement
Non-competition agreements	Binding arrangement

Trademarks, Trade Names, Service Marks, Collective Marks and Certification Marks

IE209. Trademarks are words, names, symbols or other devices used in trade to indicate the source of a product and to distinguish it from the products of others. A service mark identifies and distinguishes the source of a service rather than a product. Collective marks identify the goods or services of members of a group. Certification marks certify the geographical origin or other characteristics of a good or service.

IE210. Trademarks, trade names, service marks, collective marks and certification marks may be protected legally through registration with governmental agencies, continuous use in commerce or by other means. If it is protected legally through registration or other means, a trademark or other mark acquired in an acquisition is an intangible asset that meets the binding arrangement criterion. Otherwise, a trademark or other mark acquired in an acquisition can be recognized separately from goodwill if the separability criterion is met, which normally it would be.

IE211. The terms *brand* and *brand name*, often used as synonyms for trademarks and other marks, are general marketing terms that typically refer to a group of complementary assets such as a trademark (or service mark) and its related trade name, formulas, recipes and technological expertise. IPSAS 40 does not preclude an entity from recognizing, as a single asset separately from goodwill, a group of complementary intangible assets commonly referred to as a brand if the assets that make up that group have similar useful lives.

Internet Domain Names

IE212. An Internet domain name is a unique alphanumeric name that is used to identify a particular numeric Internet address. Registration of a domain name creates an association between that name and a designated computer on the Internet for the period of the registration. Those registrations are renewable. A registered domain name acquired in an acquisition meets the binding arrangement criterion.

Service User or Customer-Related Intangible Assets

IE213. Examples of service user or customer-related intangible assets are:

Class	**Basis**
Lists of users of a service	No binding arrangement
Order or production backlog	Binding arrangement
Customer binding arrangements and the related customer relationships	Binding arrangement
Customer relationships arising through means other than binding arrangements	No binding arrangement

Lists of Users of a Service

IE214. A list of users of a service consists of information about service users, such as their names and contact information. A list of users of a service also may be in the form of a database that includes other information about the users, such as their service use histories and demographic information. A list of users of a service does not usually arise from a binding arrangement (including rights from contracts or other legal rights). However, lists of users of a service are often leased or exchanged. Therefore, a list of users of a service acquired in an acquisition normally meets the separability criterion.

Order or Production Backlog

IE215. An order or production backlog arises from binding arrangements such as purchase or sales orders. An order or production backlog acquired in an acquisition meets the binding arrangement criterion even if the purchase or sales orders can be cancelled.

Customer Binding Arrangements and the Related Customer Relationships

IE216. If an entity establishes relationships with its customers through binding arrangements, those customer relationships arise from binding arrangement rights. Therefore, customer binding arrangements and the related customer relationships acquired in an acquisition meet the binding arrangement criterion, even if confidentiality or other terms of the binding arrangement prohibit the sale or transfer of a binding arrangement separately from the acquired operation.

IE217. A customer binding arrangement and the related customer relationship may represent two distinct intangible assets. Both the useful lives and the pattern in which the economic benefits of the two assets are consumed may differ.

IE218. A customer relationship exists between an entity and its customer if (a) the entity has information about the customer and has regular contact with the customer and (b) the customer has the ability to make direct contact with the entity. Customer relationships meet the binding arrangement criterion if an entity has a practice of establishing binding arrangements with its customers, regardless of whether a binding arrangement exists at the acquisition date. Customer relationships may also arise through means other than binding arrangements, such as through regular contact by sales or service representatives.

IE219. As noted in paragraph IE215, an order or a production backlog arises from binding arrangements such as purchase or sales orders and is therefore considered a binding arrangement right. Consequently, if an entity has relationships with its customers through these types of binding arrangements, the customer relationships also arise from binding arrangement rights and therefore meet the binding arrangement criterion.

Examples

IE220. The following examples illustrate the recognition of customer binding arrangement and customer relationship intangible assets acquired in an acquisition.

(a) Acquirer Entity (AE) acquires Target Entity (TE) in an acquisition on 31 December 20X5. TE has a five-year agreement to supply goods to Customer. Both TE and AE believe that Customer will renew the agreement at the end of the current binding arrangement. The agreement is not separable.

The agreement, whether cancellable or not, meets the binding arrangement criterion. Additionally, because TE establishes its relationship with Customer through a binding arrangement, not only the agreement itself but also TE's customer relationship with Customer meet the binding arrangement criterion.

(b) AE acquires TE in an acquisition on 31 December 20X5. TE manufactures goods in two distinct lines of business: sporting goods and electronics. Customer purchases both sporting goods and electronics from TE. TE has a binding arrangement with Customer to be its exclusive provider of sporting goods but has no binding arrangement for the supply of electronics to Customer. Both TE and AE believe that only one overall customer relationship exists between TE and Customer.

The binding arrangement to be Customer's exclusive supplier of sporting goods, whether cancellable or not, meets the binding arrangement criterion. Additionally, because TE establishes its relationship with Customer through a binding arrangement, the customer relationship with Customer meets the binding arrangement criterion. Because TE has only one customer relationship with Customer, the fair value of that relationship incorporates assumptions about TE's relationship with Customer related to both sporting goods and electronics. However, if AE determines that the customer relationships with Customer for sporting goods and for electronics are separate from each other, AE would assess whether the customer relationship for electronics meets the separability criterion for identification as an intangible asset.

(c) AE acquires TE in an acquisition on 31 December 20X5. TE does business with its customers solely through purchase and sales orders. At 31 December 20X5, TE has a backlog of customer purchase orders from 60 percent of its customers, all of whom are recurring customers. The other 40 percent of TE's customers are also recurring customers. However, as of 31 December 20X5, TE has no open purchase orders or other binding arrangements with those customers.

Regardless of whether they are cancellable or not, the purchase orders from 60 percent of TE's customers meet the binding arrangement criterion. Additionally, because TE has established its relationship with 60 percent of its customers through binding arrangements, not only the purchase orders but also TE's customer relationships meet the binding arrangement criterion. Because TE has a practice of establishing binding arrangements with the remaining 40 percent of its customers, its relationship with those customers also arises through binding arrangement rights and therefore meets the binding arrangement criterion even though TE does not have binding arrangements with those customers at 31 December 20X5.

(d) AE acquires TE, an insurer, in an acquisition on 31 December 20X5. TE has a portfolio of one-year motor insurance contracts that are cancellable by policyholders.

Because TE establishes its relationships with policyholders through insurance contracts, the customer relationship with policyholders meets the binding arrangement criterion. IPSAS 26, *Impairment of*

Cash-Generating Assets and IPSAS 31, *Intangible Assets* apply to the customer relationship intangible asset.

Customer Relationships Arising through Means Other than Binding Arrangements

IE221. A customer relationship acquired in an acquisition that does not arise from a binding arrangement may nevertheless be identifiable because the relationship is separable. Exchange transactions for the same asset or a similar asset that indicate that other entities have sold or otherwise transferred a particular type of customer relationship arising through means other than binding arrangements would provide evidence that the relationship is separable.

Artistic-Related Intangible Assets

IE222. Examples of artistic-related intangible assets are:

Class	**Basis**
Plays, operas and ballets	Binding arrangement
Books, magazines, newspapers and other literary works	Binding arrangement
Musical works such as compositions, song lyrics and advertising jingles	Binding arrangement
Pictures and photographs	Binding arrangement
Video and audio-visual material, including motion pictures or films, music videos and television programs	Binding arrangement

IE223. Artistic-related assets acquired in an acquisition are identifiable if they arise from binding arrangements (including rights from contracts) or legal rights such as those provided by copyright. The holder can transfer a copyright, either in whole through an assignment or in part through a licensing agreement. An acquirer is not precluded from recognizing a copyright intangible asset and any related assignments or license agreements as a single asset, provided they have similar useful lives.

Binding Arrangement-Based Intangible Assets

IE224. Binding arrangement-based intangible assets represent the value of rights that arise from binding arrangements. Binding arrangements with customers are one type of binding arrangement-based intangible asset. If the terms of a binding arrangement give rise to a liability (for example, if the terms of an operating lease or binding arrangement with a customer are unfavorable relative to market terms), the acquirer recognizes it as a liability assumed in the acquisition. Examples of binding arrangement-based intangible assets are:

Class	**Basis**
Licensing, royalty and standstill agreements	Binding arrangement
Advertising, construction, management, service or supply binding arrangements	Binding arrangement
Lease agreements (whether the acquired operation is the lessee or the lessor)	Binding arrangement
Construction permits	Binding arrangement
Franchise agreements	Binding arrangement
Operating and broadcast rights	Binding arrangement
Servicing binding arrangements, such as mortgage servicing binding arrangements	Binding arrangement
Binding arrangements for employment	Binding arrangement
Use rights, such as drilling, water, air, timber cutting and route authorities	Binding arrangement

Servicing Binding Arrangements, Such as Mortgage Servicing Binding Arrangements

IE225. Binding arrangements to service financial assets are one type of binding arrangement-based intangible asset. Although servicing is inherent in all financial assets, it becomes a distinct asset (or liability) by one of the following:

(a) When separated in the binding arrangement from the underlying financial asset by sale or securitization of the assets with servicing retained;

(b) Through the separate purchase and assumption of the servicing.

IE226. If mortgage loans, credit card receivables or other financial assets are acquired in an acquisition with servicing retained, the inherent servicing rights are not a separate intangible asset because the fair value of those servicing rights is included in the measurement of the fair value of the acquired financial asset.

Binding Arrangements for Employment

IE227. Binding arrangements for employment that are beneficial binding arrangements from the perspective of the employer because the pricing of those binding arrangements is favorable relative to market terms are one type of binding arrangement-based intangible asset.

Use Rights

IE228. Use rights include rights for drilling, water, air, timber cutting and route authorities. Some use rights are binding arrangement-based intangible assets to be accounted for separately from goodwill. Other use rights may have characteristics of tangible assets rather than of intangible assets. An acquirer should account for use rights on the basis of their nature.

Technology-Based Intangible Assets

IE229. Examples of technology-based intangible assets are:

Class	**Basis**
Patented technology	Binding arrangement
Computer software and mask works	Binding arrangement
Unpatented technology	No binding arrangement
Databases, including title plants	No binding arrangement
Trade secrets, such as secret formulas, processes and recipes	Binding arrangement

Computer Software and Mask Works

IE230. Computer software and program formats acquired in an acquisition that are protected legally, such as by patent or copyright, meet the binding arrangement criterion for identification as intangible assets.

IE231. Mask works are software permanently stored on a read-only memory chip as a series of stencils or integrated circuitry. Mask works may have legal protection. Mask works with legal protection that are acquired in an acquisition meet the binding arrangement criterion for identification as intangible assets.

Databases, Including Title Plants

IE232. Databases are collections of information, often stored in electronic form (such as on computer disks or files). A database that includes original works of authorship may be entitled to copyright protection. A database acquired in an acquisition and protected by copyright meets the binding arrangement criterion. However, a database typically includes information created as a consequence of an entity's normal operations, such as lists of service users, or specialized information, such as scientific data or credit information. Databases that are not protected by copyright can be, and often are, exchanged, licensed or leased to others in their entirety or in part. Therefore, even if the future economic benefits from a database do not arise from legal rights, a database acquired in an acquisition meets the separability criterion.

IE233. Title plants constitute a historical record of all matters affecting title to parcels of land in a particular geographical area. Title plant assets are bought and sold, either in whole or in part, in exchange transactions or are licensed. Therefore, title plant assets acquired in an acquisition meet the separability criterion.

Trade Secrets, Such as Secret Formulas, Processes and Recipes

IE234. A trade secret is 'information, including a formula, pattern, recipe, compilation, program, device, method, technique, or process that (a) derives independent economic value, actual or potential, from not being generally known and (b) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.'[3] If the future economic benefits from a trade secret acquired in an acquisition are legally protected, that asset meets the binding arrangement criterion. Otherwise, trade secrets acquired in an acquisition are identifiable only if the separability criterion is met, which is likely to be the case.

Measurement of Non-Controlling Interest (NCI) in an Acquisition

Illustrating the Consequences of Applying Paragraph 73 of IPSAS 40.

IE235. The following examples illustrate the measurement of components of NCI at the acquisition date in an acquisition.

Measurement of NCI Including Preference Shares

IE236. TE has issued 100 preference shares, which are classified as equity. The preference shares have a nominal value of CU1 each. The preference shares give their holders a right to a preferential dividend in priority to the payment of any dividend to the holders of ordinary shares. Upon liquidation of TE, the holders of the preference shares are entitled to receive out of the assets available for distribution the amount of CU1 per share in priority to the holders of ordinary shares. The holders of the preference shares do not have any further rights on liquidation.

IE237. AE acquires all ordinary shares of TE. The transaction gives AE control of TE, and an analysis of the economic substance of the combination using the guidance in paragraphs 9–14 and AG19–AG50 of IPSAS 40 confirms the transaction is an acquisition. The acquisition-date fair value of the preference shares is CU120.

3 Melvin Simensky and Lanning Bryer, The New Role of Intellectual Property in Commercial Transactions (New York: John Wiley & Sons, 1998), page 293.

IE238. Paragraph 73 of IPSAS 40 states that for each acquisition, the acquirer shall measure at the acquisition date components of non-controlling interest in the acquired operation that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either fair value or the present ownership instruments' proportionate share in the acquired operation's recognized amounts of the identifiable net assets. All other components of non-controlling interest must be measured at their acquisition-date fair value, unless another measurement basis is required by IPSASs.

IE239. The non-controlling interests that relate to TE's preference shares do not qualify for the measurement choice in paragraph 73 of IPSAS 40 because they do not entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. The acquirer measures the preference shares at their acquisition-date fair value of CU120.

First Variation

IE240. Suppose that upon liquidation of TE, the preference shares entitle their holders to receive a proportionate share of the assets available for distribution. The holders of the preference shares have equal right and ranking to the holders of ordinary shares in the event of liquidation. Assume that the acquisition-date fair value of the preference shares is now CU160 and that the proportionate share of TE's recognized amounts of the identifiable net assets that is attributable to the preference shares is CU140.

IE241. The preference shares qualify for the measurement choice in paragraph 73 of IPSAS 40. AE can choose to measure the preference shares either at their acquisition-date fair value of CU160 or at their proportionate share in the acquired operation's recognized amounts of the identifiable net assets of CU140.

Second Variation

IE242. Suppose also that TE has issued share options as remuneration to its employees. The share options are classified as equity and are vested at the acquisition date. They do not represent present ownership interest and do not entitle their holders to a proportionate share of TE's net assets in the event of liquidation. The fair value of the share options in accordance with the relevant international or national accounting standard dealing with share-based payments at the acquisition date is CU200. The share options do not expire on the acquisition date and AE does not replace them.

IE243. Paragraph 73 of IPSAS 40 requires such share options to be measured at their acquisition-date fair value, unless another measurement basis is required by IPSASs. Paragraph 84 of IPSAS 40 states that the acquirer shall measure an equity instrument related to share-based payment transactions of the acquired operation in accordance with the relevant international or national accounting standard dealing with share-based payments.

IE244. The acquirer measures the non-controlling interests that are related to the share options at their fair value of CU200.

Forgiveness of Amounts of Tax Due in an Acquisition

Illustrating the Consequences of Accounting for Tax Forgiveness in an Acquisition by Applying Paragraphs 78–79 and AG85–AG87 of IPSAS 40

IE245. The following example illustrates the accounting for an acquisition in which part of the acquired operation's tax liability is forgiven as part of the terms of the acquisition.

IE246. On 1 January 20X4 AE, a government ministry acting on behalf of the government, acquires TE, a private entity in exchange for cash of CU575. As a result of the acquisition, AE expects to reduce costs through economies of scale. The fair value of the assets acquired and liabilities assumed are as follows:

Assets acquired and liabilities assumed:	**CU**
Financial assets	265
Inventory	5
Property, plant and equipment	640
Identifiable intangible assets	12
Financial liabilities	(320)
Tax liabilities	(40)
Total net assets	562

IE247. AE recognizes goodwill of CU13, the difference between the price paid to acquire TE (CU575) and the net assets of TE (CU562).

IE248. Suppose that as part of the terms of the acquisition, the government requires MF (the tax authority) to forgive 50 percent of TE's tax liability. The fair value of the assets acquired and liabilities assumed would now be as follows:

Assets acquired and liabilities assumed:	**CU**
Financial assets	265
Inventory	5
Property, plant and equipment	640
Identifiable intangible assets	12
Financial liabilities	(320)
Tax liabilities	(20)
Total net assets	582

IE249. AE recognizes a gain of CU7, the difference between the price paid to acquire TE (CU575) and the net assets of TE (CU582). AE would account for the remaining tax liability in accordance with the relevant international or national accounting standard dealing with income taxes.

IE250. MF accounts for tax receivable in accordance with IPSAS 23, and would recognize an adjustment for the tax forgiven.

Gain on a Bargain Purchase in an Acquisition

Illustrating the Consequences of Recognizing and Measuring a Gain from a Bargain Purchase in an Acquisition by Applying Paragraphs 85–90 of IPSAS 40

IE251. The following example illustrates the accounting for an acquisition in which a gain on a bargain purchase is recognized.

IE252. On 1 January 20X5 AE acquires 80 percent of the equity interests of TE, a private entity, in exchange for cash of CU150. Because the former owners of TE needed to dispose of their investments in TE by a specified date, they did not have sufficient time to market TE to multiple potential buyers. The management of AE initially measures the separately recognizable identifiable assets acquired and the liabilities assumed as of the acquisition date in accordance with the requirements of IPSAS 40. The identifiable assets are measured at CU250 and the liabilities assumed are measured at CU50. AE engages an independent consultant, who determines that the fair value of the 20 percent non-controlling interest in TE is CU42.

IE253. The amount of TE's identifiable net assets (CU200, calculated as CU250 – CU50) exceeds the fair value of the consideration transferred plus the fair value of the non-controlling interest in TE. Therefore, AE reviews the procedures it used to identify and measure the assets acquired and liabilities assumed and to measure the fair value of both the non-controlling interest in TE and the consideration transferred. After that review, AE decides that the procedures and resulting measures were appropriate. AE measures the gain on its purchase of the 80 percent interest as follows:

			CU
Amount of the identifiable net assets acquired (CU250 – CU50)			200
Less:	Fair value of the consideration transferred for AE's 80 percent interest in TE; plus	150	
	Fair value of non-controlling interest in TE	42	
			192
Gain on bargain purchase of 80 percent interest			8

IE254. AE would record its acquisition of TE in its consolidated financial statements as follows:

	CU	**CU**
Dr Identifiable assets acquired	250	
Cr Cash		150
Cr Liabilities assumed		50
Cr Gain on the bargain purchase		8
Cr Equity—non-controlling interest in TE		42

IE255. If the acquirer chose to measure the non-controlling interest in TE on the basis of its proportionate interest in the identifiable net assets of the acquired operation, the recognized amount of the non-controlling interest would be CU40 (CU200 × 0.20). The gain on the bargain purchase then would be CU10 (CU200 – (CU150 + CU40)).

Measurement Period in an Acquisition

Illustrating the Consequences of Applying Paragraphs 103–108 of IPSAS 40.

IE256. If the initial accounting for an acquisition is not complete at the end of the financial reporting period in which the combination occurs, paragraph 103 of IPSAS 40 requires the acquirer to recognize in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer recognizes adjustments to the provisional amounts needed to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. Paragraph 107 of IPSAS 40 requires the acquirer to recognize such adjustments as if the accounting for the acquisition had been completed at the acquisition date. Measurement period adjustments are not included in surplus or deficit.

IE257. Suppose that AE acquires TE on 30 September 20X7. AE seeks an independent valuation for an item of property, plant and equipment acquired in the combination, and the valuation was not complete by the time AE authorized for issue its financial statements for the year ended 31 December 20X7. In its 20X7 annual financial statements, AE recognized a provisional fair value for the asset of CU30,000. At the acquisition date, the item of property, plant and equipment had a remaining useful life of five years. Five months after the acquisition date, AE received the independent valuation, which estimated the asset's acquisition-date fair value as CU40,000.

IE258. In its financial statements for the year ended 31 December 20X8, AE retrospectively adjusts the 20X7 prior year information as follows:

(a) The carrying amount of property, plant and equipment as of 31 December 20X7 is increased by CU9,500. That adjustment is measured as the fair value adjustment at the acquisition date of CU10,000 less the additional depreciation that would have been recognized if the asset's fair value at the acquisition date had been recognized from that date (CU500 for three months' depreciation).

(b) The carrying amount of goodwill as of 31 December 20X7 is decreased by CU10,000.

(c) Depreciation expense for 20X7 is increased by CU500.

IE259. In accordance with paragraph 124 of IPSAS 40, AE discloses:

(a) In its 20X7 financial statements, that the initial accounting for the acquisition has not been completed because the valuation of property, plant and equipment has not yet been received.

(b) In its 20X8 financial statements, the amounts and explanations of the adjustments to the provisional values recognized during the current reporting period. Therefore, AE discloses that the 20X7 comparative information is adjusted retrospectively to increase the fair value of the item of property, plant and equipment at the acquisition date by CU9,500, offset by a decrease to goodwill of CU10,000 and an increase in depreciation expense of CU500.

Determining what is Part of the Acquisition Transaction

Settlement of a Pre-Existing Relationship – loan

Illustrating the Consequences of Applying Paragraphs 109–110 and AG98–AG101 of IPSAS 40.

IE260. AE provides TE with a five year, fixed rate loan of CU100. Interest is payable quarterly, with the principal repaid on maturity. With two years remaining under the loan agreement, AE acquires TE.

IE261. Included in the total fair value of TE is a CU90 financial liability for the fair value of the loan arrangement with AE. At the acquisition date, the carrying amount of the corresponding financial asset in AE's financial statements (the amortized cost of the loan) is CU100.

IE262. In this example, AE calculates a loss of CU10. The loss is calculated as the difference between the fair value of the financial liability assumed and carrying amount of the corresponding financial asset previously recognized by AE. In its consolidated financial statements, AE will eliminate its financial asset (CU100) against the fair value of TE's financial liability (CU90), the difference representing the loss to AE.

Settlement of a Pre-Existing Relationship – Transfers

Illustrating the Consequences of Applying Paragraphs 109–110 and AG98–AG101 of IPSAS 40.

IE263. On 1 January 20X7, AE acquires TE. Previously, on 1 October 20X6, AE provided TE with a grant of CU800 to be used in the provision of an agreed number of training courses.

IE264. The grant was subject to a condition that the grant would be returned proportionately to the number of training courses not delivered. At the acquisition date, TE had delivered a quarter of the agreed number of courses, and recognized a liability of CU600 in respect of its performance obligation, in accordance with IPSAS 23. Based on past experience, AE considered that TE was more likely than not to deliver the training courses. It was therefore not probable that there would be a flow of resources to AE, and AE did not recognize an asset in respect of the grant, but accounted for the full CU800 as an expense.

IE265. In this example, AE calculates a gain of CU600. The gain is calculated as the liability assumed that is derecognized because, as a result of the acquisition, there is no longer an obligation owed to a third party.

IE266. In this example, no corresponding asset had been recognized by AE; if AE had previously recognized a corresponding asset, this would be derecognized at the acquisition date, and the derecognized amount would be included in the calculation of the gain or loss.

Settlement of a Pre-Existing Relationship – Supply Contract

Illustrating the Consequences of Applying Paragraphs 109–110 and AG98–AG101 of IPSAS 40.

IE267. AE purchases electronic components from TE under a five-year supply contract at fixed rates. Currently, the fixed rates are higher than the rates at which AE could purchase similar electronic components from another supplier. The supply contract allows AE to terminate the contract before the end of the initial five-year term but only by paying a CU6 million penalty. With three years remaining under the supply contract, AE pays CU50 million to acquire TE, which is the fair value of TE based on what other market participants would be willing to pay.

IE268. Included in the total fair value of TE is CU8 million related to the fair value of the supply contract with AE. The CU8 million represents a CU3 million component that is 'at market' because the pricing is comparable to pricing for current market transactions for the same or similar items (selling effort, customer relationships and so on) and a CU5 million component for pricing that is unfavorable to AE because it exceeds the price of current market transactions for similar items. TE has no other identifiable assets or liabilities related to the supply contract, and AE has not recognized any assets or liabilities related to the supply contract before the acquisition.

IE269. In this example, AE calculates a loss of CU5 million (the lesser of the CU6 million stated settlement amount and the amount by which the contract is unfavorable to the acquirer) separately from the acquisition. The CU3 million 'at-market' component of the contract is part of goodwill.

IE270. Whether AE had recognized previously an amount in its financial statements related to a pre-existing relationship will affect the amount recognized as a gain or loss for the effective settlement of the relationship. Suppose that IPSASs had required AE to recognize a CU6 million liability for the supply contract before the acquisition. In that situation, AE recognizes a CU1 million settlement gain on the contract in surplus or deficit at the acquisition date (the CU5 million measured loss on the contract less the CU6 million loss previously recognized). In other words, AE has in effect settled a recognized liability of CU6 million for CU5 million, resulting in a gain of CU1 million.

Contingent Payments to Employees in an Acquisition

Illustrating the Consequences of Applying Paragraphs 109–110, AG98 and AG102–AG103 of IPSAS 40.

IE271. TE appointed a candidate as its new CEO under a ten-year contract. The contract required TE to pay the candidate CU5 million if TE is acquired before the contract expires. AE acquires TE eight years later. The CEO was still employed at the acquisition date and will receive the additional payment under the existing contract.

IE272. In this example, TE entered into the employment agreement before the negotiations of the combination began, and the purpose of the agreement was to obtain the services of CEO. Thus, there is no evidence that the agreement was arranged primarily to provide benefits to AE or the combined entity. Therefore, the liability to pay CU5 million is included in the application of the acquisition method.

IE273. In other circumstances, TE might enter into a similar agreement with CEO at the suggestion of AE during the negotiations for the acquisition. If so, the primary purpose of the agreement might be to provide severance pay to CEO, and the agreement may primarily benefit AE or the combined entity rather than TE or its former owners. In that situation, AE accounts for the liability to pay CEO in its post-combination financial statements separately from application of the acquisition method.

Subsequent Measurement of Transfers, Concessionary Loans and Similar Benefits Received by an Acquirer or an Acquired Operation on the Basis of Criteria that May Change as a Result of an Acquisition

Illustrating the Consequences of Applying Paragraphs 114 and AG109–AG111 of IPSAS 40.

IE274. The following example illustrates the subsequent accounting for a transfer received by an acquirer on the basis of criteria that may change as a result of an acquisition.

IE275. On 1 January 20X6, a national government provides an annual grant to those municipalities where their revenue per head of population is below a threshold. On 1 June 20X3 AE, a municipality, acquires TE, a shopping complex that will generate revenue for AE. AE had previously received a grant of CU500, based on its revenue per head of population.

IE276. As a result of its acquisition of TE on 1 June 20X3, the revenue per head of population of AE increases above the threshold that the government had set when allocating grants.

IE277. On 1 July 20X3, the national government requires AE to repay a portion (CU100) of the grant previously received by AE. AE recognizes a liability and an expense of CU100 on 1 July 20X3.

Disclosure Requirements Relating to Acquisitions

Illustrating the Consequences of Applying the Disclosure Requirements in Paragraphs 119–125 of IPSAS 40.

IE278. The following example illustrates some of the disclosure requirements relating to acquisitions; it is not based on an actual transaction. The example assumes that AE is a public sector entity with responsibility for healthcare in its region and that TE is a listed entity. The illustration presents the disclosures in a tabular format that refers to the specific disclosure requirements illustrated. An actual footnote might present many of the disclosures illustrated in a simple narrative format.

Paragraph reference		
120(a)–(d)	On 30 June 20X2 AE acquired 75 percent of the ordinary shares of TE and obtained control of TE. An analysis of the economic substance of the combination confirms the transaction is an acquisition. TE is a provider of medical supplies. As a result of the acquisition, AE is expected to deliver improved healthcare to its residents. It also expects to reduce costs through economies of scale.	
120(e)	The goodwill of CU2,500 arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of AE and TE.	
120(k)	None of the goodwill recognized is expected to be deductible for income tax purposes. The following table summarizes the consideration paid for TE and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date, as well as the fair value at the acquisition date of the non-controlling interest in TE.	
	At 30 June 20X2	
	Consideration	**CU**
120(f)(i)	Cash	11,000
120(f)(iii); 120(g)(i)	Contingent consideration arrangement	1,000
120(f)	**Total consideration transferred**	12,000
120(m)	**Acquisition-related costs** (included in selling, general and administrative expenses in AE's statement of comprehensive income for the year ended 31 December 20X2)	1,250
120(i)	**Recognized amounts of identifiable assets acquired and liabilities assumed**	
	Financial assets	3,500
	Inventory	1,000
	Property, plant and equipment	10,000
	Identifiable intangible assets	3,300

Paragraph reference		
	Financial liabilities	(4,000)
	Contingent liability	(1,000)
	Total identifiable net assets	12,800
120(p)(i)	**Non-controlling interest in TE**	(3,300)
	Goodwill	2,500
		12,000

120(f)(iii)
120(g)
124(b)

The contingent consideration arrangement requires AE to pay the former owners of TE 5 percent of the revenues of XE, an unconsolidated equity investment owned by TE, in excess of CU7,500 for 20X3, up to a maximum amount of CU2,500 (undiscounted).

The potential undiscounted amount of all future payments that AE could be required to make under the contingent consideration arrangement is between CU0 and CU2,500.

The fair value of the contingent consideration arrangement of CU1,000 was estimated by applying an income approach. Key assumptions include a discount rate range of 20–25 percent and assumed probability-adjusted revenues in XE of CU10,000–20,000.

As of 31 December 20X2, neither the amount recognized for the contingent consideration arrangement, nor the range of outcomes or the assumptions used to develop the estimates had changed.

120(h) The fair value of the financial assets acquired includes receivables with a fair value of CU2,375. The gross amount due under the contracts is CU3,100, of which CU450 is expected to be uncollectible.

124(a) The fair value of the acquired identifiable intangible assets of CU3,300 is provisional pending receipt of the final valuations for those assets.

Paragraph reference	
120(j) 124(c) IPSAS 19.97, 98	A contingent liability of CU1,000 has been recognized for expected warranty claims on products sold by TE during the last three years. We expect that the majority of this expenditure will be incurred in 20X3 and that all will be incurred by the end of 20X4. The potential undiscounted amount of all future payments that AE could be required to make under the warranty arrangements is estimated to be between CU500 and CU1,500. As of 31 December 20X2, there has been no change since 30 June 20X2 in the amount recognized for the liability or any change in the range of outcomes or assumptions used to develop the estimates.
120(p)	The fair value of the non-controlling interest in TE, a listed entity, was measured using the closing market price of TE's ordinary shares on the acquisition date.
120(r)(i)	The revenue included in the consolidated statement of comprehensive income since 30 June 20X2 contributed by TE was CU4,090. TE also contributed profit of CU1,710 over the same period.
120(r)(ii)	Had TE been consolidated from 1 January 20X2 the consolidated statement of comprehensive income would have included revenue of CU27,670 and profit of CU12,870.

In considering the disclosures related to an acquisition, an entity may find it helpful to refer to the discussion of materiality in IPSAS 1.

Comparison with IFRS 3

The acquisition accounting requirements in IPSAS 40 are drawn primarily from IFRS 3 (issued in 2004, including amendments up to December 31, 2015). The main differences between these requirements in IPSAS 40 and IFRS 3 are as follows:

- IFRS 3 includes guidance on determining the acquirer. In IPSAS 40, this is addressed when classifying a public sector combination as either an amalgamation or an acquisition.
- IPSAS 40 contains additional guidance on public sector specific transactions, for example tax forgiveness.
- IPSAS 40 uses different terminology, in certain instances, from IFRS 3. The most significant examples are the use of the terms "public sector combination", "operation", and "acquired operation". The equivalent terms in IFRS 3 are "business combination", "business" and "acquiree".

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INTRODUCTION TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD UNDER THE CASH BASIS OF ACCOUNTING

The International Public Sector Accounting Standards Board (the IPSASB) develops accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The IPSASB recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs will play a key role in enabling these benefits to be realized. The IPSASB strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in its Exposure Drafts and Consultation Papers.

The IPSASB issues IPSASs dealing with financial reporting under the cash basis of accounting and the accrual basis of accounting.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The IPSASB recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The IPSASB considers that this Standard is an important step forward in improving the consistency and comparability of financial reporting under the cash basis of accounting and encourages the adoption of this Standard. Financial statements should be described as complying with this IPSAS only if they comply with all the requirements of Part 1 of this IPSAS.

The IPSASB encourages governments to progress to the accrual basis of accounting and to harmonize national requirements with the IPSASs prepared for application by entities adopting the accrual basis of accounting. Entities intending to adopt the accrual basis of accounting at some time in the future may find other publications of the IPSASB helpful, particularly Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities*.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD: FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING

Structure of the Standard

This Standard comprises two parts:

- Part 1 is mandatory. It sets out the requirements which are applicable to all 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 entities which claim to be reporting in accordance with the International Public Sector Accounting Standard *Financial Reporting under the Cash Basis of Accounting*.
- Sections 1.1 to 1.8 of Part 1 of this Standard were issued in 2003. Section 1.9 of Part 1, "Presentation of Budget Information in Financial Statements" was issued in 2006. Amendments were made to paragraphs 1.3.4(c), 1.3.7, 1.3.9(c) and Appendix 1 of Part 1 in 2006 as a consequence of the issue of Section 1.9. Section 1.10 of Part 1, "Recipients of External Assistance" was issued in 2007. Amendments were made to paragraphs 1.3.18 and Appendix 1 of Part 1 in 2007 as a consequence of the issue of Section 1.10.
- Part 2 is not mandatory. It identifies additional accounting policies and disclosures that an entity is encouraged to adopt to enhance its financial accountability and the transparency of its financial statements. It includes explanations of alternative methods of presenting certain information.
- Paragraphs 2.1.1 to 2.1.59 of Section 2.1, Section 2.2 and Appendices 2, 3, 4 and 5 were issued in 2003. Paragraphs 2.1.37 to 2.1.40 were added to Part 2 in 2006 to encourage certain disclosures about budget and actual amounts, and paragraph 2.1.36 and Appendix 2 were revised as a consequence. Paragraphs 2.1.64 to 2.1.93 were added to Part 2 in 2007 to encourage certain disclosures about external assistance, and paragraphs 2.1.25, 2.1.30 and Appendix 2 were revised as a consequence.

FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING

CONTENTS

Appendix 5: Establishing Control of Another Entity for Financial Reporting Purposes

FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING

PART 1: REQUIREMENTS

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

The standards, which have been set in bold italic type, should 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 should be presented under the cash basis of accounting.

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 financial statements of previous periods and with the financial statements of other entities which adopt the cash basis of accounting.

1.1 Scope of the Requirements

1.1.1 ***An entity which prepares and presents financial statements under the cash basis of accounting, as defined in this Standard, should apply the requirements of Part 1 of this Standard in the presentation of its general purpose annual financial statements.***

1.1.2 General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their specific information needs. Users of general purpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media and employees. General purpose financial statements include those financial statements that are presented separately or within another public document such as an annual report.

1.1.3 This Standard applies equally to the general purpose financial statements of an individual entity and to the consolidated general purpose financial statements of an economic entity such as a whole-of-government. 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. It also requires that amounts settled on behalf of the reporting entity by third parties be disclosed on the face of the statement of cash receipts and payments.

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

1.1.5 ***This Standard applies to all public sector entities other than Government Business Enterprises.***

1.1.6 The *Preface to International Financial Reporting Standards* issued by the International Accounting Standards Board (IASB) explains that International Financial Reporting Standards (IFRSs) are designed to apply to the general purpose financial statements of all profit-oriented entities. Government Business Enterprises (GBEs) are defined in paragraph 1.2.1 below. They are profit-oriented entities. Accordingly, they are required to comply with IFRSs and International Accounting Standards (IASs).

1.1.7 The International Accounting Standards Board (IASB) was established in 2001 to replace the International Accounting Standards Committee (IASC). The IASs issued by the IASC remain in force until they are amended or withdrawn by the IASB.

1.2 The Cash Basis

Definitions

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

<u>Cash</u> comprises cash on hand, demand deposits and cash equivalents.

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

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

<u>Cash flows</u> are inflows and outflows of cash.

<u>Cash payments</u> are cash outflows.

<u>Cash receipts</u> are cash inflows.

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

<u>Government Business Enterprise</u> means an entity that has all the following characteristics:

(a) ***Is an entity with the power to contract in its own name;***

(b) ***Has been assigned the financial and operational authority to carry on a business;***

(c) ***Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;***

(d) ***Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and***

(e) ***Is controlled by a public sector 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 2.1.15 to 2.1.22 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 "single account" basis. Under these arrangements, individual departments and entities do not control their own bank accounts. Rather, government monies are managed by a central entity through a "single" government account or series of accounts. The central entity will make payments on behalf of individual departments and entities after appropriate authorization and documentation. Consequently, individual departments and entities do not control the cash that they have been appropriated or otherwise authorized to expend. In these cases, the expenditures made by individual departments and entities will be reported in a separate column headed "treasury account" (or a similarly described column) in the statement of cash receipts and payments in accordance with the requirements of paragraph 1.3.24(a).

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.

1.3 Presentation and Disclosure Requirements

Definitions

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

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

<u>Materiality:</u> information is material if its omission or misstatement could influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the item or error judged in the particular circumstances of omission or misstatement.

<u>Reporting date</u> means the date of the last day of the reporting period to which financial statements relate.

<u>Economic entity</u> means a group of entities comprising a controlling entity and one or more controlled entities.

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 should prepare and present general purpose financial statements which include the following components:***

(a) ***A statement of cash receipts and payments which:***

(i) ***Recognizes all cash receipts, cash payments and cash balances controlled by the entity; and***

(ii) ***Separately identifies payments made by third parties on behalf of the entity in accordance with paragraph 1.3.24 of this Standard;***

(b) ***Accounting policies and explanatory notes; and***

(c) ***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 1.9.8 of this Standard.***

1.3.5 ***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 paragraphs 1.3.4(a) or 1.3.4(c), such information should be disclosed in the notes to the financial statements.***

1.3.6 The general purpose 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)(i) 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 general purpose financial statements may include a comparison of budget and actual amounts as an additional financial statement.

1.3.7 Paragraph 1.3.24 of this Standard requires disclosure on the face of the statement of cash receipts and payments of certain payments made by third parties on behalf of the reporting entity. Payments made by third parties will not satisfy the definition of cash, cash payments and cash receipts as defined in paragraph 1.2.1 of this Standard and will not be presented as cash receipts and payments controlled by the reporting entity in the statement of cash receipts and payments or other statements that might be prepared by the reporting entity. Paragraph 1.9.17 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.

1.3.8 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.

1.3.9 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 should 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, should 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***

(b) ***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 should 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 objective and qualitative characteristics of financial reporting under the cash basis of accounting. Appendix 4 of this Standard summarizes the qualitative characteristics of financial reporting. 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.

Line Items, Headings and Sub-Totals

1.3.18 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 (for example, paragraph 1.10.8 requires that total external assistance received in cash during the period be disclosed separately on the face of the Statement of Cash Receipts and Payments); 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. Paragraphs 2.1.23 to 2.1.30 of Part 2 of this Standard set 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

1.3.19 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 1.3.20 to 1.3.21 below further elaborate on those circumstances in which reporting on a net basis may be justified.

1.3.20 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).

1.3.21 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.

1.3.22 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.

1.3.23 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.

Payments by Third Parties on Behalf of the Entity

1.3.24 ***Where, during a reporting period, a third party directly settles the obligations of an entity or purchases goods and services for the benefit of the entity, the entity should disclose in separate columns on the face of the statement of cash receipts and payments***:

(a) ***Total payments made by third parties which are part of the economic entity to which the reporting entity belongs, showing separately a sub-classification of the sources and uses of total payments using a classification basis appropriate to the entity's operations; and***

(b) ***Total payments made by third parties which are not part of the economic entity to which the reporting entity belongs, showing separately a sub-classification of the sources and uses of total payments using a classification basis appropriate to the entity's operation.***

Such disclosure should only be made when during the reporting period the entity has been formally advised by the third party or the recipient that such payment has been made or has otherwise verified the payment.

1.3.25 Where a government manages the expenditure of its individual departments and other entities through a centralized treasury function or a "single account" arrangement, payments are made on behalf of those departments and entities by a central entity after appropriate authorization and documentation from the department. In these cases, the department or other entity does not control cash inflows, cash outflows and cash balances. However, the department or other entity benefits from the payments being made on its behalf, and knowledge of the amount of these payments is relevant to users in identifying the cash resources the government has applied to the entity's activities during the period. Consistent with paragraph 1.3.24(a) above, the department or other entity reports in a separate column on the face of the statement of cash receipts and payments, the amount of payments made by the central entity on its behalf, and the sources and uses of the amount expended sub-classified on a basis appropriate for the department or other entity. These disclosures will enable users to identify the total amount of payments made, the purposes for which they were made and whether, for example, the payments were made from amounts allocated or appropriated from general revenue or from special purpose funds or other sources.

1.3.26 In some jurisdictions, government departments or other entities may be established with their own bank accounts and will control certain cash inflows, cash outflows and cash balances. In these jurisdictions, government directions or instructions may also require one department or other government entity to settle certain obligations of another department or entity, or to purchase certain goods or services on behalf of another department or entity. Consistent with paragraph 1.3.24(a) above the reporting entity reports in a separate column on the face of the statement of cash receipts and payments the amount, sources and uses of such expenditures made on its behalf during the reporting period. This will assist users in identifying the total cash resources of the economic entity which have been applied to the entity's activities during the reporting period, and the sources and uses of those cash resources.

1.3.27 In some cases, third parties which are not part of the economic entity to which the reporting entity belongs 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 a particular government rather than providing the funds directly to the government itself. These payments may be made by way of a grant or other 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 government benefits from the cash payments being made on its behalf.

1.3.28 Paragraph 1.3.24(b) above requires that an entity report in a separate column on the face of its statement of cash receipts and payments, the amount, sources and uses of expenditures made by third parties which are not part of the economic entity to which it belongs. This will enable users to identify the total cash resources being applied to the entity's activities during the reporting period, and the extent to which those resources are provided from parties which are, and which are not, part of the government to which the reporting entity belongs. In some cases, as at reporting date an entity may not be aware that payments have been made on their behalf by third parties during the reporting period. This may occur where the entity has not been formally advised of the third party payment or cannot otherwise verify that an expected payment has occurred. Paragraph 1.3.24 above requires that third party payments only be disclosed on the face of the statement of cash receipts and payments when during the reporting period the entity has been formally advised that such payments have been made or otherwise verifies their occurrence.

1.3.29 The sub-classifications (or classes) of sources and uses of third party payments which will be disclosed in accordance with paragraphs 1.3.24(a) and 1.3.24(b) are a matter of professional judgment. The factors that will be considered in exercising that judgment are outlined in paragraph 1.3.17.

Accounting Policies and Explanatory Notes

Structure of the Notes

1.3.30 ***The notes to the financial statements of an entity should:***

(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.***

1.3.31 ***Notes to the financial statements should be presented in a systematic manner. Each item on the face of the statement of cash receipts and payments and other financial statements should be cross referenced to any related information in the notes.***

Selection and Disclosure of Accounting Policies

1.3.32 ***General purpose financial statements should present information that is:***

(a) ***Understandable***;

(b) ***Relevant to the decision-making and accountability needs of users; and***

(c) ***Reliable in that it:***

(i) ***Represents faithfully the cash receipts, cash payments and cash balances of the entity and the other information disclosed;***

(ii) ***Is neutral, that is, free from bias; and***

(iii) ***Is complete in all material respects.***

1.3.33 The quality of information provided in general purpose financial statements determines the usefulness of that statement to users. Paragraph 1.3.32 requires the development of accounting policies to ensure that the financial statements provide information that meets a number of qualitative characteristics. Appendix 4 of this

Standard summarizes the qualitative characteristics of financial reporting. The appendix also notes that the timeliness of information may impact upon both the relevance and reliability of the financial information. The maintenance of complete and accurate accounting records during the reporting period is essential for timely production of the general purpose financial statement.

1.3.34 ***The accounting policies section of the notes to the financial statements should 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.***

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

1.3.36 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 1.3.34 above also apply to notes to the financial statements.

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

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

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 should disclose the following if not disclosed elsewhere in information published with the financial statements:***

(a) ***The domicile and legal form of the entity, and the jurisdiction 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 name of the controlling entity and the ultimate controlling entity of the economic entity (where applicable, if any).***

1.4.8 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. 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 should 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 should be retained from one period to the next unless:***

(a) ***A significant change in the nature of the operations of the entity or a review of its financial statements presentation demonstrates that the change will result in a more appropriate presentation of events or transactions; 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 general purpose 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 controlled entities and the remaining economic entity conducts 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 the benefit of an alternative presentation is clear, 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 should 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 should 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 should 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 should be disclosed. When it is impracticable to reclassify comparative amounts, an entity should 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 should 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 should be clearly identified. In addition, the following information should 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 the individual entity or the economic entity;***

(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 reporting 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 reporting 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 should be reported by adjusting the cash at the beginning of the period. Comparative information should be restated, unless it is impracticable to do so.***

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

(a) ***The nature of the error;***

(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 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 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 Consolidated Financial Statements

Definitions

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

<u>Consolidated financial statements</u> are the financial statements of an economic entity presented as that of a single entity.

Control of an entity is the power to govern the financial and operating policies of another entity so as to benefit from its activities.

<u>Controlled entity</u> is an entity that is under the control of another entity (known as the controlling entity).

<u>Controlling entity</u> is an entity that has one or more controlled entities.

<u>Economic entity</u> means a group of entities comprising a controlling entity and one or more controlled entities.

Economic Entity

1.6.2 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.

1.6.3 Other terms sometimes used to refer to an economic entity include "administrative entity," "financial reporting entity," "consolidated entity" and "group."

1.6.4 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.

Scope of Consolidated Financial Statements

1.6.5 ***A controlling entity, other than a controlling entity identified in paragraphs 1.6.7 and 1.6.8, should issue consolidated financial statements which consolidates all controlled entities, foreign and domestic, other than those referred to in paragraph 1.6.6.***

1.6.6 ***A controlled entity should be excluded from consolidation when it operates under severe external long-term restrictions which prevent the controlling entity from benefiting from its activities.***

1.6.7 ***A controlling entity that is a wholly owned controlled entity need not present consolidated financial statements provided users of such financial***

statements are unlikely to exist or their information needs are met by the controlling entity's consolidated financial statements.

1.6.8 ***A controlling entity that is virtually wholly owned need not present consolidated financial statements provided the controlling entity obtains the approval of the owners of the minority interest.***

1.6.9 Users of the financial statements of a government or other public sector controlling 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.

1.6.10 Paragraph 1.3.4 of this Standard requires that a reporting entity prepare a statement of cash receipts and payments. Consistent with the requirements of paragraph 1.6.5 above, the statement of cash receipts and payments prepared by a government or other public sector reporting entity which is a controlling entity, will consolidate the cash receipts, cash payments and cash balances of all the entities it controls. The note disclosures required by Part 1 of this Standard will also be presented on a consolidated basis. Appendix 5 of this Statement illustrates the application of the concept of control in determining the financial reporting entity.

1.6.11 This Standard does not preclude the preparation of financial statements additional to the statement of cash receipts and payments. Those additional statements may, for example, disclose additional information about receipts and payments related to certain fund groups or provide additional details about certain types of cash flows. Part 2 of this Standard identifies additional disclosures that an entity is encouraged to make. The additional statements and disclosures will also report consolidated information where appropriate.

1.6.12 For financial reporting purposes, the reporting entity (financial reporting entity) may consist of a number of controlled entities including government departments, agencies and Government Business Enterprises (GBEs). Determining the scope of the financial reporting entity can be difficult due to the large number of potential entities. For this reason, financial reporting entities are often determined by legislation. In some cases, the financial reporting entity required by this Standard may differ from the reporting entity specified by legislation and additional disclosures may be necessary to satisfy the legislative reporting requirements.

1.6.13 A controlling entity that is itself wholly owned by another entity (such as a government agency which is wholly owned by the government), is not required to present consolidated financial statements when such statements are not required by its controlling entity and the needs of other users may be best served by the consolidated financial statements of its controlling entity. However, in the public sector, many controlling entities that are either wholly owned or virtually wholly owned represent key sectors or activities of a government. In these cases, the information needs of certain users may not be served by the presentation of a consolidated financial statement at a whole-of-government level alone, and the purpose of this Standard is not to exempt such entities from preparing consolidated financial statements. In many jurisdictions, governments have acknowledged this and have legislated the financial reporting requirements of such entities.

1.6.14 In some jurisdictions, a controlling entity which is virtually wholly owned by another entity (such as a government enterprise which has some minor ownership from the private sector) is also exempted from presenting consolidated financial statements if the controlling entity obtains the approval of the owners of the minority interest. Virtually wholly owned is often taken to mean that the controlling entity owns 90% or more of the voting power. For the purpose of this Standard, the minority interest is that part of a controlled entity attributable to interests which are not owned, directly or indirectly through controlled entities, by the controlling entity.

1.6.15 In some instances, an economic entity will include a number of intermediate controlling entities. For example, whilst a department of health may be the controlling entity, there may be intermediate controlling entities at the local or regional health authority level. Accountability and reporting requirements in each jurisdiction may specify which entities are required to (or exempted from the requirement to) prepare a consolidated financial statement. Where there is no requirement for an intermediate controlling entity to prepare consolidated financial statements but users of general purpose financial statements of the economic entity are likely to exist, intermediate controlling entities are encouraged to prepare and publish such a statement.

Consolidation Procedures

1.6.16 ***The following consolidation procedures apply:***

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

(b) ***When the financial statements used in a consolidation are drawn up to different reporting dates, adjustments should be made for the effects of significant cash transactions that have occurred between those dates and the date of the controlling entity's financial statements. In any case, the difference between the reporting dates should be no more than three months; and***

(c) ***Consolidated financial statements should be prepared using uniform accounting policies for like cash transactions. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the***

proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.

1.6.17 The consolidation procedures outlined in paragraph 1.6.16 provide the basis for preparing consolidated financial statements for all the entities within the economic entity as a single economic unit.

1.6.18 The consolidated financial statements should only 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 GBE 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 would result in understating the cash balance of the economic entity and overstating its cash payments.

1.6.19 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

1.6.20 ***The following disclosures should be made in consolidated financial statements:***

(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); and***

(b) ***The reasons for not consolidating a controlled entity.***

Transitional Provisions

1.6.21 Controlling entities that adopt this Standard may have large numbers of controlled entities with significant volumes of transactions between those entities. Accordingly, it may be difficult to identify all the transactions and balances that need to be eliminated for the purpose of preparing the consolidated financial statements of the economic entity. For this reason, paragraph 1.8.2 provides relief, during the transitional period, from the requirement to eliminate all cash balances and transactions between entities within the economic entity. However, paragraph 1.8.3 requires that entities which apply the transitional provision should disclose the fact that not all balances and transactions between entities within the economic entity have been eliminated.

1.7 Foreign Currency

Definitions

1.7.1 ***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 reporting the same number of units of a foreign currency in the reporting currency at different exchange rates.

Exchange rate is the ratio for exchange of two currencies.

Foreign currency is a currency other than the reporting currency of an entity.

Reporting currency is the currency used in presenting the financial statements.

Treatment of Foreign Currency Cash Receipts, Payments and Balances

1.7.2 ***Cash receipts and payments arising from transactions in a foreign currency should be recorded in an entity's reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the receipts and payments.***

1.7.3 ***Cash balances held in a foreign currency should be reported using the closing rate.***

1.7.4 ***The cash receipts and cash payments of a foreign controlled entity should be translated at the exchange rates between the reporting currency and the foreign currency at the dates of the receipts and payments.***

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

1.7.6 ***When the reporting currency is different from the currency of the country in which the entity is domiciled, the reason for using a different currency should be disclosed. The reason for any change in the reporting currency should also be disclosed.***

1.7.7 Governments and government entities may have transactions in foreign currencies such as borrowing an amount 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 reporting currency terms.

1.7.8 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.

1.8 Effective Date of Sections 1 to 7 of Part 1 and Transitional Provisions

Effective Date

1.8.1 ***Sections 1 to 7 of Part 1 of this International Public Sector Accounting Standard become effective for annual financial statements covering periods beginning on or after 1 January 2004. Earlier application is encouraged.***

Transitional Provisions—Consolidated Financial Statements

1.8.2 ***Entities are not required to comply with the requirement in paragraph 1.6.16(a) concerning the elimination of cash balances and transactions between entities within the economic entity for reporting periods beginning on a date within three years following the date of first adoption of this Standard.***

1.8.3 ***Where entities apply the transitional provision in paragraph 1.8.2, they should disclose the fact that not all balances and transactions between entities within the economic entity have been eliminated.***

1.9 Presentation of Budget Information in Financial Statements

Definitions

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

<u>Accounting basis</u> 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.

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

<u>Appropriation</u> 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

1.9.2 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.

1.9.3 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.

1.9.4 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

1.9.5 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.

1.9.6 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

1.9.7 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

1.9.8 ***Subject to the requirements of paragraph 1.9.17, 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

1.9.9 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.

1.9.10 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

1.9.11 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.

1.9.12 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.

1.9.13 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 1.9.8(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.

1.9.14 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 1.9.23 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 1.9.8 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.

1.9.15 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 1.9.8(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.

1.9.16 Where approved budgets are only made publicly available for some of the entities or activities included in the financial statements, the requirements of paragraph 1.9.8 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 1.9.8 will be made only in respect of the general government sector of the government.

Presentation

1.9.17 ***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.***

1.9.18 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.

1.9.19 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

1.9.20 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).

1.9.21 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 reporting as identified in paragraph 1.3.32 of this Standard.

1.9.22 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

1.9.23 ***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.***

1.9.24 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

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

1.9.26 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.

1.9.27 Financial statements consolidate entities and activities controlled by the entity. As noted in paragraph 1.9.10, separate budgets may be approved and made publicly available for individual entities or particular activities that make up the consolidated financial statements. Where this occurs, the separate budgets may be recompiled for presentation in the financial statements in accordance with the requirements 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.

1.9.28 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.

1.9.29 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.

1.9.30 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, its financial statement will not consolidate state/provincial or local governments. Rather, separate financial statements are 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

1.9.31 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.

1.9.32 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

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

1.9.34 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.

1.9.35 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).

1.9.36 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.

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

1.9.38 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.

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

1.9.40 Paragraph 1.6.5 of this Standard requires controlling entities to prepare and present consolidated financial statements which encompass budget-dependent entities and GBEs controlled by the government. However, as noted in paragraph 1.9.29, approved budgets prepared in accordance with statistical reporting models may not encompass operations of the government that are undertaken on a commercial or market basis. Consistent with the requirements of paragraph 1.9.25, budget and actual amounts will be presented on a comparable basis. Disclosure of the entities encompassed by the budget will enable users to identify the extent to which the entity's activities are subject to an approved budget and how the budget entity differs from the entity reflected in the financial statements.

Reconciliation of Actual Amounts on a Comparable Basis and Actual Amounts in the Financial Statements

1.9.41 ***The actual amounts presented on a comparable basis to the budget in accordance with paragraph 1.9.25 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.***

1.9.42 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.

1.9.43 The reconciliation required by paragraph 1.9.41 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.

1.9.44 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.

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

1.9.46 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.

Effective Date of Section 1.9 of Part 1

1.9.47 ***An entity shall apply Section 1.9 of this International Public Sector Accounting Standard for annual financial statements covering periods beginning on or after January 1, 2009. Earlier application is encouraged. If an entity applies Section 1.9 of this Standard for a period beginning before January 1, 2009 it shall disclose that fact.***

1.9.48 When an entity adopts this Standard subsequent to the effective date of Section 1.9 as specified in paragraph 1.9.47, paragraphs 1.9.1 to 1.9.46 of this Standard apply to the entity's annual financial statements covering periods beginning on or after the date of adoption.

1.10 Recipients of External Assistance

Definitions

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

<u>Assigned External Assistance</u> means any external assistance, including external assistance grants, technical assistance, guarantees or other assistance, received by an entity that is assigned by the recipient to another entity.

<u>Bilateral External Assistance Agencies</u> 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.

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

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

<u>Non-Governmental Organizations</u> (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 to individuals.

<u>Official Resources</u> means all loans, grants, technical assistance, guarantees or other 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.

<u>Re-Lent External Assistance Loans</u> means external assistance loans received by an entity that are lent by the recipient to another entity.

1.10.2 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, preparers, auditors and users of general purpose financial statements will need to consider the substance of the definitions rather than just the terminology in determining whether the requirements of this Standard apply.

External Assistance

1.10.3 External assistance is defined in paragraph 1.10.1 as all official resources which the recipient can use or otherwise benefit from in pursuit of its objectives. Official resources as defined in paragraph 1.10.1 does not encompass assistance provided by non-governmental organizations (NGOs), even if such assistance is provided under a binding agreement. Assistance received from NGOs, whether in the form of cash donations or third party settlements, will be presented in the financial statements and disclosed in explanatory notes in accordance with the requirements of Sections 1.1 to 1.9 of Part 1 of this Standard. Paragraph 2.1.64 encourages, but does not require, application of the disclosures required by paragraphs 1.10.1 to 1.10.27 to assistance received from NGO's where practicable.

1.10.4 NGOs as defined in paragraph 1.10.1 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 and, therefore, is subject to the disclosure requirements specified in this section.

Official Resources

1.10.5 Official resources are defined in paragraph 1.10.1 to be resources 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 does not satisfy the definition of official resources, and therefore is not external assistance.

External Assistance Agreements

1.10.6 Governments seeking particular forms of external assistance may participate in formal meetings or rounds of meetings with donor organizations. These may include meetings to discuss the government's macroeconomic plans and its development assistance needs, or bilateral discussions at governmental level regarding trade finance, military assistance, balance of payments and other forms of assistance. They may also include separate meetings to consider the country's emergency assistance needs as those needs arise. Initial discussions may result in statements of intent or pledges which are not binding on the government or the external assistance agency. However, subsequently binding agreements may be set in place to make available assistance loans or grants provided restrictions on access to the funds, if any, are met and agreed conditions or covenants are adhered to by the recipient entity.

1.10.7 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 in-kind to the recipient.

External Assistance Received

1.10.8 ***The entity should disclose separately on the face of the Statement of Cash Receipts and Payments, total external assistance received in cash during the period.***

1.10.9 ***The entity should disclose separately, either on the face of the Statement of Cash Receipts and Payments or in the notes to the financial statements, 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, showing separately:***

(a) ***Total payments made by third parties which are part of the economic entity to which the reporting entity belongs; and***

(b) ***Total payments made by third parties which are not part of the economic entity to which the reporting entity belongs.***

These disclosures should only be made when, during the reporting period, the entity has been formally advised by the third party or the recipient that such payment has been made, or has otherwise verified the payment.

1.10.10 ***Where external assistance is received from more than one provider, the significant classes of providers of assistance should be disclosed separately, either on the face of the Statement of Cash Receipts and Payments or in the notes to the financial statements.***

1.10.11 ***Where external assistance is received in the form of loans and grants, the total amount received during the period as loans and the total amount received as grants should be shown separately, either on the face of the Statement of Cash Receipts and Payments or in the notes to the financial statements.***

1.10.12 External assistance may be provided directly to the reporting entity in the form of cash. Alternatively, a third party may provide external assistance by settling an obligation of the reporting entity or purchasing goods and services for the benefit of the reporting entity. In some cases:

(a) The third party may be part of the economic entity to which the reporting entity belongs – this will occur where, for example, external assistance in the form of cash is provided for the benefit of a program run by a particular department in a jurisdiction where the government manages the expenditure of its individual departments and other entities through a centralized treasury function or a "single account" arrangement. In these cases, the treasury or other central agency receives the external assistance and makes payments of amounts provided by way of external assistance on behalf of the department, after appropriate authorization and documentation from the department; or

(b) The third party may not be part of the economic entity to which the reporting entity belongs – this will occur where, for example, an aid agency makes a debt repayment to a regional development bank on behalf of a government agency, pays a construction company directly for building a road for a particular government agency rather than providing the funds directly to the government agency itself, or funds the operation of a health or education program of an independent provincial or municipal government by directly paying service providers and acquiring on behalf of the government the necessary supplies during the period.

1.10.13 Disclosure of the amount of external assistance received in the form of cash and in the form of third party payments made on behalf of the entity will indicate the extent to which the operations of the reporting entity are funded from taxes and/or internal sources, or are dependent upon external assistance. Consistent with the requirements of paragraph 1.3.24 of this Standard, external assistance paid by third parties should only be disclosed in the statement of Cash Receipts and Payments when the reporting entity has been formally advised that such payments have been made during the reporting period or otherwise verifies their occurrence. Disclosure of the significant classes of external assistance received is also encouraged, but not required (see paragraph 2.1.66).

1.10.14 Disclosure of the significant classes of providers of assistance such as, for example, multilateral donors, bilateral donors, international assistance organizations, 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. This Standard does not require the disclosure of the identity of each provider of assistance or the amount of assistance each provides. However, disclosure of the amount provided by each provider in the currency provided is encouraged (see paragraph 2.1.70).

1.10.15 External assistance is often denominated in a currency other than the reporting currency of the entity. Cash receipts, or payments made by third parties on behalf of the entity arising from transactions in a foreign currency, will be recorded or reported in the entity's reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the receipts or payments in accordance with paragraph 1.7.2 of this Standard.

1.10.16 National governments usually retain the exclusive right to enter into external assistance agreements with multilateral or bilateral external assistance agencies. In many of these cases, the project or activity is implemented by another entity. The national government may re-lend or assign the funds received to the other entity. The terms and conditions of the re-lent or assigned funds may be the same as received from the external assistance agency or may be different than initially received. In some cases, a small fee or interest spread is charged to cover the national government's administrative costs. An entity which enters into an external assistance agreement and passes the benefits as well as the terms and conditions of the agreement through to another entity by way of a subsidiary agreement will recognize or report the external assistance as it is received. It will also record payments to the second entity in accordance with its normal classification of payments adopted in the financial statements.

1.10.17 Where the initial recipient of a loan or grant passes the proceeds and the terms and conditions of the loan or grant through to another entity, the initial entity may simply be administering the loan or grant on behalf of the end user. Netting of transactions where the terms and conditions are substantially the same may be appropriate in the financial statements of the administrator, in accordance with the provisions of paragraph 1.3.13 of this Standard.

Undrawn External Assistance

1.10.18 ***The entity should disclose in the notes to the financial statements the balance of undrawn external assistance loans and grants available at***

reporting date to fund future operations when, and only 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 in the reporting currency:

(a) ***Total external assistance loans; and***

(b) ***Total external assistance grants.***

Significant terms and conditions that determine, or affect access to, the amount of the undrawn assistance should also be disclosed.

1.10.19 The amount of external assistance currently committed under a binding agreement(s) but not yet drawn may be significant. In some cases, the amount of the 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. Where such undrawn balances are provided in a foreign currency, opening and closing balances will be determined by applying to the foreign currency amount the exchange rate on the reporting dates in accordance with the provisions of paragraph 1.7.3 of this Standard.

1.10.20 In some cases, a donor entity 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 – for example, this may occur where the amount of assistance to be provided is dependent on the annual budget of the donor nation or other sources of funding that may be secured by the recipient. 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 – for example, this may occur in respect of balance of payment assistance to be provided on achievement of specified performance criteria, or emergency assistance to be provided subject to the amount of assistance provided by other agencies. In these cases, disclosure of the undrawn amounts is not made. 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 is highly likely.

Receipt of Goods or Services

1.10.21 ***Where an entity elects to disclose the value of external assistance received in the form of goods or services, it should also disclose in the notes to the financial statements the basis on which that value is determined.***

1.10.22 Paragraph 2.1.90 of this Standard encourages an entity to disclose separately in the notes to the financial statements the value of external assistance received in the form of goods or services. Paragraph 1.3.38 of this Standard explains that where encouraged disclosures are included in notes to the financial statements, they will need to be understandable and to satisfy the other qualitative characteristics of financial information. Where an entity elects to make such disclosures, it is required to disclose in the notes to the financial statements the basis on which that value is determined. Such disclosure will enable users to assess whether, for example, the value is determined by reference to donor valuation, fair value determined by reference to prices in the world or domestic markets, by management assessment or on another basis.

Disclosure of Debt Rescheduled or Cancelled

1.10.23 ***An entity should disclose in the notes to the financial statements the amount of external assistance debt rescheduled or cancelled during the period, together with any related terms and conditions.***

1.10.24 An entity experiencing difficulty in servicing its external assistance debt may seek renegotiation of the terms and conditions of the debt or cancellation of the debt. Disclosure of the amount of external assistance debt rescheduled or cancelled, together with any related terms and conditions, will alert users of the financial statements that such renegotiation or cancellation has occurred. This will provide useful input to assessments of financial condition of the entity and changes therein.

Disclosure of Non Compliance with Significant Terms and Conditions

1.10.25 ***An entity should disclose, in notes to the financial statements, significant terms and conditions of external assistance loan or grant agreements or guarantees that have not been complied with during the period when non compliance resulted in cancellation of the assistance or has given rise to an obligation to return assistance previously provided. The amount of external assistance cancelled or to be returned should also be disclosed.***

1.10.26 External assistance agreements will usually include terms and conditions that must be complied with for ongoing access to assistance funds, as well as some procedural terms and conditions.

1.10.27 The disclosures required by paragraph 1.10.25 will enable readers to identify the instances of non compliance that have adversely affected the funds that are available to support the entity's future operations. It will also provide input to assessments of whether re-establishment of compliance with the agreement may occur in the future. Disclosure of non compliance with significant terms and conditions in other cases is also encouraged, but not required (see paragraph 2.1.83).

Effective Date of Section 1.10 and Transitional Provisions

1.10.28 ***Paragraphs 1.10.1 to 1.10.34 of this International Public Sector Accounting Standard become effective for annual financial statements covering periods beginning on or after 1 January 2009.***

1.10.29 ***Entities are not required to disclose comparative figures for amounts disclosed in accordance with paragraphs 1.10.1 to 1.10.27 in the first year of application of paragraphs 1.10.1 to 1.10.34 of this Standard.***

1.10.30 ***Entities are not required to disclose separately in the notes to the financial statements the balance of undrawn external assistance as specified in paragraph 1.10.18 for a period of two years from the date of first application of paragraphs 1.10.1 to 1.10.34 of this Standard.***

1.10.31 ***When an entity applies the transitional provisions in paragraph 1.10.29 and 1.10.30, it should disclose that it has done so.***

1.10.32 In the first year of application of the requirements of paragraphs 1.10.1 to 1.10.27 of this Standard, an entity may not have readily available, or reasonable access to, the information necessary to enable it to satisfy the requirement to disclose comparative information. It may also not have the information necessary to enable it to disclose the closing balance of undrawn external assistance as required by paragraph 1.10.18.

1.10.33 Paragraph 1.4.16 of this Standard provides relief from the requirement to disclose comparative information for the previous period on initial application of the Standard. Some entities may have adopted the Cash Basis IPSAS prior to its amendment to include the requirements relating to disclosure of information by recipients of external assistance as specified in paragraphs 1.10.1 to 1.10.27. Paragraph 1.10.29 provides relief from the requirement to disclose comparative information about external assistance as specified in paragraphs 1.10.1 to 1.10.27 in this Standard in the first year of application of those paragraphs. Paragraph 1.10.30 provides relief from the requirement to apply paragraph 1.10.18 for a period of two years from initial application of that paragraph.

1.10.34 To ensure users are informed of the extent to which the requirements of this Standard have been complied with, paragraph 1.10.31 requires that entities that make use of these transitional provisions disclose that they have done so.

Appendix 1

Illustration of the Requirements of Part 1 of the Standard

This Appendix is illustrative only and does not form part of the Standard. It illustrates an extract of a Statement of Receipts and Payments and relevant note disclosures for a government that has received external assistance loans and grants during the current and preceding periods. Its purpose is to assist in clarifying the meaning of the standards by illustrating their application in the preparation and presentation of general purpose financial statements under the cash basis of accounting for:

(a) ***A Government*** *which is a recipient of external assistance;*

(b) ***A Government Entity*** *which controls its own bank account, and is not a recipient of external assistance; and*

(c) ***A Government Department*** *which operates under a "single account" system such that a central entity administers cash receipts and payments on behalf of the Department, and is not a recipient of external assistance.*

APPENDIX 1A

CONSOLIDATED FINANCIAL STATEMENTS FOR GOVERNMENT A

CONSOLIDATED STATEMENT OF CASH RECEIPTs AND PAYMENTs FOR YEAR ENDED

DECEMBER 31, 200X

(Receipts Only)

	Note	2000X		200X–1	
(in thousands of currency units)		**Receipts/ (Payments) controlled by entity**	**Payments by third parties**	**Receipts/ (Payments) controlled by entity**	**Payments by third parties**
RECEIPTS					
Taxation					
Income tax		X	–	X	–
Value-added tax		X	–	X	–
Property tax		X	–	X	–
Other taxes		X	–	X	–
		X	–	X	–
External Assistance	10				
Multilateral Agencies		X	X	X	X
Bilateral Agencies		X	X	X	X
		X	X	X	X
Other Grants and Aid		X	X	X	X
Other Borrowings					
Proceeds from borrowing	3	X	X		
Capital Receipts					
Proceeds from disposal of plant and equipment		X	-	X	–
Trading Activities					
Receipts from trading activities		X	-	X	–
Other receipts	4	X	X	X	X
Total receipts		**X**	**X**	**X**	**X**

(in thousands of currency units)	Note	200X Receipts/(Payments) controlled by entity	200X Payments by third parties	200X–1 Receipts/(Payments) controlled by entity	200X–1 Payments by third parties
PAYMENTS					
Operations					
Wages, salaries and employee benefits		(X)	(X)	(X)	(X)
Supplies and consumables		(X)	(X)	(X)	(X)
		(X)	(X)	(X)	(X)
Transfers					
Grants		(X)	–	(X)	–
Other transfer payments		(X)	–	(X)	–
		(X)	–	(X)	–
Capital Expenditures					
Purchase/construction of plant and equipment		(X)	(X)	(X)	(X)
Purchase of financial instruments		(X)	–	(X)	–
		(X)	(X)	(X)	(X)
Loan and Interest Repayments					
Repayment of borrowings		(X)	–	(X)	–
Interest payments		(X)	–	(X)	–
		(X)	–	(X)	–
Other payments	5	(X)	(X)	(X)	(X)
Total payments		**(X)**	**(X)**	**(X)**	**(X)**
Increase/(Decrease) in Cash		**X**	–	**X**	–
Cash at beginning of year	2	**X**	**N/A***	**X**	**N/A**
Increase/(Decrease) in Cash		**X**	**N/A**	**X**	**N/A**
Cash at end of year	*2*	X	N/A	X	**N/A**

* N/A = Not applicable.

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

For Government X for the Year Ended December 31, 200X

Budget Approved on the Cash Basis
(Classification of Payments by Functions)

(in thousands of currency units)	*Actual Amounts	Final Budget	Original Budget	***Difference: Final Budget and Actual*
CASH INFLOWS				
Taxation	X	X	X	X
Aid agreements				
International agencies	X	X	X	X
Other grants and aid	X	X	X	X
Proceeds: borrowing	X	X	X	X
Proceeds: disposal of plant and equipment	X	X	X	X
Trading activities	X	X	X	X
Other receipts	X	X	X	X
Total receipts	**X**	**X**	**X**	**X**
CASH OUTFLOWS				
Health	(X)	(X)	(X)	(X)
Education	(X)	(X)	(X)	(X)
Public order/safety	(X)	(X)	(X)	(X)
Social protection	(X)	(X)	(X)	(X)
Defense	(X)	(X)	(X)	(X)
Housing and community amenities	(X)	(X)	(X)	(X)
Recreational, cultural and religion	(X)	(X)	(X)	(X)
Economic affairs	(X)	(X)	(X)	(X)
Other	(X)	(X)	(X)	(X)
Total payments	**(X)**	**(X)**	**(X)**	**(X)**
NET CASH FLOWS	**X**	**X**	**X**	**X**

* Actual amounts encompass both cash and third party settlements.

** 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 consolidated 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

(in thousands of currency units)	200X Receipts controlled by entity	200X–1 Receipts controlled by entity
RECEIPTS		
Consolidated Funds	X	X
Special Funds	X	X
Trading Funds	X	X
Loans	X	X
Total receipts	**X**	**X**

PROCEEDS OF BORROWINGS

(in thousands of currency units)	Note	200X		200X–1	
		Cash Receipts controlled by entity	Resulting from Payments by third parties	Receipts controlled by entity	Resulting from Payments by third parties
BORROWINGS					
Domestic Commercial Institution		X	–	X	–
Offshore Commercial Institution		X	–	X	–
Development Banks and Similar Lending Agencies		X	X	X	X
Total borrowings	3	**X**	**X**	**X**	**X**

STATEMENT OF PAYMENTS BY PROGRAMS/ACTIVITIES/FUNCTION OF GOVERNMENT

	200X		200X–1	
(in thousands of currency units)	**Payments controlled by entity**	**Payments by third parties**	**Payments controlled by entity**	**Payments by third parties**
PAYMENTS/EXPENDITURE – Operating Account				
Education Services	X	X	X	X
Health Services	X	X	X	X
Social Security and Welfare	X	–	X	–
Defense	X	–	X	–
Public Order and Safety	X	X	X	X
Recreation, Culture and Religion	X	X	X	X
Economic Services	X	–	X	–
Other	X	X	X	X
Total payments/expenditure	**X**	**X**	**X**	**X**
PAYMENTS/EXPENDITURE – Capital Account				
Education Services	X	X	X	X
Health Services	X	X	X	X
Social Security and Welfare	X	–	X	–
Defense	X	–	X	–
Public Order and Safety	X	X	X	X
Recreation, Culture and Religion	X	X	X	X
Other	X	X	X	X
Total payments/expenditure	**X**	**X**	**X**	**X**
Total Operating and Capital Accounts	**X**	**X**	**X**	**X**

PUBLIC SECTOR ENTITY—WHOLE-OF-GOVERNMENT

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). This comprises:

(i) Central government ministries; and

(ii) Government business enterprises and trading funds that are under the control of the entity.

The consolidated financial statements include all entities controlled during the year. A list of significant controlled entities is shown in Note 7 to the financial statements.

Payments by Third Parties

The government also benefits from goods and services purchased on its behalf as a result of cash payments made by third parties during the period by way of loans and contributions. The payments made by the third parties do not constitute cash receipts or payments by the government but do benefit the government. They are disclosed in the *Payments by third parties* column in the Consolidated Statement of Cash Receipts and Payments and other financial statements.

Reporting currency

The reporting 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:

(in thousands of currency units)	200X	200X–1
Cash on hand and balances with banks	X	X
Short-term investments	X	X
	X	X

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 banks, similar lending agencies and commercial institutions and amounts owing in respect of non-cash assistance provided by third parties.

4. Other Receipts

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

5. Other Payments/Expenditure

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

6. Undrawn Borrowing Facilities Other than Undrawn External Assistance

(See note 10 for undrawn external assistance)

(in thousands of currency units)	200X	200X–1
Movement in Undrawn Borrowing Facilities		
Undrawn borrowing facilities at 1.1.0X	X	X
Additional loan facility	X	X
Total available	X	X
Amount drawn	(X)	(X)
Facility closure/cancellations	(X)	(X)
Undrawn borrowing facilities at 31.12.0X.	X	X

(in thousands of currency units)	200X	200X–1
Undrawn Borrowing Facilities		
Commercial Financial Institutions	X	X
Total undrawn borrowing facilities	X	X

7. Significant Controlled Entities

Entity	Jurisdiction
Entity A	X
Entity B	X
Entity C	X
Entity D	X

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 January 1, 200X to December 31, 200X and includes all entities within the general government sector. The general government sector includes all government departments – 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 between the final approved budget and the actual amounts.

The budget and the accounting bases differ. The financial statements for the whole-of-government are prepared on the cash basis using a classification based on the nature of expenses in the statement of financial performance. The financial statements are consolidated statements which include all controlled entities, including government business enterprises for the fiscal period from January 1, 20XX to December 31 20XX. The budget is approved on the modified cash basis by functional classification and deals only with the general government sector which excludes government business enterprises 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 (government business enterprises 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 December 31, 20XX is presented below.

	Total inflows	**Total outflows**
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**X**	**X**
Basis Differences	X	X
Timing Differences	–	–
Entity Differences	X	X
Total Cash receipts	**X**	
Total Cash Payments		**X**

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 consolidate all entities controlled by the government. There is also a basis difference: the budget is prepared on a cash basis and the financial statements on the modified 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. External Assistance

Payments by Third Parties

All payments made by third parties are made by third parties which are not part of the economic entity.

External Assistance

External assistance was received in the form of loans and grants from multilateral and bilateral donor agencies under agreements specifying the purposes for which the assistance will be utilized. The following amounts are presented in the reporting currency of the entity.

	200X Total	200X–1 Total
Loan Funds		
Multilateral Agencies	X	X
Bilateral Agencies	X	X
Total	X	X
Grant Funds		
Multilateral Agencies	X	X
Bilateral Agencies	X	X
Total	X	X
Total External Assistance	**X**	**X**

Non Compliance with significant terms and conditions and rescheduled and cancelled debt

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

External assistance grants of X domestic currency units were cancelled during the reporting period. The cancellation resulted from over estimation of the cost of specified development projects and consequentially expenditure of an amount less than that committed for the period by the donor entity.

Undrawn External Assistance

Undrawn external assistance loans and grants at reporting date are amounts specified in a binding agreement which relate to funding for projects currently under development, where conditions have been satisfied, and their ongoing satisfaction is highly likely, and the project is anticipated to continue to completion.

	Loans 200X	Grants 200X	Loans 200X–1	Grants 200X–1
Closing balance in reporting currency	X	X	X	X

The significant terms and conditions that determine or affect access to the amount of undrawn assistance relate to the achievement of the following specified construction targets for development of medical and education infrastructure: (Entity to identify significant construction targets).

APPENDIX 1B

GOVERNMENT ENTITY AB

(THIS ENTITY CONTROLS ITS OWN BANK ACCOUNT AND ALSO BENEFITS FROM PAYMENTS MADE BY THIRD PARTIES.)

CONSOLIDATED STATEMENT OF CASH RECEIPTS AND PAYMENTS

FOR YEAR ENDED DECEMBER 31, 200X

	Note	200X			200X–1		
(in thousands of currency units)		**Receipts/ (Payments) controlled by entity**	**Payments by other government entities**	**Payments by external third parties**	**Receipts/ (Payments) controlled by entity**	**Payments by other government entities**	**Payments by external third parties**
RECEIPTS							
Authorized allocations/Appropriations		X	X	–	X	X	–
Other receipts		X	–	–	X	–	–
Grants/Assistance		–	–	X	–	–	X
Total receipts		**X**	**X**	**X**	**X**	**X**	**X**
PAYMENTS							
Wages, salaries and employee benefits		(X)	–	–	(X)	–	–
Rent		(X)	(X)	–	(X)	(X)	–
Capital Expenditure		(X)	(X)	(X)	(X)	(X)	(X)

(in thousands of currency units)	Note	200X Receipts/(Payments) controlled by entity	200X Payments by other government entities	200X Payments by external third parties	200X–1 Receipts/(Payments) controlled by entity	200X–1 Payments by other government entities	200X–1 Payments by external third parties
Transfers	3	(X)	(X)	(X)	(X)	(X)	(X)
Total payments		**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**
Increase/(Decrease) in Cash		**X**	**X**	**(X)**	**X**	**(X)**	**X**
Cash at beginning of year	2	**X**	**N/A***	**N/A**	**X**	**N/A**	**N/A**
Increase/(Decrease) in Cash		**X**	**N/A**	**N/A**	**X**	**N/A**	**N/A**
Cash at end of year	2	**X**	**N/A**	**N/A**	**X**	**N/A**	**N/A**

* N/A = Not applicable.

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

	Note	200X			200X–1		
(in thousands of currency units)		**Payments controlled by entity**	**Payments by other government entities**	**Payments by external third parties**	**Payments controlled by entity**	**Payments by other government entities**	**Payments by external third parties**
PAYMENTS/EXPENDITURE							
Program I		(X)	(X)	(X)	(X)	(X)	(X)
Program II		(X)	(X)	(X)	(X)	(X)	(X)
Program III		(X)	(X)	(X)	(X)	(X)	(X)
Program IV		(X)	(X)	(X)	(X)	(X)	(X)
Other payments/expenditure		(X)	(X)	(X)	(X)	(X)	(X)
Total payments/expenditure		**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**

GOVERNMENT ENTITY AB

Notes to the Financial Statements

1. <u>Accounting Policies</u>

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 a public sector entity (Government Entity AB). The financial statements encompass the reporting entity as specified in the relevant legislation (Public Finance Act 20XX). This comprises Government Entity AB and its controlled entities. Government Entity AB is controlled by the national government of Country A.

Government Entity AB's principal activity is to provide [identify type of] services to constituents. The Entity controls its own bank account. Appropriations and other cash receipts are deposited into its bank accounts.

Payments by other government entities

The Entity benefits from payments made by its controlling entity (Government A) and other government entities on its behalf.

Payments by external third parties

The Entity also benefits from payments made by external third parties (entities external to the economic entity) for goods and services. These payments do not constitute cash receipts or payments of the Entity, but do benefit the Entity. They are disclosed in the *Payments by external third parties* column in the Statement of Cash Receipts and Payments and in other financial statements.

Reporting currency

The reporting currency is (currency of Country A).

2. <u>Cash</u>

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.

Amounts appropriated to the Entity are deposited in the Entity's bank account and are controlled by the entity. 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:

(in thousands of currency units)	**200X**	**200X–1**
Cash on hand and balances with banks	X	X
Short-term investments	X	X
	X	X

3. Transfers

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

4. Significant Controlled Entities

Entity	**Jurisdiction**
Entity A	X
Entity B	X

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 AC

(THE GOVERNMENT OPERATES A CENTRALIZED SINGLE ACCOUNT SYSTEM– THE ENTITY DOES NOT CONTROL AMOUNTS APPROPRIATED FOR ITS USE.)

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

	Note	200X		200X–1	
(in thousands of currency units)		**Treasury Account/ Single Control Account**	**Payments by external third parties**	**Treasury Account/ Single Control Account**	**Payments by external third parties**
RECEIPTS					
Allocations/ Appropriations	2	X	–	X	–
Other receipts		X	–	X	–
Assistance		–	X	–	X
Total receipts		**X**	**X**	**X**	**X**
PAYMENTS					
Wages, salaries and employee benefits		(X)	–	(X)	–
Rent		(X)	–	(X)	–
Capital Expenditure		(X)	(X)	(X)	(X)
Transfers	3	(X)	(X)	(X)	(X)
Total payments		**(X)**	**(X)**	**(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 or payments. An example of a statement by function is included below.

STATEMENT OF PAYMENTS BY FUNCTION

	Note	200X		200X–1	
(in thousands of currency units)		**Treasury Account/ Single Control Account**	**Payments by external third parties**	**Treasury Account/ Single Control Account**	**Payments by external third parties**
PAYMENTS					
Program I		X	X	X	X
Program II		X	X	X	X
Program III		X	X	X	X
Program IV		X	X	X	X
Other payments		X	X	X	X
Total payments		**X**	**X**	**X**	**X**

GOVERNMENT DEPARTMENT AC

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 a public sector entity: Government Department AC. The financial statements encompass the reporting entity as specified in the relevant legislation (Public Finance Act 20XX). This comprises Government Department AC. Government Department AC is controlled by the national government of Country A.

Government Department AC's principal activity is to provide services to constituents.

Government Department AC does not operate its own bank account. The Government operates a centralized treasury function which administers cash expenditures incurred by all departments during the financial year. Payments made on this account in respect of the Department are disclosed in the Treasury Account column in the Statement of Cash Receipts and Payments and other financial statements.

Payments by external third parties

Government Department AC benefits from goods and services purchased on its behalf as a result of cash payments made by third parties external to the Government during the reporting period. The payments made by the third parties do not constitute cash receipts or payments of the Department but do benefit the Department. They are disclosed in the *Payments by external third parties* column in the Statement of Cash Receipts and Payments and other financial statements.

Reporting currency

The reporting currency is (currency of Country A).

2. Appropriations

Amounts appropriated to Government Department AC are managed through a central account administered by the Office of the Treasury. These amounts are not controlled by Department AC but are deployed on the Department's behalf by the central account administrator on presentation of appropriate documentation and authorization. All borrowings are undertaken by a central finance entity. The amount reported as allocations/appropriations in the statement of cash receipts and payments is the amount the Office of the Treasury has expended for the benefit of Department AC (the amount "drawn down").

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 AC.

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

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

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

2.1 Encouraged Additional Disclosures

Definitions

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

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

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

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

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

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

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

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

A financial asset is any asset that is:

(a) *Cash;*

(b) *A contractual right to receive cash or another financial asset from another entity;*

(c) *A contractual right to exchange financial instruments with another entity under conditions that are potentially favorable; or*

(d) *An equity instrument of another entity.*

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

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

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

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

Future Economic Benefits or Service Potential

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

Going Concern

2.1.3 *When preparing the financial statements of an entity, those responsible for the preparation of the financial statements are encouraged to make an assessment of the entity's ability to continue as a going concern. When those responsible for the preparation of the financial statements are aware, in making their assessment, of material uncertainties related to events or conditions which may cast significant doubt upon the entity's ability to continue as a going concern, the disclosure of those uncertainties is encouraged.*

2.1.4 The determination of whether an entity is a going concern is primarily relevant for individual entities rather than for the government as a whole. For individual entities, in assessing whether the entity is a going concern, those responsible for the preparation of the financial statements:

(a) Will need to take into account all available information for the foreseeable future which will include, but will not necessarily be limited to, twelve months from the approval of the financial statements; and

(b) May need to consider a wide range of factors surrounding current and expected performance, potential and announced restructurings of organizational units, estimates of receipts or the likelihood of continued government funding, and potential sources of replacement financing before it is appropriate to conclude that the entity is a going concern.

2.1.5 There may be circumstances where the usual going concern tests of liquidity and solvency as applied to business enterprises appear unfavorable, but other factors suggest that the entity is nonetheless a going concern. For example:

(a) In assessing whether the government is a going concern, the power to levy rates or taxes may enable some entities to be considered as a going concern even though their cash payments may exceed their cash receipts for extended periods; and

(b) For an individual entity, an assessment of its cash flows for a reporting period may suggest that the entity is not a going concern. However, there may be multi-year funding agreements in place with the government that will ensure the continued operation of the entity.

Extraordinary Items

2.1.6 *An entity is encouraged to separately disclose the nature and amount of each extraordinary item. The disclosure may be made on the face of the statement of cash receipts and payments, or in other financial statements or in the notes to the financial statements.*

2.1.7 Extraordinary items are characterized by the fact that they arise from events or transactions that are distinct from an entity's ordinary activities, are not expected to recur frequently or regularly and are outside the control or influence of the entity. Accordingly, extraordinary items are rare, unusual and material.

Distinct from Ordinary Activities

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

Not Expected to Recur in the Foreseeable Future

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

Outside the Control or Influence of the Entity

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

Identifying Extraordinary Items

2.1.11 Whether or not an item is extraordinary will be considered in the context of the entity's operating environment and the level of government within which it operates. Judgment will be exercised in each case.

2.1.12 Examples of cash flows associated with events or transactions that may, although not necessarily, give rise to extraordinary items for some public sector entities or levels of government are:

(a) Short-term cash flows associated with the provision of services to refugees where the need for such services was unforeseen at the beginning of the period, outside the ordinary scope of activities for the entity and outside the control of the entity. If such services were predictable or occurring in more than one reporting period they would not generally be classified as extraordinary; and

(b) The cash flows associated with the provision of services following a natural or man-made disaster, for example, the provision of shelter to homeless people following an earthquake. In order for a particular earthquake to qualify as an extraordinary event it would need to be of a magnitude that would not normally be expected in either the geographic area in which it occurred or the geographic area associated with the entity, and the provision of emergency services or the restoration of essential services would need to be outside the scope of ordinary activities of the entity concerned. Where an entity has responsibility for providing assistance to those affected by natural disasters, the costs associated with this activity would not generally meet the definition of an extraordinary item.

2.1.13 The restructuring of activities is an example of an event which would normally not be extraordinary for either an individual public sector entity or the whole-of-government entity which incorporates that government body. All three criteria within the definition of an extraordinary item must be satisfied before an item can be classified as extraordinary. A restructuring may clearly be distinct from the ordinary activities of the entity. However, at the whole-of-government level, restructuring may occur frequently. More importantly, restructuring is usually within the control or influence of a whole-of-government entity. It is only in circumstances where the restructuring is imposed by another level of government or by an external regulator or other external authority that it could be classified as outside the control or influence of the whole-of-government entity.

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

Administered Transactions

2.1.15 *An entity is encouraged to disclose in the notes to the financial statements, the amount and nature of cash flows and cash balances resulting from transactions administered by the entity as an agent on behalf of others where those amounts are outside the control of the entity.*

2.1.16 The cash flows associated with transactions administered by an entity acting as an agent on behalf of others may not pass through a bank account controlled by the reporting entity. In these cases, the entity cannot use, or otherwise benefit from, the cash it administers in the pursuit of its own objectives. These cash flows are not controlled by the entity and therefore are not included in the totals shown on the face of the statement of cash receipts and payments or other financial statements that might be prepared. However, disclosure of the amount and nature of these transactions by major type is encouraged because it provides useful information on the scope of the entity's activities and it is relevant for an assessment of an entity's performance.

2.1.17 Where such cash receipts and payments pass through a bank account controlled by the entity, they are treated as cash flows and balances of the entity itself and included in the totals shown on the face of the statement of cash receipts and payments. Paragraph 1.3.13(a) of Part 1 of this Standard permits such cash receipts and payments to be reported on a net basis. Paragraphs 2.1.18 to 2.1.22 below provide guidance on the cash receipts, payments and balances that:

(a) May be controlled by a government or government entity and will be reported in the statement of cash receipts and payments in accordance with Part 1 of this Standard; and

(b) Are administered transactions which will not be included on the face of the statement of cash receipts and payments or other financial statements that might be prepared but for which disclosure is encouraged.

Revenue Collection

2.1.18 Public sector entities may control cash or administer cash receipts or payments on behalf of the government or other governments or government entities. For example, a government Department of Taxation (or revenue collection agency) may be established with its own bank account and provided with an appropriation to fund its operations. The operations of the Department will include administering certain aspects of the Taxation Act and may encompass the collection of taxes on behalf of the government.

2.1.19 A Department of Taxation can use cash appropriated to it and deposited in a bank account which it controls to achieve its operating objectives as mandated, and can exclude others from using or benefiting from that cash. In these cases, the Department will control the cash appropriated for its own use. However, the cash the Department collects on behalf of the government through its tax collection activities is usually deposited in a specified government trust fund or transferred to a government bank account administered by the Treasury or similar department. In these circumstances, the cash collected cannot be used to support achievement of the objectives of the Department of Taxation, or otherwise deployed at the discretion of the Department's management without specific appropriation or other authorization by the government or relevant body. Therefore, the cash collected is not controlled by the Department of Taxation and would not form part of the cash receipts or cash balances of the Department. As a consequence of a government decision, some of the amounts collected may be appropriated or otherwise allocated for use by the Department. However, it is the government's decision to authorize the expenditure of the funds by the Department of Taxation, rather than the collection of the cash, that gives rise to the control.

2.1.20 Similar circumstances may arise when one government, for example a state or local government, collects cash on behalf of another government (such as a national government). In these cases, the government is acting as an agent for others in the collection of cash. The cash that arises as a result of managing transactions as an agent for others would not usually be deposited in a bank account of the collection agency and therefore would not form part of the cash receipts, cash payments or cash balances of the reporting entity.

"Pass-through" Cash Flows

2.1.21 In some cases, the administrative arrangements in place in respect of the revenue collection activities a government or government entity undertakes as an agent of another party may provide for the cash collected to be initially deposited in the entity's own bank account before it is transferred to the ultimate recipient. Cash flows arising as a consequence of these transactions are sometimes termed "pass-through" cash flows. In these cases, the entity will:

(a) Control the cash it collects in its capacity as an agent for the, usually short, period the cash is deposited in the entity's bank account prior to transfer to third parties;

(b) Usually benefit from any interest arising from amounts deposited in interest bearing accounts prior to its transfer to the other entity; and

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

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

Transfer Payments

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

Disclosure of Major Classes of Cash Flows

2.1.23 *An entity is encouraged to disclose, either on the face of the statement of cash receipts and payments or other financial statements or in the notes to those statements:*

(a) *An analysis of total cash payments and payments by third parties using a classification based on either the nature of the payments or their function within the entity, as appropriate; and*

(b) *Proceeds from borrowings. In addition, the amount of borrowings may be further classified into type and source.*

2.1.24 The sub-classifications encouraged in paragraph 2.1.23(a) may be presented on the face of the statement of cash receipts and payments in accordance with the requirements of paragraphs 1.3.12 and 1.3.24 of Part 1 of this Standard. Where a different classification basis is adopted in the statement of cash receipts and payments, additional disaggregated disclosures reflecting the encouragement in paragraph 2.1.23(a) above is encouraged either as a separate statement or by way of note.

2.1.25 Cash payment items and payments by third parties may be further sub-classified in order to enhance accountability by identifying the major purposes for which the payments are made. They may also be sub-classified in order to highlight the costs and cost recoveries of particular programs, activities or other relevant segments of the reporting entity. An entity is encouraged to present this information in at least one of the following two ways.

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

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

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

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

2.1.28 Under this method, the cash payments associated with the main functions undertaken by the entity are shown separately. In this example, the entity has functions related to the provision of health services and education services. The entity would present cash payment line items for each of these functions.

2.1.29 Entities classifying cash payments by function are encouraged to disclose additional information on the nature of payments, including payments made for salaries and other employee benefits.

2.1.30 Paragraph 1.3.12 of Part 1 of this Standard requires the disclosure of total cash receipts of the entity showing separately a sub-classification of total cash receipts using a classification basis appropriate to the entity's operations. The sub-classification of cash receipts into appropriate classes will depend upon the size, nature and function of the amounts involved. In addition to disclosure of the amount of receipts from external assistance and borrowings, the following sub-classifications may be appropriate:

(a) Receipts from taxation (these may be further sub-classified into types of taxes);

(b) Receipts from fees, fines, penalties and licenses;

(c) Receipts from exchange transactions including receipts from the sale of goods and services and user charges (where these are classified as exchange transactions);

(d) The purposes for which external assistance grants and loans are provided, the providers of that assistance and the amount provided;

(e) Receipts from other grants, transfers, or budget appropriations (possibly classified by source and purpose);

(f) Receipts from interest and dividends; and

(g) Receipts from gifts and donations.

Related Party Disclosures

2.1.31 *An entity is encouraged to disclose in the notes to the financial statements information required by International Public Sector Accounting Standard IPSAS 20, "Related Party Disclosures."*

2.1.32 IPSAS 20, in the accrual based series of IPSASs, defines related parties and other relevant terms, requires the disclosure of related party relationships where control exists and requires the disclosure of certain information about related party transactions, including information about aggregate remuneration of key management personnel.

Disclosure of Assets, Liabilities and Comparison with Budgets

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

(a) *Information about the assets and liabilities of the entity; and*

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

2.1.34 Governments and government entities control significant resources in addition to cash and deploy those resources in the achievement of service delivery objectives. They also borrow to fund their activities, incur other debts and liabilities in the course of their operations and make commitments to expend money in the future on the acquisition of capital assets. Non-cash assets and liabilities will not be reported on the face of the statement of cash receipts and payments or other financial statements that might be prepared under the cash basis of accounting. However, governments maintain records of, and monitor and manage, their debt and other liabilities and their non-cash assets. The disclosure of information about assets and liabilities and the costs of particular programs and activities will enhance accountability and is encouraged by this Standard.

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

(a) Assets as receivables, investments or property plant and equipment; and

(b) Liabilities as payables, borrowings by type or source and other liabilities.

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

Comparison with Budgets

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

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

(b) Disclosure that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or payments made without appropriation or other form of authority, then details may be disclosed by way of note to the relevant item in the financial statements.

2.1.37 *Entities which disclose in their financial statements a comparison of actual with budgeted amounts are encouraged to include in the financial statements a cross reference to reports which include information about service achievements.*

2.1.38 *Entities which adopt multi-period budgets are encouraged to* provide additional note disclosures *about the relationship between budget and actual amounts during the budget period*.

2.1.39 Additional budget information, including information about service achievements, may be presented in documents other than financial statements. Entities which disclose in their financial statements a comparison of actual with budgeted amounts are encouraged to include in their financial statements a cross reference to such documents, particularly to link budget and actual data to non-financial budget data and service achievements.

2.1.40 As noted in paragraph 1.9.32 of this Standard, entities may take different approaches to determining the annual budget within the multi-period budget. Where multi-period budgets are adopted, entities are encouraged to provide additional disclosures about such matters as the relationship between the multi period budget and component annual budgets and actual amounts during the budget period.

Consolidated Financial Statements

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

(a) *The proportion of ownership interest in controlled entities and, where that interest is in the form of shares, the proportion of voting power held (only where this is different from the proportionate ownership interest);*

(b) *Where applicable:*

   (i) *The name of any controlled entity in which the controlling entity holds an ownership interest and/or voting rights of 50% or less, together with an explanation of how control exists; and*

   (ii) *The name of any entity in which an ownership interest of more than 50% is held but which is not a controlled entity, together with an explanation of why control does not exist; and*

(c) *In the controlling entity's separate financial statements, a description of the method used to account for controlled entities.*

2.1.42 *A controlling entity which does not present a consolidated statement of cash receipts and payments is encouraged to disclose the reasons why the consolidated financial statements have not been presented together with the bases on which controlled entities are accounted for in its separate financial statements. It is also encouraged to disclose the name and the principal address of its controlling entity that publishes consolidated financial statements.*

2.1.43 Paragraph 1.6.20(b) of Part 1 of this Standard requires that the reasons for non-consolidation of a controlled entity should be disclosed. Paragraphs 1.6.7 and 1.6.8 of Part 1 of the Standard also provide that a controlling entity that is itself a wholly owned entity or a controlling entity that is virtually wholly owned, need not present a consolidated financial statement. When this occurs, the disclosure of the information in paragraph 2.1.42 above is encouraged.

Acquisitions and Disposals of Controlled Entities and Other Operating Units

2.1.44 *An entity is encouraged to disclose and present separately the aggregate cash flows arising from acquisitions and from disposals of controlled entities or other operating units.*

2.1.45 *An entity is encouraged to disclose in the notes to the financial statements, in aggregate in respect of both acquisitions and disposals of controlled entities or other operating units during the period, each of the following:*

(a) *The total purchase or disposal consideration (including cash or other assets);*

(b) *The portion of the purchase or disposal consideration discharged by means of cash; and*

(c) *The amount of cash in the controlled entity or operating unit acquired or disposed of.*

2.1.46 The separate presentation of the cash flow effects of acquisitions and disposals of controlled entities and other operations, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from cash receipts and payments arising from the other activities of the entity. To enable users to identify the effects of both acquisitions and disposals, the cash flow effects of disposals would not be deducted from those acquisitions.

2.1.47 The aggregate amount of the cash paid or received as purchase or sale consideration is reported in the statement of cash receipts and payments net of cash acquired or disposed of.

2.1.48 Paragraph 2.1.33 encourages the disclosure of assets and liabilities of the entity. Assets and liabilities other than cash of a controlled entity or operating unit acquired or disposed of may also be separately disclosed, summarized by each major category. Consistent with the requirement of paragraph 1.3.37 of Part 1 of this Standard, where such disclosure is made, the assets and liabilities should be clearly identified and the basis on which they are recognized and measured explained.

Joint Ventures

2.1.49 *An entity is encouraged to make disclosures about joint ventures which are necessary for a fair presentation of the cash receipts and payments of the entity during the period and the balances of cash as at reporting date.*

2.1.50 Many public sector entities establish joint ventures to undertake a variety of activities. The nature of these activities range from commercial undertakings to provision of community services at no charge. The terms of a joint venture are set out in a contract or other binding arrangement and usually specify the initial contribution from each joint venturer and the share of revenues or other benefits (if any) and expenses of each of the joint venturers. Entities which report on a cash basis will generally report:

(a) As cash payments, the cash expended in the acquisition of an interest in a joint venture and in the ongoing operations of the joint venture; and

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

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

Financial Reporting in Hyperinflationary Economies

2.1.51 In a hyperinflationary economy, the presentation of the financial statements in the local currency without restatement is not useful. Money loses purchasing power at such a rate that comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

2.1.52 This Standard does not identify an absolute rate at which hyperinflation is deemed to arise. It is a matter of judgment when restatement of financial statements in accordance with the encouragements in this Standard would become necessary. Hyperinflation is indicated by characteristics of the economic environment of a country which include, but are not limited to, the following:

(a) The general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power;

(b) The general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency;

(c) Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;

(d) Interest rates, wages and prices are linked to a price index; and

(e) The cumulative inflation rate over three years is approaching, or exceeds, 100%.

The Restatement of Financial Statements

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

(a) *Restate its statement of cash receipts and payments and other financial statements in terms of the measuring unit current at the reporting date;*

(b) *Restate the comparative information for the previous period, and any information in respect of earlier periods in terms of the measuring unit current at the reporting date; and*

(c) *Use a general price index that reflects changes in general purchasing power. It is preferable that all entities that report in the currency of the same economy use the same index.*

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

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

(b) *The identity and level of the price index at the reporting date and the movement in the index during the current and the previous reporting period.*

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

2.1.56 In a hyperinflationary economy, the usefulness of financial statements is substantially increased if they are expressed in terms of the measuring unit current at the reporting date. As a result, the treatments and disclosures in paragraphs 2.1.53 and 2.1.54 above are encouraged. Presentation of this information as the primary presentation rather than as a supplement to financial statements which have not been restated is encouraged. Separate presentation of the statement of cash receipts and payments and other financial statements before restatement is discouraged.

2.1.57 All items in the statement of cash receipts and payments will be expressed in terms of the measuring unit current at the reporting date. Therefore, all amounts, including any payments by third parties disclosed on the face of the statement of cash receipts and payments or in other financial statements, would be restated by applying the change in the general price index from the dates when the payments and receipts were initially recorded.

2.1.58 Many entities in the public sector include in their financial statements the related budgetary information, to facilitate comparisons with the budget. Where this occurs, this Standard encourages restatement of the budgetary information in accordance with this Standard.

Comparative Information

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

Consolidated Financial Statements

2.1.60 A controlling entity that reports in the currency of a hyperinflationary economy may have controlled entities that also report in the currencies of hyperinflationary economies. If the statement of cash receipts and payments and other financial statements are to be prepared on a consistent basis, the financial statements of any such controlled entity will be restated by applying a general price index of the country in whose currency it reports before they are included in the consolidated financial statements issued by its controlling entity. Where such a controlled entity is a foreign controlled entity, its restated financial statements are translated at closing rates.

2.1.61 If financial statements with different reporting dates are consolidated, all items, whether non-monetary or monetary, need to be restated into the measuring unit current at the date of the consolidated financial statement.

Selection and Use of the General Price Index

2.1.62 The restatement of financial statements in accordance with the approach encouraged by this Standard requires the use of a general price index that reflects changes in general purchasing power. It is preferable that all entities that report in the currency of the same economy use the same index.

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

Assistance Received From Non-Governmental Organizations (NGOs)

2.1.64 *Where practicable, an entity is encouraged to apply to assistance received from non-governmental organizations (NGOs), the required disclosures identified in paragraphs 1.10.1 to 1.10.27 of Part 1 of this Standard and the encouraged disclosures identified in paragraphs 2.1.66 to 2.1.93 below.*

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

Recipients of External Assistance

2.1.66 *An entity is encouraged to disclose by significant class in notes to the financial statements:*

(a) *The purposes for which external assistance was received during the reporting period, showing separately amounts provided by way of loans and grants; and*

(b) *The purposes for which external assistance payments were made during the reporting period.*

2.1.67 An entity may receive external assistance for many purposes including assistance to support its:

(a) Economic development or welfare objectives, often termed development assistance;

(b) Emergency relief objectives, often termed emergency assistance;

(c) Balance of payments position or to defend its currency exchange rate, often termed balance of payments assistance;

(d) Military and/or defense objectives, often termed military assistance; and

(e) Trading activities, including export credits or loans offered by export/import banks or other government agencies, often termed trade finance.

2.1.68 Part 1 of this Standard requires disclosure of the total amount of external assistance received during the reporting period showing separately the total amount received by way of grants and loans. Disclosure of the significant classes of external assistance received by way of loan or grant will enable users to determine the purposes for which assistance was provided during the period, the amounts thereof and whether the entity has an obligation to repay the assistance provided at some time in the future.

2.1.69 Disclosure by significant class of the purposes for which external assistance payments were made during the reporting period will further enhance the entity's accountability for its use of external assistance received.

2.1.70 *An entity is encouraged to identify in notes to the financial statements each provider of external assistance during the reporting period and the amount provided, excluding any undrawn amounts, showing separately amounts provided by way of loans and grants in the currency provided.*

2.1.71 Disclosure of each provider of external assistance and the amount provided by way of loan and grant will indicate the extent of diversification of sources of assistance. This will assist readers of the financial statements to determine, for example, whether the entity is dependent on particular agencies for assistance, the extent of that dependency and the currency in which it was provided, and whether the assistance is provided by way of a grant or a loan which will need to be repaid in the future. The disclosure encouraged by this paragraph excludes amounts that have not been drawn down during the period. Paragraph 2.1.72 encourages disclosure of information about undrawn amounts of external assistance in certain circumstances.

2.1.72 *In respect of external assistance that is undrawn at reporting date and is disclosed in accordance with paragraph 1.10.18 of Part 1 of this Standard, an entity is encouraged to disclose in notes to the financial statements:*

(a) *Each provider of loan assistance and grant assistance and the amount provided by each;*

(b) *The purposes for which the undrawn loan assistance and undrawn grant assistance may be used;*

(c) *The currency in which the undrawn assistance is held or will be made available; and*

(d) *Changes in the amount of undrawn loan assistance and undrawn grant assistance during the period.*

2.1.73 Undrawn external assistance balances are required to be disclosed in certain circumstances by paragraph 1.10.18 of Part 1 of this Standard. The disclosures encouraged by paragraph 2.1.72 will enable readers of the financial statements to determine the purposes for which such undrawn assistance may be used in the future, the currency in which that undrawn assistance is held or will be made available, and whether the amount of undrawn loan and grant assistance declined or increased during the period.

2.1.74 As is appropriate for the reporting entity, the disclosures could usefully identify such matters as the opening balance of undrawn loans and grants, the amount of new loans and new grants approved or otherwise made available during the period, the total amount of loans and grants drawn or utilized during the period, the total amounts of loans and grants cancelled or expired during the period, and the closing balance of undrawn loans and grants. Such disclosures will assist users in identifying not only the amount of the change in undrawn balances, but also the components of that change.

2.1.75 Where disclosures of changes in the amount of undrawn assistance are made in the entity's reporting currency, external assistance denominated in a foreign currency will be reported in the entity's reporting currency by applying to the foreign currency amount the exchange rate on the date of each applicable transaction, consistent with the requirements of Part 1 of this Standard.

2.1.76 *An entity is encouraged to disclose in notes to the financial statements the terms and conditions of external assistance agreements that determine or affect access to, or limit the use of, external assistance.*

2.1.77 Some external assistance agreements limit or specifically define the use or purpose for which the external assistance may be used, or limit the sources from which goods or services may be purchased. This type of external assistance term or condition may specify that the funds are available only to purchase specific inputs for the construction of specified facilities at a specified location, or that the goods or services purchased under the external assistance agreement must originate from a specified country or countries.

2.1.78 Some external assistance may be released on specific dates, or may be released upon the entity:

(a) Undertaking actions specified in an external assistance agreement, such as implementing specific policy changes; or

(b) Achieving ongoing performance targets, such as budget deficit targets or other broad economic objectives, or establishing a financial sector asset recovery or management agency.

2.1.79 Disclosure of terms and conditions that determine or affect access to external assistance will indicate the extent to which external assistance is time bound and/or is dependent upon the entity taking certain actions and achieving certain performance objectives, and what those actions and performance objectives are.

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

(a) *The outstanding balance of any external assistance loans for which principal and/or interest payments have been guaranteed by third parties, any terms and conditions related to those loans, and any additional terms and conditions arising from the guarantee; and*

(b) *The amount and terms and conditions of external assistance loans and grants for which performance of related terms and conditions have been guaranteed by third parties, and any additional terms and conditions arising from the guarantee.*

2.1.81 The balance of external assistance loans borrowed by an entity and payment of interest thereon may be guaranteed, in total or up to a specified amount. Terms and conditions associated with the loans may also require the recipient to take certain actions, or achieve agreed outcomes such as setting tariffs according to an agreed formula, the performance of which are guaranteed by third parties. External assistance grants may also be subject to similar terms and conditions, the performance of which are guaranteed by third parties.

2.1.82 Disclosure of the amounts of external assistance loans and grants guaranteed by third parties will indicate the extent of support from another entity to obtain the benefits of the external assistance agreement. Disclosure of the terms and conditions of external assistance loans and grants that have been guaranteed, and any additional terms and conditions imposed to effect that guarantee, will indicate the additional performance requirements or conditions that arise as a consequence of securing the guarantee.

2.1.83 *An entity is encouraged to disclose in notes to the financial statements other significant terms and conditions associated with external assistance loans, grants or guarantees that have not been complied with, together with the consequence of the non compliance.*

2.1.84 Paragraph 1.10.25 of Part 1 of this Standard requires the disclosure of significant terms and conditions that have not been complied with when non compliance has resulted in cancellation of the assistance or given rise to an obligation to return assistance previously provided. External assistance agreements may also include other significant terms and conditions that are to be complied with, as well as some procedural terms and conditions. Consequences of non compliance with these other significant terms and conditions may include a reduction in the amount, or variation in the timing, of funds that may be drawn or made available in the future until the default is corrected. They may also include an increase in the interest rate charged on loan funds.

2.1.85 Identifying these other significant terms and conditions which have not been complied with is likely to require professional judgment. That judgment will be exercised in the context of the entity's particular circumstances and by reference to the qualitative characteristics of financial statements. These terms and conditions are likely to be those where non compliance is likely to affect the amount or timing of funds that will be available to support the entity's future operations.

2.1.86 *An entity is encouraged to disclose in the notes to the financial statements, a summary of the repayment terms and conditions of outstanding external assistance debt. Where disclosures of future debt service payments denominated in a foreign currency are made, the entity is encouraged to report them in the entity's reporting currency by applying to the foreign currency amount of those payments the closing rate.*

2.1.87 External assistance debt agreements will include terms and conditions relating to such matters as the grace period, interest rate, current debt service payments, future debt service payments, remaining term of the loan, currency of debt service payments, principal repayment requirements (where repayment of the principal is deferred until the end of the loan term, or some other future date), and other significant repayment terms.

2.1.88 Debt service payments may be a significant cash outlay for the entity and will impact on cash available to fund current and additional operations. Disclosure of repayment terms and conditions of outstanding external assistance debt will enable readers of the financial statements to determine when debt service payments (principal and interest or service charges) will commence, and the amount of principal and interest or service charge payable.

2.1.89 Disclosure of information about repayment terms and conditions may require the estimation of, for example, the interest rate to be applied to variable rate debt. The estimated interest rate will usually be determined by reference to applicable interest rates at the closing date. In accordance with the requirements of paragraphs 1.3.30 to 1.3.37 of Part 1 of this Standard, when an entity elects to make disclosures which involve estimates, the accounting policies selected and applied in developing such estimates will be disclosed where necessary for a proper understanding of the financial statements.

2.1.90 *An entity is encouraged to disclose separately in the notes to the financial statements the value of external assistance received in the form of goods or services.*

2.1.91 Significant resources may be received under external assistance agreements in the form of goods or services. This will occur when new or used goods such as vehicles, computers or other equipment are transferred to the entity under an external assistance agreement. It will also occur when food aid is provided to a government for distribution to its citizens under an external assistance agreement. For some recipients, goods or services may be the major form in which external assistance is received.

2.1.92 Disclosure of the value of external assistance received as goods and services will assist readers of the financial statements to better understand the full extent of external assistance received during the reporting period. However, in some cases and for some recipients, determining the value of such goods and services can be a difficult, time consuming and costly process. This is particularly so where a domestic market price for those goods and services cannot be readily determined, where the goods and services provided are not widely traded in international markets or where they are of an unique nature, such as often occurs in respect of emergency assistance.

2.1.93 This Standard does not specify the basis on which the value of the goods or services is to be determined. Therefore, their value may be determined as the depreciated historical cost of physical assets at the time the assets are transferred to the recipient or the price paid for the food by the external assistance agency. It may also be determined on the basis of an assessment of the value by management of the transferor, or the recipient, or by a third party. Where the value of external assistance in the form of goods or services is disclosed, paragraph 1.10.21 of Part 1 of this Standard requires the disclosure of the basis on which that value is determined. Where such is described as fair value it will conform with the definition of fair value—that is, the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

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

Presentation of the Statement of Cash Receipts and Payments

2.2.1 *An entity which intends to migrate to the accrual basis of accounting is encouraged to present a statement of cash receipts and payments in the same format as that required by International Public Sector Accounting Standard (IPSAS 2), "Cash Flow Statements."*

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

Scope of Consolidated Statements—Exclusions from the Economic Entity

2.2.3 When an entity adopts the accrual basis of accounting in accordance with the accrual IPSASs, it will not consolidate entities in which control is intended to be temporary because the controlled entity is acquired and held exclusively with a view to its subsequent disposal in the near future. Temporary control may occur where, for example, a national government intends to transfer its interest in a controlled entity to a local government.

2.2.4 Part 1 of this Standard does not provide for such entities to be excluded from the consolidated financial statements prepared under the cash basis. This is because:

(a) The cash of an entity which is controlled on only a temporary basis can be used for the benefit of the economic entity during the period of temporary control; and

(b) The potentially complex consolidation adjustments that may be necessary under the accrual basis will not arise under the cash basis.

2.2.5 For this exemption from consolidation to apply under the accrual IPSASs, the controlling entity must be demonstrably committed to a formal plan to dispose of, or no longer control, the entity that is subject to temporary control. For the exemption to apply at more than one successive reporting date, the controlling entity must demonstrate an ongoing intent to dispose of, or no longer control, the entity that is subject to temporary control. An entity is demonstrably committed to dispose of, or no longer control, another entity when it has a formal plan to do so and there is no realistic possibility of withdrawal from that plan.

2.2.6 Entities preparing to migrate to the accrual basis will need to be aware of this difference in consolidation requirements of the accrual and cash basis IPSASs, and to determine whether, for any controlled entities included in the consolidated statement of receipts and payments, control is temporary.

Appendix 2

Illustration of Certain Disclosures Encouraged in Part 2 of the Standard

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

Extract from notes to financial statements of Entity ABC

Administered Transactions (paragraph 2.1.15)

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

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

Related Party Transactions (paragraph 2.1.31)

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

Aggregate remuneration	AX million.
Number of persons	AY persons.

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

Aggregate remuneration	AP million.
Number of persons	AQ persons.

Extract from notes to financial statements of Government X

Assets and Liabilities (paragraph 2.1.33(a))

Property, plant and equipment

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

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

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

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

Borrowings

The borrowings of the Government are listed below:

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

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

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

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

Extract from notes to financial statements of Entity XYZ

Controlled Entities (paragraphs 2.1.41, 2.1.44, and 2.1.45)

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

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

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

Acquisitions of Controlled Entities and Operating Units

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

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

Disposals of Controlled Entities and Other Operating Units

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

Significant Joint Ventures (paragraph 2.1.49)

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

<u>Extract from notes to financial statements of Government B:</u>

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

(in thousands of currency units)	**Original Biennial Budget Year**	**Target Budget for 1st Year**	**Revised Budget in 1st Year**	**1st Year Actual on Comparable Basis**	**Balance Availa-ble for 2nd Year**	**Target Budget for 2nd Year**	**Revised Budget in 2nd Year**	**2nd Year Actual on Comparable Basis**	******Difference: Budget and Actual for Budget Period*
CASH INFLOWS									
Taxation	X	X	X	X	X	X	X	X	X
Aid agreements	X	X	X	X	X	X	X	X	X
Proceeds: borrowing	X	X	X	X	X	X	X	X	X
Proceeds: disposal of plant and equipment	X	X	X	X	X	X	X	X	X
Other receipts	X	X	X	X	X	X	X	X	X
Total inflows	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**
CASH OUTFLOWS									
Health	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Education	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)

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

(in thousands of currency units)	**Original Biennial Budget Year**	**Target Budget for 1st Year**	**Revised Budget in 1st Year**	**1st Year Actual on Comparable Basis**	**Balance Availa-ble for 2nd Year**	**Target Budget for 2nd Year**	**Revised Budget in 2nd Year**	**2nd Year Actual on Comparable Basis**	*Difference: Budget and Actual for Budget Period* [*]
Public order and safety	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Social protection	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Defense	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Housing, community amenities	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Recreational, cultural, religion	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Economic affairs	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Other	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Total outflows	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**	**(X)**
NET CASH FLOW	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**

Extract From Notes to the Financial Statements of Government C

Assistance Provided by Non-Governmental Organizations (NGOs)

(Paragraph 2.1.64)

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

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

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

	Development Assistance		Emergency Assistance		Other		Total	
	200X	200X–1	200X	200X–1	200X	200X–1	200X	200X–1
NGO 1	X	X	–	–	–	X	X	X
NGO 2	–	–	X	–	–	–	X	–
NGO 3	X	X	X	–	–	–	X	X
Total	**X**	**X**	**X**	–	–	**X**	**X**	**X**
USD	X	X	X	X	–	X	X	X
Euro	X	X	X	-	-	-	X	X
Yen	–	–	X	X	–	–	X	X

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

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

The assistance was fully used for the purposes specified.

While NGO 1, 2 and 3 have indicated their intention to provide ongoing emergency assistance as the need arises and their resources allow, the extent of the assistance is not subject to binding written agreements. It will be determined on the basis of an assessment of needs and the capacity of each NGO to provide ongoing assistance.

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

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

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

Extract From Notes to the Financial Statements of Government C

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

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

	Development Assistance		Emergency Assistance		Other		Total	
	200X	**200X–1**	**200X**	**200X–1**	**200X**	**200X–1**	**200X**	**200X–1**
Loan Funds	X	X	–	–	X	–	X	X
Grant Funds	X	–	X	X	–	–	X	X
Total	**X**	**X**	**X**	**X**	**X**	-	**X**	**X**
Amount utilized	**X**	**X**	**X**	**X**	**X**	-	**X**	**X**

	Agency 1		Agency 2		Agency 3		Agency 4	
	200X	**200X–1**	**200X**	**200X–1**	**200X**	**200X–1**	**200X**	**200X–1**
Loan Funds	X	X	–	–	X	–	X	X
Grant Funds	X	–	X	X	–	X	X	X
Total	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**
Currency: US Dollar	X	X	–	–	–	–	–	–
Euro	–	–	X	X	–	–	–	–
Yen	–	–	–	–	X	X	–	–
Other	–	–	–	–	–	–	X	X

Undrawn External Assistance *(Paragraph 2.1.72)*

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

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

Closing balance	**Development Assistance**		**Emergency Assistance**		**Other**		**Total**	
By currency held	**200X**	**200X–1**	**200X**	**200X–1**	**200X**	**200X–1**	**200X**	**200X–1**
US Dollar	X	X	–	X	X	X	X	X
Euro	X	X	–	X	X	X	X	X
Yen	X	X	–	–	X	X	X	X
Other	X	X	–	–	–	–	X	–
By reporting currency								
Loans								
Agency 1	X	X	–	–	X	X	X	X
Agency 4	X	X	–	–	X	X	X	X
Grants								
Agency 2	X	X	–	X	X	X	X	X
Agency 4	X	X	–	X	X	X	X	X
Total	**X**	**X**	**–**	**X**	**X**	**X**	**X**	**X**

Significant terms and conditions *(Paragraph 2.1.76)*

General Restrictions

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

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

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

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

Procurement Restrictions

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

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

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

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

The Government of YYYY has guaranteed an outstanding export financing loan in the amount of currency units XXX (200X–1: Nil). The principal is to be repaid in 5 years. The interest rate applicable to the outstanding balance is Y percent. Annual, interest only service payments are to be made. No additional terms or conditions arise from the guarantee. No other external assistance loans or grants are subject to guarantees by third parties.

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

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

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

200X

Outstanding Debt by Remaining Grace Period Years

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

200X–1

Outstanding Debt by Remaining Grace Period Years

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

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

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

200X

Debt Service Payments Including Interest

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

	200X–1				
	Debt Service Payments Including Interest				
	US Dollar	Euro	Yen	Other	Total
Development Assistance	X	X	X	X	X
Other	X	X	-	-	X
Total	X	X	X	X	X

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

	200X + 1 and X Subsequent Years				
	Debt Service Payments Including Interest				
	US Dollar	Euro	Yen	Other	Total
Development Assistance	X	X	X	X	X
Other	X	X	–	–	X
Total	X	X	X	X	X

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

During 200X, a severe earthquake occurred in the ZZZ region inflicting serious damage to government property and private property, and significant loss of life. Multilateral agencies and bilateral agencies of several nations donated personnel and equipment to assist in locating and rescuing individuals trapped in the rubble. In addition, specialized medical teams trained in trauma treatment together with medical equipment, were flown into the region. Temporary shelter and food were also supplied. The value of goods and services received has been estimated at XX domestic currency units. The value of the emergency assistance provided has been determined based on cost estimates provided by the bilateral aid agencies involved because local prices for equivalent goods or services were not available.

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

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

Appendix 3

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

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

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

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

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

Definitions

2. *<u>Financing activities</u> are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity. <u>Investing activities</u> are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.*

   <u>Operating activities</u> are the activities of the entity that are not investing or financing activities.

Components of the Financial Statements

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

4. A cash flow statement will include line items which present the following amounts:

   (a) Total receipts from operating activities;

   (b) Total payments on operating activities;

   (c) Net cash flows from operating activities;

   (d) Net cash flows from investing activities;

   (e) Net cash flows from financing activities;

   (f) Beginning and closing balances of cash; and

   (g) Net increase or decrease in cash.

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

5. An entity will also present on the face of the cash flow statement or in the notes:

   (a) Major classes of gross cash receipts and gross cash payments arising from operating, investing and financing activities, except to the extent that paragraph 1.3.13 of Part 1 of this Standard allows reporting on a net basis;

   (b) A sub-classification of total cash receipts from operations in a manner appropriate to an entity's operations; and

   (c) An analysis of payments on operating activities using a classification based on either the nature of payments or their function within the entity, as appropriate.

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

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

Operating Activities

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

(a) By way of taxes (directly and indirectly); and

(b) From the recipients of goods and services provided by the entity.

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

8. Cash flows from operating activities are primarily derived from the principal cash-generating activities of the entity. Examples of cash flows from operating activities are:

(a) Cash receipts from taxes, levies and fines;

(b) Cash receipts from charges for goods and services provided by the entity;

(c) Cash receipts from grants, or transfers and other appropriations or budget authorizations made by central government or other public sector entities, including those made for the acquisition of capital assets;

(d) Cash receipts from royalties, fees and commissions;

(e) Cash payments to other public sector entities to finance their operations (not including loans or equity injections);

(f) Cash payments to suppliers for goods and services;

(g) Cash payments to and on behalf of employees;

(h) Cash receipts and cash payments of a public sector insurance entity for premiums and claims, annuities and other policy benefits;

(i) Cash payments of local property taxes or income taxes (where appropriate) in relation to operating activities;

(j) Cash receipts and payments from contracts held for dealing or trading purposes;

(k) Cash receipts or payments from discontinuing operations; and

(l) Cash receipts or payments in relation to litigation settlements.

9. An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading

securities are classified as operating activities. Similarly, cash advances and loans made by public financial institutions are usually classified as operating activities since they relate to the main cash-generating activity of that entity.

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

Investing Activities

11. The separate disclosure of cash flows arising from investing activities identifies the extent to which cash outflows have been made for resources which are intended to contribute to the entity's future service delivery. Examples of cash flows arising from investing activities are:

(a) Cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalized development costs and self-constructed property, plant and equipment;

(b) Cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;

(c) Cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);

(d) Cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);

(e) Cash advances and loans made to other parties (other than advances and loans made by a public financial institution);

(f) Cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a public financial institution);

(g) Cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and

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

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

Financing Activities

12. The separate disclosure of cash flows arising from financing activities is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:

    (a) Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;

    (b) Cash repayments of amounts borrowed;

    (c) Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease; and

    (d) Cash receipts and payments relating to the issue of and redemption of currency.

Interest and Dividends

13. IPSAS 2 requires the separate disclosure of cash flows from interest and dividends received and paid. IPSAS 2 also requires that where such disclosures are made they should be classified in a consistent manner from period to period as either operating, investing or financing activities.

14. The total amounts of interest and dividends paid and received during a period are disclosed in the cash flow statement. Interest paid and interest and dividends received are usually classified as operating cash flows for a public financial institution. However, there is no consensus on the classification of the cash flows associated with interest and dividends received and paid for other entities. Interest and dividends paid and interest and dividends received may be classified as operating cash flows. Alternatively, interest and dividends paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

Reporting Major Classes of Receipts and Payments

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

(a) Receipts from taxation (these may be further sub-classified into types of taxes);

(b) Receipts from fees, fines, penalties and licenses;

(c) Receipts from exchange transactions including receipts from the sale of goods and services and user charges (where these are classified as exchange transactions);

(d) Receipts from grants, transfers, or budget appropriations (possibly classified by source); and

(e) Receipts from interest and dividends.

16. Payment items are sub-classified in order to highlight the costs and cost recoveries of particular programs, activities or other relevant segments of the reporting entity. Examples of classification of payments by nature and function are included in Part 1 of this Standard.

Appendix 4

Qualitative Characteristics of Financial Reporting

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

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

Understandability

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

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

Relevance

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

Materiality

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

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

Reliability

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

Faithful Representation

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

Substance over Form

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

Neutrality

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

Prudence

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

Completeness

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

Comparability

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

Comparability applies to the:

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

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

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

Constraints on Relevant and Reliable Information

Timeliness

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

Balance between Benefit and Cost

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

Balance between Qualitative Characteristics

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

Appendix 5

Establishing Control of Another Entity for Financial Reporting Purposes

1. Whether an entity controls another entity for financial reporting purposes is a matter of judgment based on the definition of control in this Standard and the particular circumstances of each case. That is, consideration needs to be given to the nature of the relationship between the two entities. In particular, the two elements of the definition of control in this Standard need to be considered. These are the power element (the power to govern the financial and operating policies of another entity) and the benefit element (which represents the ability of the controlling entity to benefit from the activities of the other entity).

2. For the purposes of establishing control, the controlling entity needs to benefit from the activities of the other entity. For example, an entity may benefit from the activities of another entity in terms of a distribution of its surpluses (such as a dividend) and is exposed to the risk of a potential loss. In other cases, an entity may not obtain any financial benefits from the other entity but may benefit from its ability to direct the other entity to work with it to achieve its objectives. It may also be possible for an entity to derive both financial and non-financial benefits from the activities of another entity. For example, a Government Business Enterprise (GBE) may provide a controlling entity with a dividend and also enable it to achieve some of its social policy objectives.

Control for Financial Reporting Purposes

3. For the purposes of financial reporting, control stems from an entity's power to govern the financial and operating policies of another entity and does not necessarily require an entity to hold a majority shareholding or other equity interest in the other entity. The power to control must be presently exercisable. That is, the entity must already have had this power conferred upon it by legislation or some formal agreement. The power to control is not presently exercisable if it requires changing legislation or renegotiating agreements in order to be effective. This should be distinguished from the fact that the existence of the power to control another entity is not dependent upon the probability or likelihood of that power being exercised.

4. Similarly, the existence of control does not require an entity to have responsibility for the management of (or involvement in) the day-to-day operations of the other entity. In many cases, an entity may only exercise its power to control another entity where there is a breach or revocation of an agreement between a controlled entity and its controlling entity.

5. For example, a government department may have an ownership interest in a rail authority, which operates as a GBE. The rail authority is allowed to operate autonomously and does not rely on the government for funding but has raised

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

6. The existence of separate legislative powers does not, of itself, preclude an entity from being controlled by another entity. For example, the Office of Government Statistician usually has statutory powers to operate independently of the government. That is, the Office of Government Statistician may have the power to obtain information and report on its findings without recourse to government or any other body. The existence of control does not require an entity to have responsibility over the day-to-day operations of another entity or the manner in which professional functions are performed by the entity.

7. The power of one entity to govern decision-making in relation to the financial and operating policies of another entity is insufficient, in itself, to ensure the existence of control as defined in this Standard. The controlling entity needs to be able to govern decision-making so as to be able to benefit from its activities, for example by enabling the other entity to operate with it as part of an economic entity in pursuing its objectives. This will have the effect of excluding from the definitions of a "controlling entity" and "controlled entity" relationships which do not extend beyond, for instance, that of a liquidator and the entity being liquidated, and would normally exclude a lender and borrower relationship. Similarly, a trustee whose relationship with a trust does not extend beyond the normal responsibilities of a trustee would not be considered to control the trust for the purposes of this Standard.

Regulatory and Purchase Power

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

   (a) The power of the legislature to establish the regulatory framework within which entities operate and to impose conditions or sanctions on their operations. Such power does not constitute control by a public sector entity of the assets deployed by these entities. For example, a pollution control authority may have the power to close down the operations of entities that are not complying with environmental regulations. However, this power does not constitute control because the pollution control authority only has the power to regulate; or

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

Determining Whether Control Exists for Financial Reporting Purposes

9. Public sector entities may create other entities to achieve some of their objectives. In some cases, it may be clear that an entity is controlled, and hence should be consolidated. In other cases it may not be clear. Paragraphs 10 and 11 below provide guidance to help determine whether or not control exists for financial reporting purposes.

10. In examining the relationship between two entities, control is presumed to exist when at least one of the following power conditions and one of the following benefit conditions exists, unless there is clear evidence of control being held by another entity.

Power conditions

(a) The entity has, directly or indirectly through controlled entities, ownership of a majority voting interest in the other entity.

(b) The entity has the power, either granted by or exercised within existing legislation, to appoint or remove a majority of the members of the governing body of the other entity.

(c) The entity has the power to cast, or regulate the casting of, a majority of the votes that are likely to be cast at a general meeting of the other entity.

(d) The entity has the power to cast the majority of votes at meetings of the board of directors or equivalent governing body.

Benefit conditions

(a) The entity has the power to dissolve the other entity and obtain a significant level of the residual economic benefits or bear significant obligations. For example, the benefit condition may be met if an entity had responsibility for the residual liabilities of another entity.

(b) The entity has the power to extract distributions of assets from the other entity, and/or may be liable for certain obligations of the other entity.

11. When one or more of the conditions listed in paragraph 10 do not exist, the following factors are likely, either individually or collectively, to be indicative of the existence of control.

Power indicators

(a) The entity has the ability to veto operating and capital budgets of the other entity.

(b) The entity has the ability to veto, overrule, or modify governing body decisions of the other entity.

(c) The entity has the ability to approve the hiring, reassignment and removal of key personnel of the other entity.

(d) The mandate of the other entity is established and limited by legislation.

(e) The entity holds a "golden share"[1] (or equivalent) in the other entity that confers rights to govern the financial and operating policies of that other entity.

Benefit indicators

(a) The entity holds direct or indirect title to the net assets/equity of the other entity with an ongoing right to access these.

(b) The entity has a right to a significant level of the net assets/equity of the other entity in the event of a liquidation or in a distribution other than a liquidation.

(c) The entity is able to direct the other entity to cooperate with it in achieving its objectives.

(d) The entity is exposed to the residual liabilities of the other entity.

12. The following diagram indicates the basic steps involved in establishing control of another entity. It should be read in conjunction with paragraphs 1 to 11 of this appendix.

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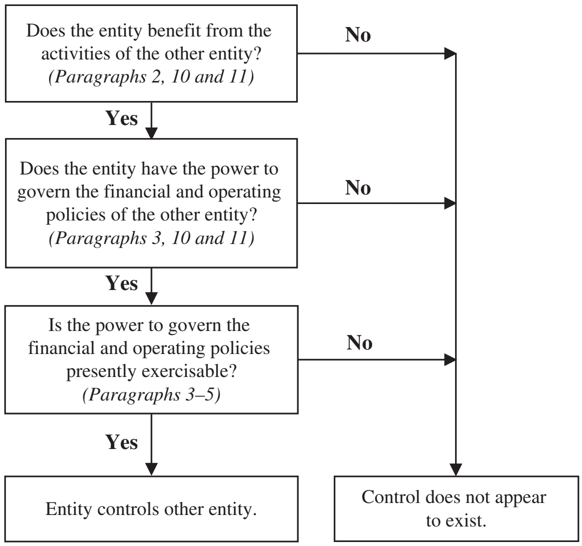
[1] "Golden share" refers to a class of share that entitles the holder to specified powers or rights generally exceeding those normally associated with the holder's ownership interest or representation on the governing body.

Establishing Control of another Entity for Financial Reporting Purposes



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

INTRODUCTION TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD UNDER THE CASH BASIS OF ACCOUNTING—ISSUED IN 2017

The International Public Sector Accounting Standards Board (the IPSASB) develops accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSAS). The IPSASB recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSAS will play a key role in enabling these benefits to be realized. The IPSASB strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in its Exposure Drafts and Consultation Papers.

The IPSASB issues IPSAS dealing with financial reporting under the cash basis of accounting and the accrual basis of accounting.

The adoption of IPSAS by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The IPSASB recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The IPSASB considers that this Standard is an important step forward in improving the consistency and comparability of financial reporting under the cash basis of accounting and encourages the adoption of this Standard. Financial statements should be described as complying with this IPSAS only if they comply with all the requirements of Part 1 of this IPSAS.

The IPSASB encourages governments to progress to the accrual basis of accounting and to harmonize national requirements with the IPSAS prepared for application by entities adopting the accrual basis of accounting. Entities intending to adopt the accrual basis of accounting at some time in the future may find other publications of the IPSASB helpful, particularly Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities*.

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.

FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING

CONTENTS

Appendix 1

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 transitionary 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

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:***

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

<u>Materiality:</u> 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.

<u>Reporting date</u> 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***

(c) ***When the entity makes publicly available it's 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***.

1.3.5 ***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***.

1.3.6 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.

1.3.7 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.

1.3.8 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.

1.3.9 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***

(b) ***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:***

<u>Accounting basis</u> 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.

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

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

<u>Approved budget</u> 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.

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

<u>Comparable basis</u> 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.

<u>Final budget</u> 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.

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

<u>Original budget</u> 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 basis. Consistent with the requirements of paragraph 1.7.25, budget and actual amounts will be presented on a comparable basis. Disclosure of the entities encompassed by the budget will enable users to identify the extent to which the entity's activities are subject to an approved budget and how the budget entity differs from the entity reflected in the financial statements.

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 be 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.

BC20 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

BC21 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).

BC22 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.

BC23 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)

	Note	200X			200X-1		
(in thousands of currency units)		**Receipts/(Payments)**			**Receipts/(Payments)**		
RECEIPTS							
Taxation							
Income tax		X			X		
Value-added tax		X			X		
Property tax		X			X		
Other taxes		X			X		
			X			X	
Donations, Grants and Other Aid	10		X			X	
Borrowings	3						
Proceeds from:							
Commercial Institutions			X				
Development Banks and similar organizations			X				
Capital Receipts							
Proceeds from disposal of plant and equipment		X			X		
Proceeds from disposal of financial instruments		X			X		
			X			X	
Trading Activities							
Receipts from trading activities				X			X
Other receipts	4			X			X
Total receipts				**X**			**X**

(in thousands of currency units)	Note	200X Receipts/(Payments)		200X-1 Receipts/(Payments)	
PAYMENTS					
Operations					
Wages, salaries and employee benefits		(X)		(X)	
Supplies and consumables		(X)		(X)	
			(X)		(X)
Transfers					
Grants		(X)		(X)	
Other transfer payments		(X)		(X)	
			(X)		(X)
Capital Payments					
Purchase/construction of plant and equipment		(X)		(X)	
Purchase of financial instruments		(X)		(X)	
			(X)		(X)
Loan and Interest Repayments					
Repayment of borrowings		(X)		(X)	
Interest payments		(X)		(X)	
			(X)		(X)
Other payments	5		(X)		(X)
Total payments			**(X)**		**(X)**
Increase/(Decrease)Cash			**X**		**X**
Cash beginning of year	2		**X**		**X**
Increase/(Decrease)Cash			**X**		**X**
Cash at end of year	*2*		**X**		**X**

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)

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

* 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

	200X	200X-1
(in thousands of currency units)	**Receipts**	**Receipts**
RECEIPTS		
Consolidated Funds	X	X
Special Funds	X	X
Trading Funds	X	X
Loans	X	X
Total receipts	**X**	**X**

PROCEEDS OF BORROWINGS

	Note	200X	200X-1
(in thousands of currency units)		**Cash Receipts**	**Cash Receipts**
BORROWINGS			
Domestic Commercial Institution		X	X
Offshore Commercial Institution		X	X
Development Banks and Similar Lending Agencies		X	X
Total borrowings	3	**X**	**X**

STATEMENT OF PAYMENTS BY PROGRAMS/ACTIVITIES/FUNCTION OF GOVERNMENT

(in thousands of currency units)	**200X Payments**	**200X-1 Payments**
PAYMENTS – Operating Account		
Education	X	X
Health	X	X
Social Protection	X	X
Defense	X	X
Public Order and Safety	X	X
Recreation, Culture and Religion	X	X
Economic Affairs	X	X
Environment Protection	X	X
General Public Services	X	X
Total payments	**X**	**X**
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:

(in thousands of currency units)	**200X**	**200X-1**
Cash on hand and balances with banks	X	X
Short-term investments	X	X
	X	X

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)	**200X**	**200X-1**
Movement in Undrawn Borrowing Facilities		
Undrawn borrowing facilities at 1.1.0X	X	X
Additional loan facility	X	X
Total available	X	X
Amount drawn	(X)	(X)
Facility closure/cancellations	(X)	(X)
Undrawn borrowing facilities at 31.12.0X.	X	X

(in thousands of currency units)	**200X**	**200X-1**
Undrawn Borrowing Facilities		
Commercial Financial Institutions	X	X
Development Banks and similar organizations	X	X
Total undrawn borrowing facilities	X	X

7. Significant Entities

Entity 200X	**Entity 200X-1**
Entity A	**Entity A**
Entity B	**Entity B**
Entity C	**Entity C**
Entity D	**Entity D**

8. Authorization Date

The financial statement was authorized for publication on XX *Month* 200X+1 by Mr. YY, the Treasurer of Country A.

9. <u>Original and Final Approved Budget and Comparison of Actual and Budget Amounts</u>

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.

<u>Alternative Note 9 when budget and financial statements are prepared on a different basis</u>

9. <u>Original and Final Approved Budget and Comparison of Actual and Budget Amounts</u>

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.

	Total inflows	**Total outflows**
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**X**	**X**
Basis Differences	X	X
Timing Differences	-	-
Entity Differences	X	X
Total Cash receipts	**X**	
Total Cash Payments		**X**

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. <u>Donations, Grants and Other Aid</u>

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

	Note	200X	200X-1
(in thousands of currency units)		**Receipts/(Payments)**	**Receipts/(Payments)**
RECEIPTS			
Authorized allocations		X	X
Other receipts		X	X
Total receipts		**X**	**X**
PAYMENTS			
Wages, salaries and employee benefits		(X)	(X)
Rent		(X)	(X)
Capital Payments		(X)	(X)
Transfers	3	(X)	(X)
Total payments		**(X)**	**(X)**
Increase/(Decrease) in Cash		**X**	**X**
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

	Note	200X	200X-1
(in thousands of currency units)		**Payments**	**Payments**
PAYMENTS			
Program I		(X)	(X)
Program II		(X)	(X)
Program III		(X)	(X)
Program IV		(X)	(X)
Other payments		(X)	(X)
Total payments		**(X)**	**(X)**

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:

(in thousands of currency units)	**200X**	**200X-1**
Cash on hand and balances with banks	X	X
Short-term investments	X	X
	X	X

3. Transfers

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

4. Significant Entities

Entity 200X	Entity 200X-1
Entity X	X
Entity Y	X

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

	Note	200X	200X-1
(in thousands of currency units)		**Receipts/(Payments)**	**Receipts/(Payments)**
RECEIPTS			
Allocations/ Appropriations	2	X	X
Other receipts		X	X
Total receipts		**X**	**X**
PAYMENTS			
Wages, salaries and employee benefits		(X)	(X)
Rent		(X)	(X)
Capital Payments		(X)	(X)
Transfers	3	(X)	(X)
Total payments		**(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 or payments. An example of a statement by function is included below.

STATEMENT OF PAYMENTS BY FUNCTION

	Note	200X	200X-1
(in thousands of currency units)		**Receipts/(Payments)**	**Receipts/(Payments)**
PAYMENTS			
Program I		X	X
Program II		X	X
Program III		X	X
Program IV		X	X
Other payments		X	X
Total payments		**X**	**X**

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:*

<u>Accrual basis</u> 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.

<u>Assets</u> 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.

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

<u>Closing rate</u> is the spot exchange rate at the reporting date.

<u>Distributions to owners</u> 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.

<u>Expenses</u> 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.

<u>Liabilities</u> 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.

<u>Revenue</u> 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:*

<u>*Consolidated financial statements*</u> *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.*

<u>*Control of an entity:*</u> *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.*

<u>*Controlled entity*</u> *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 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*

(f) *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 *S*ignificant 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"[1].

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 Arrangement*s 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.

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

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:

Aggregate remuneration	AP millions.
Number of persons	AQ persons.

<u>Government X: Consolidated Statement of Cash Receipts and Payments of Government X and extracts from notes to the financial statements of Government X</u>

Government X: Statement of Consolidated Cash Receipts and Payments:

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

(Receipts)

	Note	**200X**			**200X-1**	
(in thousands of currency units)		**Receipts/(Payments)**			**Receipts/(Payments)**	
RECEIPTS						
Taxation						
Income tax		X			X	
Value-added tax		X			X	
Property tax		X			X	
Other taxes		<u>X</u>			<u>X</u>	
			X			X
External and Other Assistance	F		X			X
Borrowings						
Proceeds from Commercial Institutions			X			
Development Banks and similar organizations			X			
Capital Receipts						
Proceeds from disposal of plant and equipment				X		X
Proceeds from disposal of Financial Instruments			X			X
Trading Activities						
Receipts from trading activities				X		X
Other receipts				X		X
Total receipts				**X**		**X**

Government X: Statement of Consolidated Cash Receipts and Payments:

Year Ended 31 December 200X

(*Payments*)

(in thousands of currency units)	Note	200X Receipts/(Payments)		200X-1 Receipts/(Payments)	
PAYMENTS					
Operations					
Wages, salaries and employee benefits		(X)		(X)	
Supplies and consumables		(X)		(X)	
			(X)		(X)
Transfers					
Grants		(X)		(X)	
Other transfer payments		(X)		(X)	
			(X)		(X)
Capital Payments					
Purchase/construct plant and equipment		(X)		(X)	
Purchase of financial instruments		(X)		(X)	
			(X)		(X)
Loan and Interest Repayments					
Repayment of borrowings		(X)		(X)	
Interest payments		(X)		(X)	
			(X)		(X)
Other payments			(X)		(X)
Total payments			**(X)**		**(X)**
Increase/(Decrease) Cash			**X**		**X**
Cash at beginning of year			**X**		**X**
Increase/(Decrease) Cash			**X**		**X**
Cash at end of year			**X**		**X**

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.

Significant Controlled Entities	Jurisdiction
Entity A	
Entity B	
Entity C	X
Entity D	
Entity E	
Entity F	
Entity G	
Entity H	X
Entity I	
Entity J	

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.

Entity	Ownership Interest (%)	Voting Power (%)
Entity C	XX	XX
Entity D	XX	XX
Entity J	XX	XX

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

Acquisitions of Controlled Entities and Operating Units ***(paragraphs 2.1.57 and 2.1.58)***

Names of Entities acquired	Proportion of shares acquired %	Purchase consideration (in thousands of currency units)	Cash portion of purchase consider-ation (in thousands of currency units)	Cash balances acquired (in thousands of currency units)
Entity C	XX	X	X	X
Entity D	XX	X	X	X
		X	X	X

Disposals of Controlled Entities and Other Operating Units

Name of Entities disposed of	Proportion of shares disposed of %	Disposal consideration (in thousands of currency units)	Cash portion of dis-posal consideration (in thousands of currency units)	Cash balance disposed of (in thousands of currency units)
Enterprise H	XX	X	X	X

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

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

(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:

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

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

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.

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

Accrued expenses comprise amounts due and payable for wages, salaries and rental and other costs due and payable as at reporting date.

(in thousands of currency units)	**200X**	**200X-1**
Accrued Revenue	X	X
Property taxes	X	X
Goods and services tax	X	X
Royalties	X	X
Accrued Expenses		
Wages and salaries	X	X
Rent	X	X
Other	X	X

Borrowings

The borrowings of the Government are listed below:

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

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

Note D: Comparison with Budget when the entity does not make its budget publicly available *(paragraph 2.1.24(b))*

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

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

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)*

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

* 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

(in thousands of currency units)	**200X**	**200X-1**
Wages and Salaries	X	X
Supplies and consumables	X	X
Capital Payments	X	X
Loan and interest repayment	X	X
Total third party payments	**X**	**X**

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)*

(in thousands of currency units)	**200X**			**200X-1**	
External Assistance					
Total cash receipts	X			X	
Total third party payments	X			X	
Total External Assistance		X			X
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	200X		200X+1
Loan Funds	X		X
External assistance	X		X
Total Loan Funds	X		X
Grants and Donations			
External Assistance	X		X
Other assistance	X		X
Total Grants and Donations	X		X

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:

	Development Assistance		Emergency Assistance		Other		Total	
	200X	200X-1	200X	200X-1	200X	200X-1	200X	200X-1
Loan Funds	X	X	-	-	X	-	X	X
Grant Funds	X	-	X	X	-	-	X	X
Total	**X**	**X**	**X**	**X**	**X**	-	**X**	**X**
Amount utilized	**X**	**X**	**X**	**X**	**X**	**-**	**X**	**X**

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:

	Development Assistance		Emergency Assistance		Total	
	200X	200X-1	200X	200X-1	200X	200X-1
Grants & Donations	**X**	**X**	**X**	**X**	**X**	**X**
Amount utilized	**X**	**X**	**X**	**X**	**X**	**X**

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

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.

	Development Assistance		Emergency Assistance		Other		Total	
	200X	**200X-1**	**200X**	**200X-1**	**200X**	**200X-1**	**200X**	**200X-1**
Closing balance - Loans	X	X	-	-	X	X	X	X
Closing balance - Grants	X	X	-	-	X	X	X	X

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 *<u>Financing activities</u> are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.*

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

<u>Operating activities</u> are the activities of the entity that are not investing or financing activities.

Components of the Financial Statements

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

investing and financing activities in a manner which is most appropriate to its activities.

4 A cash flow statement will include line items which present the following amounts:

(a) Total receipts from operating activities;

(b) Total payments on operating activities;

(c) Net cash flows from operating activities;

(d) Net cash flows from investing activities;

(e) Net cash flows from financing activities;

(f) Beginning and closing balances of cash; and

(g) Net increase or decrease in cash.

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

5 An entity will also present on the face of the cash flow statement or in the notes:

(a) Major classes of gross cash receipts and gross cash payments arising from operating, investing and financing activities, except to the extent that paragraph 1.3.13 of Part 1 of this Standard allows reporting on a net basis;

(b) A sub-classification of total cash receipts from operations in a manner appropriate to an entity's operations; and

(c) An analysis of payments on operating activities using a classification based on either the nature of payments or their function within the entity, as appropriate.

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

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

Operating Activities

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

(a) By way of taxes (directly and indirectly); and

(b) From the recipients of goods and services provided by the entity.

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

8 Cash flows from operating activities are primarily derived from the principal cash-generating activities of the entity. Examples of cash flows from operating activities are:

(a) Cash receipts from taxes, levies and fines;

(b) Cash receipts from charges for goods and services provided by the entity;

(c) Cash receipts from grants, or transfers and other appropriations or budget authorizations made by central government or other public sector entities, including those made for the acquisition of capital assets;

(d) Cash receipts from royalties, fees and commissions;

(e) Cash payments to other public sector entities to finance their operations (not including loans or equity injections);

(f) Cash payments to suppliers for goods and services;

(g) Cash payments to and on behalf of employees;

(h) Cash receipts and cash payments of a public sector insurance entity for premiums and claims, annuities and other policy benefits;

(i) Cash payments of local property taxes or income taxes (where appropriate) in relation to operating activities;

(j) Cash receipts and payments from contracts held for dealing or trading purposes;

(k) Cash receipts or payments from discontinuing operations; and

(l) Cash receipts or payments in relation to litigation settlements.

9 An entity may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made by public financial institutions are usually classified as operating activities since they relate to the main cash-generating activity of that entity.

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

Investing Activities

11 The separate disclosure of cash flows arising from investing activities identifies the extent to which cash outflows have been made for resources which are intended to contribute to the entity's future service delivery. Examples of cash flows arising from investing activities are:

(a) Cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalized development costs and self-constructed property, plant and equipment;

(b) Cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;

(c) Cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);

(d) Cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);

(e) Cash advances and loans made to other parties (other than advances and loans made by a public financial institution);

(f) Cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a public financial institution);

(g) Cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and

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

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

Financing Activities

12 The separate disclosure of cash flows arising from financing activities is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:

(a) Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;

(b) Cash repayments of amounts borrowed;

(c) Cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease; and

(d) Cash receipts and payments relating to the issue of and redemption of currency.

Interest and Dividends

13 IPSAS 2 requires the separate disclosure of cash flows from interest and dividends received and paid. IPSAS 2 also requires that where such disclosures are made they should be classified in a consistent manner from period to period as either operating, investing or financing activities.

14 The total amounts of interest and dividends paid and received during a period are disclosed in the cash flow statement. Interest paid and interest and dividends received are usually classified as operating cash flows for a public financial institution. However, there is no consensus on the classification of the cash flows associated with interest and dividends received and paid for other entities. Interest and dividends paid and interest and dividends received may be classified as operating cash flows. Alternatively, interest and dividends paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

Reporting Major Classes of Receipts and Payments

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

(a) Receipts from taxation (these may be further sub-classified into types of taxes);

(b) Receipts from fees, fines, penalties and licenses;

(c) Receipts from exchange transactions including receipts from the sale of goods and services and user charges (where these are classified as exchange transactions);

(d) Receipts from grants, transfers, or budget appropriations (possibly classified by source); and

(e) Receipts from interest and dividends.

16 Payment items are sub-classified in order to highlight the costs and cost recoveries of particular programs, activities or other relevant segments of the reporting entity. Examples of classification of payments by nature and function are included in 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.

INTRODUCTION TO RECOMMENDED PRACTICE GUIDELINES

Recommended Practice Guidelines (RPGs) are developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

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

In meeting this objective the IPSASB sets International Public Sector Accounting Standards (IPSASs) and RPGs for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSASs relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSASs RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

RPG 1—REPORTING ON THE LONG-TERM SUSTAINABILITY OF AN ENTITY'S FINANCES

History of RPG

RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances* was issued in July 2013.

Since then, RPG 1 has been amended by the following IPSASs:

- *The Applicability of IPSASs* (issued April 2016)

Table of Amended Paragraphs in RPG 1

Paragraph Affected	How Affected	Affected By
5	Deleted	The Applicability of IPSASs April 2016
6	Amended	The Applicability of IPSASs April 2016

July 2013

REPORTING ON THE LONG-TERM SUSTAINABILITY OF AN ENTITY'S FINANCES

CONTENTS

Objective

1. This Recommended Practice Guideline (RPG) provides guidance on reporting on the long-term sustainability of a public sector entity's finances ("reporting long-term fiscal sustainability information"[1]). The RPG provides information on the impact of current policies and decisions made at the reporting date on future inflows and outflows and supplements information in the general purpose financial statements ("financial statements"). The aim of such reporting is to provide an indication of the projected long-term sustainability of an entity's finances over a specified time horizon in accordance with stated assumptions.

Status and Scope

2. The reporting of information in accordance with this RPG represents good practice. An entity reporting long-term fiscal sustainability information is encouraged to follow this RPG. Compliance with this RPG is not required in order for an entity to assert that its financial statements comply with International Public Sector Accounting Standards (IPSASs).

3. The scope of this RPG includes an entity's projected flows. It is not limited to those flows related to programs providing social benefits. Nevertheless, this RPG acknowledges that the flows relating to programs providing social benefits, including entitlement programs that require contributions from participants, can be a highly significant component of reporting long-term fiscal sustainability information for many entities.

4. This RPG does not directly address issues associated with the reporting of environmental sustainability. However, an entity should assess any financial impacts of environmental factors and take them into account when developing its projections.

5. [Deleted]

6. Although this RPG does not apply directly to commercial public sector entities, the future inflows and outflows related to a commercial public sector entity, controlled by the reporting entity, over the specified time horizon of the projections are within the scope of this RPG.

7. Long-term fiscal sustainability information should not be described as complying with this RPG unless it complies with all the requirements of this RPG.

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1 The IPSASB acknowledges that in a number of jurisdictions the term "fiscal" has a narrow interpretation related to taxation. In this RPG the term is used with a broader meaning to include both inflows and outflows.

8. This RPG outlines minimum information levels. The RPG does not preclude the presentation of additional information if such information is useful in meeting the objectives of financial reporting and meets the qualitative characteristics (QCs) of financial reporting.

Definitions

9. The following terms are used in this RPG with the meaning specified:

Current policy assumptions are those assumptions based on legislation or regulation in force at the reporting date with appropriate departures for defined circumstances.

Inflows are cash and cash equivalents projected to be received or accrued by the entity over the time horizon of the projections.

Long-term fiscal sustainability is the ability of an entity to meet service delivery and financial commitments both now and in the future.

Outflows are cash and cash equivalents projected to be paid or accrued by the entity over the time horizon of the projections.

A projection is forward-looking financial information prepared on the basis of the entity's current policy assumptions, and assumptions about future economic and other conditions.

Terms used in this RPG with the meanings specified in International Public Sector Accounting Standards (IPSASs) are set out in Appendix A.

Determining Whether to Report Long-Term Fiscal Sustainability Information

10. In determining whether to report long-term fiscal sustainability information, an entity needs to assess whether potential users exist for prospective financial information.

11. Long-term fiscal sustainability information is broader than information derived from the financial statements. It includes projected inflows and outflows related to the provision of goods and services and programs providing social benefits using current policy assumptions over a specified time horizon. It therefore takes into account decisions made by the entity on or before the reporting date that will give rise to future outflows that do not meet the definition of and/or recognition criteria for liabilities at the reporting date. Similarly it takes into account future inflows that do not meet the definition of and/or recognition criteria for assets at the reporting date.

12. Assessments of long-term fiscal sustainability use a broad range of data. These data include financial and non-financial information about future economic and demographic conditions, assumptions about country and global trends such as productivity, the relative competitiveness of the national, state or

local economy and expected changes in demographic variables such as age, mortality, morbidity, fertility, gender, income, educational attainment and workforce participation.

13. The relevance of reporting long-term fiscal sustainability information should be considered in the context of that entity's funding and capacity to determine service delivery levels. There are likely to be users for long-term fiscal sustainability information for entities with one or more of the following characteristics:

    (a) Significant tax and/or other revenue raising powers;

    (b) Powers to incur significant debt; or

    (c) The power and ability to determine the nature, level and method of service delivery including the introduction of new services.

Reporting Boundary

14. Use of the same reporting boundary as for the financial statements enhances the understandability of projections and increases their usefulness to the users of general purpose financial reports (GPFRs).

15. An entity may report long-term fiscal sustainability information using another reporting boundary, such as the General Government Sector (GGS). This may be to enhance consistency and comparability with other jurisdictions or because there are other indicators that are used to assess long-term fiscal sustainability based on another reporting boundary. Entities providing information on the GGS are encouraged to also present information in accordance with IPSAS 22, *Disclosure of Financial Information about the General Government Sector*.

Reporting Long-Term Fiscal Sustainability Information

16. Long-term fiscal sustainability information prepared in accordance with this RPG should enable users to assess various aspects of the long-term fiscal sustainability of the entity, including the nature and extent of financial risks that the entity faces.

17. The form and content of an entity's long-term fiscal sustainability information will vary depending on the nature of the entity and the regulatory environment in which it operates. A single presentation approach is unlikely to satisfy the objectives of financial reporting. To meet the objectives[2] and QCs of

[2] 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 reports for accountability purposes and for decision-making purposes. See Chapter 2 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the *Conceptual Framework*) for further details.

financial reporting while taking into account the constraints[3], long-term fiscal sustainability information will usually include the following components:

(a) Projections of future inflows and outflows, which can be displayed in tabular statements or graphical formats, and a narrative discussion explaining the projections (see paragraphs 21–26 and 56);

(b) A narrative discussion of the dimensions of long-term fiscal sustainability including any indicators used to portray the dimensions (see paragraphs 27–40 and 57); and

(c) A narrative discussion of the principles, assumptions and methodology underlying the projections (see paragraphs 41–53 and 58).

18. The projections reported in long-term fiscal sustainability information generally reflect conditions of uncertainty. The projections are derived from models that rely on assumptions around which there is some uncertainty. In order for long-term fiscal sustainability information to faithfully represent an entity's projected future flows, assumptions used should be based on the best available information.

19. Long-term fiscal sustainability information may be published as a separate report or as part of another report. It may be published at the same time as the entity's GPFSs or at a different time.

20. A controlled entity should ensure that the information reported is consistent with information reported by its controlling entity.

Presenting Projections of Future Inflows and Outflows

21. An entity should present projections of future inflows and outflows, including capital expenditure. The projections should be prepared on the basis of current policy assumptions, and assumptions about future economic and other conditions.

22. An entity should assess the extent to which it can draw on the assumptions, projections and indicators prepared by other entities, such as Ministries of Finance, or from other sources of information, rather than preparing the information itself, as this can reduce the cost of reporting. Such an assessment considers whether such information meets the QCs. Where an entity has a budget or forecast that meets the definition of a projection, this information can be used for the relevant time period or periods.

3 The qualitative characteristics of financial reporting are relevance, faithful representation, understandability, timeliness, comparability and verifiability. The constraints on information are materiality, cost-benefit and the balance between the qualitative characteristics. See Chapter 3 of the *Conceptual Framework* for further details.

23. Projections can be displayed in tabular statements or graphical formats providing details of the programs and activities giving rise to outflows and identifying the sources of inflows. In determining the format of tabular statements entities need to balance considerations of understandability and relevance. Presentation of a large number of time periods between the reporting date and the end of the time horizon provides a more complete information set, but increases the risk of information overload and the impairment of understandability.

24. An entity should ensure that its choice and presentation of projections is not skewed to present a misleadingly favorable or unfavorable picture. The formats and terms used should also be consistent between reporting periods.

Time Horizon

25. In selecting an appropriate time horizon an entity needs to balance the QCs of verifiability, faithful representation and relevance. The further the end of the time horizon is from the reporting date, the more future events are captured. However, as the time horizon increases, the assumptions underpinning the projections become less robust and potentially less verifiable. Conversely, excessively short time horizons may increase the risk that the consequences of events outside the time horizon may be ignored, thereby reducing the relevance of projections.

26. The length of the time horizon will reflect the characteristics of the entity. It is likely to be influenced by the characteristics of the entity, including aspects such as the longevity of key programs, the level of dependence on other entities for funding, the estimated lives of major items of property, plant, and equipment, such as infrastructure networks, and the time horizons adopted by other comparable entities providing prospective information.

Addressing the Dimensions of Long-Term Fiscal Sustainability

27. An entity reporting long-term fiscal sustainability information should include a narrative discussion on each of the dimensions of long-term fiscal sustainability. This RPG discusses three inter-related dimensions of long-term fiscal sustainability, as follows:

- Service;
- Revenue; and
- Debt.

28. The dimensions are inter-related as changes in one dimension affect the other dimensions. For example, future services and entitlements to beneficiaries (the service dimension) are funded by revenue and/or debt. A single dimension can be analyzed by holding the other two dimensions constant. For example, by holding the existing levels of services and revenues constant

an entity can illustrate the effect of such assumptions on the level of debt. The relationships between the dimensions of long-term fiscal sustainability are illustrated in Appendix B.

29. There are two aspects to each dimension: capacity and vulnerability. Capacity is the ability of the entity to change or influence the dimension, and vulnerability is the extent of the entity's dependence on factors outside its control or influence.

30. An entity can use indicators to present the dimensions of long-term fiscal sustainability. An entity should choose its indicators based on their relevance to the entity. Examples of indicators are provided in the Glossary of Indicators in Appendix C.

Service Dimension

31. The service dimension considers the volume and quality of services to recipients and entitlements to beneficiaries over the period of the projections, given current policy assumptions on revenue from taxation and other sources, while remaining within debt constraints. This dimension focuses attention on the capacity of an entity to maintain or vary the volume and quality of services it provides or the entitlement programs it delivers. It also focuses attention on whether the entity is vulnerable to factors such the willingness of recipients and beneficiaries to accept reductions in services and entitlements or vulnerable because it does not have the ability to determine or vary service levels, for example where another level of government determines the level of services to be provided.

32. By reflecting the impact of current policy assumptions on revenue from taxation and other sources, and on debt, long-term fiscal sustainability information can present the amounts available for the provision of goods and services. Users can contrast this information with the entity's service delivery commitments, and thereby evaluate the sustainability of the provision of services.

33. A factor to consider in making such comparisons is the extent to which expenditure on certain programs is likely to increase more steeply than the overall levels of expenditure of the entity. This may be because the number of beneficiaries is projected to increase for a particular program or because costs associated with certain programs, such as healthcare, are projected to increase more quickly than the general inflation rate. For example, due to demographic and technological changes, the cost of healthcare as a proportion of overall government expenditures might be projected to increase over the period of projections.

34. For capital intensive activities the service dimension also involves an assessment of the useful lives and replacement cycles of items of property, plant, and equipment.

Revenue Dimension

35. The revenue dimension considers taxation levels and other revenue sources over the period of the projections, given current policy assumptions on the provision of services to recipients and entitlements for beneficiaries, while remaining within debt constraints. This dimension focuses attention on the capacity of an entity to vary existing taxation levels or other revenue sources or introduce new revenue sources. It also focuses attention on factors such as whether the entity is vulnerable to the unwillingness of taxpayers to accept increases in taxation levels, and the extent of its dependence upon revenue sources outside its control or influence.

36. An example of an indicator of the revenue dimension is the proportion of total revenues that are received from entities at other levels of government or from international organizations. For example, a local government entity may be able to maintain or increase property taxes, but be partially dependent upon a mixture of general grants and specific grants from national and/or state governments. As policies for the provision of services and for managing debt are projected, the level of revenue required to fund such policies can be presented. This information assists users in assessing the entity's ability to maintain or increase its levels of revenue and thereby in evaluating the sustainability of its sources of revenue.

37. Generally, an entity which has a limited ability to vary levels of revenue from taxation and other sources is likely to be highly dependent upon funding decisions by entities at other levels of government. If inter-governmental transfers have constitutional or other legal underpinning, this may make the entity less susceptible to sudden adverse funding decisions by other entities and therefore increase the probability of continuing to receive stable revenues. This information assists users in assessing the entity's vulnerability to decisions outside its control.

Debt Dimension

38. The debt dimension considers debt levels over the period of the projections, given current policy assumptions on the provision of services to recipients and entitlements for beneficiaries, and revenue from taxation and other sources. This dimension focuses attention on the capacity of the entity to meet its financial commitments as they come due or to refinance or increase debt as necessary. It also focuses attention on whether the entity is vulnerable to market and lender confidence and interest rate risk.

39. The level of net debt is important for an assessment of the debt dimension, as, at any reporting date, it represents the amount expended on the past provision of goods and services that has to be financed in the future. Therefore, this indicator is likely to be relevant for many entities. By projecting current policy assumptions for the provision of goods and services, and for revenue from taxation and other sources, projected levels of net debt can be presented.

This information assists users in assessing the entity's ability to meet its financial commitments as they come due or to maintain, refinance or increase its levels of debt and thereby evaluate the sustainability of the entity's debt.

40. At national levels a factor to consider in presenting such projections is whether to distinguish between: (a) the primary balance, which is total projected government spending, excluding interest payable on debt, minus tax revenues, and (b) the overall balance, which is the primary balance including outflows related to interest payable on debt. At sub-national levels or for international organizations the focus may be on net debt as a percentage of total revenues. Increases in this indicator show that an increasing proportion of revenues will be required for debt servicing, thereby diverting resources from service delivery, and that the projected level of an entity's debt may be unsustainable.

Principles and Methodologies

Updating Projections and Frequency of Reporting

41. While regular updates are desirable, this RPG acknowledges that annual updating may not be realistic for all entities. However, there is generally an inverse relationship between the robustness of assumptions on which projections are made and the amount of time since they were made. During periods of global financial volatility the risk of projections made some time before the reporting date becoming outdated increases, with a consequent reduction of the ability of such information to meet the objectives of accountability and decision making. In this situation, an entity should consider updating its projections on a more frequent basis. An entity should also consider updating its projections after significant or major unexpected events such as natural disasters or other emergencies.

Impact of Legal Requirements and Policy Frameworks

42. In some jurisdictions reporting long-term fiscal sustainability information is governed by a legal or regulatory framework that applies at the national or state level or through international arrangements. There may also be legal requirements for local government. These might include balanced budget requirements. These requirements are likely to specify or otherwise affect the principles, assumptions and methodologies an entity should use in calculating and disclosing its projections.

Current Policy, Demographic and Economic Assumptions

43. Where flows for particular programs and activities are individually modeled, the policy assumptions should be based on the continuation of current legislation or regulation with departures where appropriate. Those assumptions (referred to as "current policy assumptions") should be applied consistently through-out the entire projection period. The starting point for

current policy assumptions should be legislation or regulation currently in force. However, there may be instances where a departure from current legislation or regulation may be appropriate, for example:

(a) Where changes to current legislation or regulation have been enacted before the reporting date, and where those changes have a specific implementation date within the time horizon of the projections;

(b) Where the provisions in current legislation or regulation are internally inconsistent; or

(c) Where current legislation or regulation has a termination date, e.g., "sunset provisions".

44. Current policy assumptions may be affected by legal changes that have been enacted before the reporting date, which have a specific implementation date within the time horizon of the projections. In these circumstances, assuming current legislation or regulation remains in force for the entire projection period will not be appropriate.

45. An example of current legislation or regulation that is internally inconsistent is a social security program which has legal provisions that make it unlawful to make payments once an earmarked fund is exhausted, although entitlements of beneficiaries will continue after the exhaustion of that fund. Assuming that the fund will not meet obligations once it is exhausted might reflect a strict legal position, but an entity may need to assess whether the presentation of projections on such a basis underestimates projected outflows and therefore the extent of the fiscal challenge facing the social security program. In this situation an entity may calculate its projections based on current policy assumptions despite legal restrictions.

46. Current legislation or regulation may have a termination date, e.g., sunset provisions, whereby it terminates after a specific period. In many cases there may be a strong probability that such programs will be replaced by similar programs. Adopting a strict legal termination principle could underestimate projected outflows, and therefore impair the usefulness of the information.

Approach to Revenue Inflows

47. Significant revenue inflows from taxation and other sources, such as inter-governmental transfers, may be individually modeled based on current policy assumptions. Significant sources of taxation and other revenue inflows that are not modeled individually are projected to grow (or diminish) in relation to a variable such as gross domestic product (GDP) or a specified inflation index.

48. Other revenue inflows, such as royalties from natural resources, may also be projected to grow in line with GDP or an index. They may also be individually

modeled to address specific circumstances, such as when the natural resource is expected to be depleted.

Approach to Age-Related and Non-Age-Related Programs

49. Age-related programs are often subject to eligibility criteria such as age and other demographic factors. In making projections, programs and activities that are age-related may be distinguished from non-age- related programs. Age-related programs may be individually modeled while non-age-related programs may be projected to increase in line with other variables, such as GDP, or to be constant in real terms. Such an approach to non-age-related programs provides some flexibility, as it allows above GDP/real terms increases in some programs and activities to be offset by lower increases or spending declines in other areas.

Demographic and Economic Assumptions

50. Demographic assumptions are likely to include fertility, mortality and migration rates, and workforce participation rates. Economic assumptions are likely to include economic growth rates and inflation. Other economic assumptions may include environmental factors, such as the impact of the depletion and degradation of ecosystems and the depletion of water and finite natural resources on economic growth.

Reasonableness of Assumptions

51. Projections of inflows and outflows should be based on current policy assumptions and economic and demographic assumptions, which are reasonable in the context of the factors discussed in paragraph 18.

Inflation and Discount Rates

52. There are two main approaches to incorporating the effect of price inflation in projections. Inflation may be taken into account in making projections or projections may be made at current prices (i.e., prices prevailing at the reporting date). If the projections include inflation, then the discount rate should also include inflation. If the projections are at current prices, the discount rate should exclude inflation.

Sensitivity Analysis

53. Many assumptions on which projections are based are inherently uncertain. In some cases small changes in variables can have significant impacts on the projections. The use of sensitivity analysis will help users to understand the impact of significant changes in demographic and economic assumptions on the projections.

Disclosures

54. The entity should disclose information that enables users of its long-term fiscal sustainability information to assess the projected long-term fiscal sustainability of the entity. An entity should make any additional disclosures necessary to meet the objectives of financial reporting.

55. An entity should disclose the following information:

    (a) The name of the entity;

    (b) The financial statements to which the long-term fiscal sustainability information relates;

    (c) Where different, the names of the entities within the reporting boundary for long-term fiscal sustainability information that are different to those for the financial statements;

    (d) Where the entity is a controlled entity, the identity of the controlling entity;

    (e) The date at which a full set of projections was made;

    (f) The basis and timing of subsequent updating of that full set of projections; and

    (g) When an entity uses projections and indicators prepared by other entities or from other sources of information, the names of those entities or other sources, and the information that has been used.

56. The narrative discussion of the projections should include disclosure of the following information:

    (a) The sources of significant revenue inflows from taxation and other sources;

    (b) An overview of the current policy assumptions for significant revenue inflows from taxation and other sources, such as taxation threshold levels and allowances;

    (c) The sources of significant outflows including capital expenditure;

    (d) An overview of the current policy assumptions for the significant outflows including capital expenditure;

    (e) Whether the projections are modeled individually or in aggregate;

    (f) An explanation of the changes in projections between reporting dates and the reasons for those changes;

(g) An explanation that projections are not forecasts and that it is unlikely that projections over the specified time horizon will match the actual outcome and the extent of the difference will depend upon a range of factors, including the future actions of the entity in meeting any identified fiscal challenge;

(h) An explanation of any modifications of formats between reporting periods and the reasons for such changes;

(i) The time horizon used for the projections and the reasons for selecting that time horizon; and

(j) Where an entity changes the time horizon from that used in the previous reporting period, the reason for such a change.

57. The narrative discussion of the dimensions of long-term fiscal sustainability should include disclosure of the following information:

(a) An analysis of significant changes in the indicators compared with those of the previous reporting period;

(b) Changes in the indicators used to report long-term fiscal sustainability information from the previous reporting period, and the reasons for such changes; and

(c) Where an entity uses indicators that are based on amounts derived from non-IPSAS-based information and the indicators affected.

58. An entity should disclose the principles, assumptions and methodology that underpin the projections including the following information:

(a) Key aspects of governing legislation and regulation;

(b) Underlying macro-economic policy and fiscal frameworks, including details of where other publicly available reports on these policies and frameworks can be accessed, including documents outside the GPFRs;

(c) The key current policy assumptions and the key demographic and economic assumptions that underpin the projections;

(d) Its policy for reviewing and updating current policy assumptions and, demographic and economic assumptions;

(e) An explanation of any significant current policy assumptions that depart from current legislation or regulation;

(f) An explanation of significant changes in the principles, assumptions and methodologies from the previous reporting period, the nature and extent of these changes, and the reasons for such changes;

(g) The results of any sensitivity analyses that could have a significant impact on the projections;

(h) The discount rates applied and the basis on which the discount rate has been determined; and

(i) The approach to inflation and the reason for this approach.

Appendix A

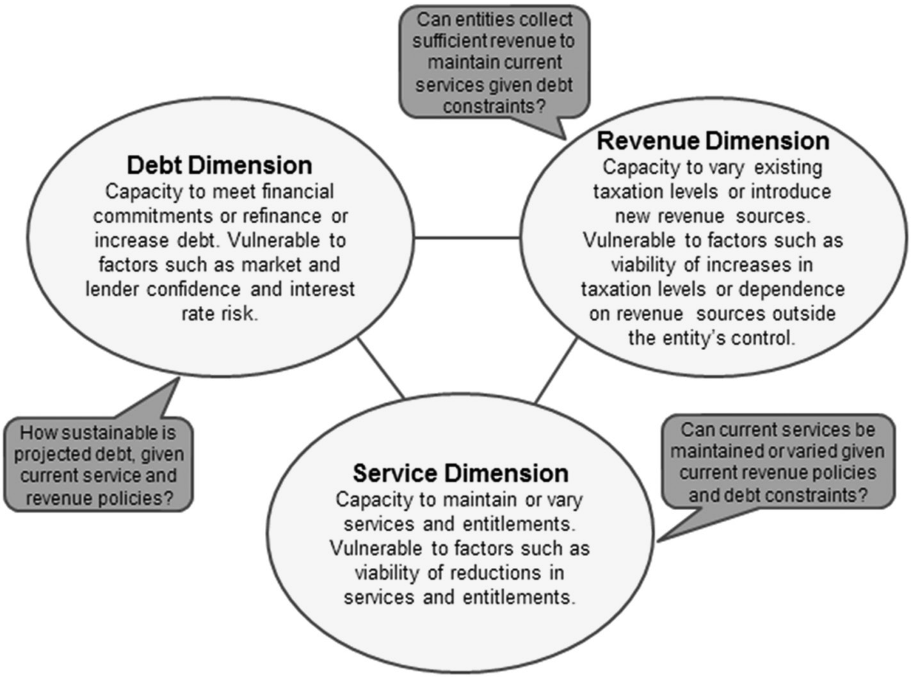
Terms in this RPG Defined in IPSASs

Term	Definition
Assets	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.
Cash	Comprises cash on hand and demand deposits.
Cash equivalents	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.
Controlled entity	An entity, including an unincorporated entity such as a partnership, which is under the control of another entity (known as the controlling entity).
Controlling entity	An entity that has one or more controlled entities.
General government sector	Comprises all organizational entities of the general government as defined in statistical bases of financial reporting.
Liabilities	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.
Reporting date	The date of the last day of the reporting period to which the financial statements relate.
Revenue	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.

Appendix B

Relationships Between the Dimensions of Long-Term Fiscal Sustainability

This Appendix illustrates the two aspects (capacity and vulnerability) of each of the three dimensions and the relationship between the three dimensions.



Appendix C

Glossary of Indicators

This Appendix lists examples of indicators. It is not intended to be an exhaustive list.

Government Finance Statistics Reporting Guidelines

Where an indicator includes a defined term, that term is shown in italics and its definition is shown after the indicators.

- **Gross debt, total:** Total gross debt—often referred to as "total debt" or "total debt liabilities"—consists of all *liabilities* that are *debt instruments*. A debt instrument is defined as a financial claim that requires payment(s) of interest and/or principal by the debtor to the creditor at a date, or dates, in the future.[4]
- **Net debt:** Net debt is calculated as gross debt minus *financial assets* corresponding to *debt instruments*.[4]
- **Net financial worth:** Net financial worth of an *institutional unit* (or grouping of units) is the total value of its *financial assets* minus the total value of its outstanding *liabilities*.[4]
- **Net worth:** Net worth of an *institutional unit* (or grouping of units) is the total value of its *assets* minus the total value of its outstanding *liabilities*.[4]
- **Overall balance:** This term corresponds to the GFS 1986 terminology of "Overall Deficit/Surplus," which is defined as revenue plus grants received less expenditure less "lending minus repayments." The balance so defined is equal (with an opposite sign) to the sum of net borrowing by the government, plus the net decrease in government cash, deposits, and securities held for liquidity purposes. The basis of this balance concept is that government policies are held to be deficit- or surplus-creating, and thus the revenue or expenditures associated with these policies are "above the line." Borrowing or a rundown of liquid assets, however, is deficit financing or "below the line." It should be noted that the term "lending minus repayments" included above the line covers government transactions in debt and equity claims on others undertaken for purposes of public policy rather than for management of government liquidity or earning a return.[5]
- **Primary balance:** The overall balance, excluding interest payments. Since interest payments represent the cost of past debt, and the determinants of future debt that are under policy control of government are other spending and revenue measures exclusive of interest payment, the primary balance is of particular

[4] Source: International Monetary Fund: *Public Sector Debt Statistics—Guide for Compilers and Users* 2011.

[5] Source: International Monetary Fund: *Manual on Fiscal Transparency (2007).*

importance as an indicator of the fiscal position in countries with high levels of debt.[5]

Underlying Definitions

- **Debt instrument:** A debt instrument is defined as a financial claim that requires payment(s) of interest and/or principal by the debtor to the creditor at a date, or dates, in the future.[4]
- **Economic assets:** Economic assets are entities (i) over which economic ownership rights are enforced by institutional units, individually or collectively, and (ii) from which economic benefits may be derived by their owners by holding them or using them over a period of time.[4]
- **Financial assets:** Financial assets consist of financial claims plus gold bullion held by monetary authorities as a reserve asset. A financial claim is an asset that typically entitles the owner of the asset (the creditor) to receive funds or other resources from another unit, under the terms of a liability.[6]
- **Institutional unit:** An institutional unit is an economic entity that is capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities and in transactions with other entities.[6]
- **Liability:** A liability is established when one unit (the debtor) is obliged, under specific circumstances, to provide funds or other resources to another unit (the creditor).[6]

Other Sources

- **Fiscal gap:** The fiscal gap is the change in non-interest spending and/or receipts that would be necessary to maintain public debt at or below a target percentage of gross domestic product (GDP).[7] More specifically, the fiscal gap is the net present value of projected spending[8] minus projected receipts, adjusted by the decrease (or increase) in public debt required to maintain public debt at or below the target percentage of GDP for the stated projection period. (Source: US Federal Accounting Standards Advisory Board: Statement of Federal Financial Accounting Standards 36: *Comprehensive Long-Term Projections for the U.S. Government* 2009).

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6 Source: International Monetary Fund: Public Sector Debt Statistics—Guide for Compilers and Users 2011.

7 GDP is the total market value of all final goods and services produced domestically during a given period of time. The components of GDP are: private sector consumption and investment, government consumption and investment, and net exports (exports-imports).

8 Since interest is factored into the present value calculation, the fiscal gap as a share of spending is expressed as a share of spending excluding interest ("non-interest spending").

- **Inter-temporal budget constraint:** The inter-temporal budget constraint is satisfied if the projected outflows of the government (current public debt and the discounted value of all future expenditure, including the projected increase in age-related expenditure) are covered by the discounted value of all future government revenue. (Source European Commission: *Sustainability Report*: 2009).
- **Net Debt/Total Revenues:** Net debt as a proportion of total revenues. (Source Canadian Public Sector Accounting Board (PSAB): Statement of Recommended Practice 4 (SORP 4), *Indicators of Financial Condition*: 2009).

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, RPG 1.

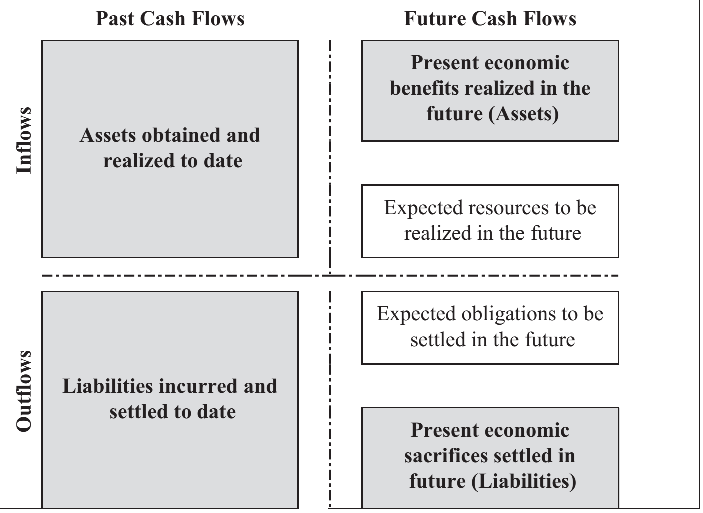
Background

BC1. The IPSASB initially launched a project on accounting for social policy obligations (subsequently re-termed social benefits) in 2002. This led to the publication of an Invitation to Comment (ITC), *Accounting for Social Policies of Governments*, in January 2004. Following an analysis of responses to that ITC, the IPSASB began to develop proposals for accounting for obligations related to different sub-categories of social benefits. In late 2006, due to failure to agree on recognition points and measurement requirements for liabilities, the IPSASB decided not to develop further proposals on recognition and measurement at that time.

BC2. As an interim step the IPSASB developed proposals for the disclosure of amounts to be transferred to those eligible at the reporting date for cash transfers (benefits settled in cash). It expressly did not propose the disclosure of obligations and liabilities. ED 34, *Social Benefits: Disclosure of Cash Transfers to Individuals or Households,* was issued in March 2008.

BC3. The deliberations on identifying the point at which liabilities for social benefits arise had led the IPSASB to the view that the financial statements cannot provide all the information that users need on social benefits. This is illustrated in Exhibit One below where the shaded boxes indicate information provided in the financial statements. The IPSASB considered that before launching any further project it should consult constituents. Therefore the IPSASB raised this issue in a further Consultation Paper, *Social Benefits: Issues in Recognition and Measurement,* and issued a Project Brief, *Long-Term Fiscal Sustainability Reporting.* Both these documents were issued at the same time as ED 34.

Exhibit One
Supplementing Information provided in the Statement of Financial Position



BC4. In October 2008 the IPSASB reviewed responses to all of the above documents. In the light of these responses, it was decided not to develop ED 34 into an IPSAS. The IPSASB also noted that a large majority of respondents agreed that the financial statements cannot convey sufficient information to users about the long-term financial implications of governmental programs providing social benefits.[9] In light of this view the IPSASB decided to initiate a project on long-term fiscal sustainability (subsequently re-termed "Reporting on the Long-Term Sustainability of Public Finances"). This led to the issue of a Consultation Paper, *Reporting on the Long-Term Sustainability of Public Finances,* in November 2009. Drawing on existing practice the Consultation Paper put forward the case for reporting long-term fiscal sustainability information, made suggestions on how such information might be presented and sought the views of constituents. The majority of respondents to the Consultation Paper favored the continuation of the project, although many said that they preferred the IPSASB to develop guidelines rather than requirements.

BC5. In light of the responses to the Consultation Paper, the IPSASB developed ED 46.RPG, *Reporting on the Long-Term Sustainability of a Public Sector*

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[9] Further work on proposals for the recognition and measurement of liabilities arising from obligations to deliver social benefits has progressed indirectly in Phase 2 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* project. This phase deals with elements, and includes the development of the definition of a liability and other relevant issues such as whether the power to tax is an asset. This work is likely to influence the approach to recognizing and measuring liabilities related to social benefits. The IPSASB decided to reactivate its project on social benefits at its June 2013 meeting.

Entity's Finances, which was issued in October 2011. This ED proposed non-authoritative guidance for public sector entities reporting long-term fiscal sustainability information.

BC6. The IPSASB has further developed its thinking on reporting long-term fiscal sustainability information in the course of its project on *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* and, in particular, in Chapter 2 of that Framework. Chapter 2: *Objectives and Users of General Purpose Financial Reporting* reflects the view that, although the financial statements are at the core of financial reporting, a more comprehensive scope is necessary to meet the needs of users. That scope includes prospective financial information. The IPSASB has also noted that projected outflows relating to obligations as a result of past decisions and projected inflows related to sovereign powers and taxation powers may not be recognized or may only be partially recognized in the statement of financial position and the statement of financial performance. Therefore, in order to meet the financial reporting objectives of accountability and decision making, an entity should provide users with information on future inflows and outflows that supplements information on the entity's financial position in the financial statements.

BC7. The IPSASB acknowledges that the rationale for reporting long-term fiscal sustainability information in paragraph BC6 might indicate that for some entities such reporting should be required. However, the IPSASB concluded that it would be premature to issue an authoritative pronouncement, because reporting long-term fiscal sustainability information in GPFRs is an area where practice is developing and the IPSASB wishes to encourage innovative and flexible approaches. This approach is consistent with the views of the majority of respondents to ED 46. The IPSASB notes that paragraph 4 of the RPG notes that it is good practice to follow this RPG.

Scope

BC8. The IPSASB considered whether the scope of the RPG should be limited to the consolidated national and whole-of-government levels. The IPSASB acknowledged that reporting long-term fiscal sustainability information is particularly relevant at these levels, but concluded that there might be significant user demand for such information at sub-national levels. The IPSASB therefore concluded that a narrow scope limited to the national and whole-of-government levels is not justified. The factors considered by the Board in determining whether an entity should report long-term fiscal sustainability information are discussed in paragraphs BC14-BC17.

Definitions

Long-Term Fiscal Sustainability

BC9. The Consultation Paper noted that there is no universally accepted definition of long-term fiscal sustainability and included a working definition that long-term fiscal sustainability is "the ability of government to meet its service delivery and financial commitments both now and in the future." The IPSASB acknowledged the view that this definition is insufficiently rigorous and that a definition should be adopted that provides users with a clearer indication whether an entity's current economic position is sustainable. Such an approach might involve (a) linking current service delivery obligations to the maintenance of current taxation levels and (b) focusing on projected debt paths. An entity that can only meet current service delivery obligations and financial obligations by increasing taxation or current debt levels is identified as being in an unsustainable position. Macro-economists tend to adopt this more rigorous approach and focus on "explosive" debt paths, which is a term that connotes that existing service levels and existing benefits from entitlement programs cannot be sustained without major increases in levels of indebtedness.

BC10. When this RPG was issued, the IPSASB decided to retain the definition of long-term fiscal sustainability used in the Consultation Paper for ED 46 and subsequently for this RPG, except for widening the scope to reflect that it can apply to all public sector entities (except [Government Business Enterprises]) (the term in square brackets is no longer used following the issue of *The Applicability of IPSASs* in April 2016) rather than limiting it to governments. In coming to this conclusion the IPSASB noted the need for governments and public sector entities to both (a) provide services and meet obligations relating to entitlement programs and (b) meet financial obligations, principally debt servicing. The IPSASB also noted that many governments have sovereign powers to enact legislation for new taxation sources and to vary the levels of existing taxation, while acknowledging that in a global environment the ability to increase taxation might be practically constrained by a number of considerations. The IPSASB took the view that, provided an entity gives appropriate attention to the dimensions of long-term fiscal sustainability, as explained in paragraphs 27–40, users will be given adequate information about whether an entity can maintain existing service levels, meet obligations to the current and future beneficiaries of entitlement programs and meet financial obligations without increasing revenue from taxation and other sources or increasing borrowing.

Projections, Forecasts and Budgets

BC11. Several respondents to ED 46 suggested that the relationship between projections, forecasts and budgets should be clarified. Given that there are no universally accepted definitions of these terms, the IPSASB decided to develop a definition of a projection to clarify the characteristics of information that should be used in calculating the projections and to ensure that only calculations that meet these characteristics are within the scope of the RPG.

BC12. In developing its definition of a projection the IPSASB considered whether forward-looking financial information should be based on a strict adherence to legislation or regulation in force at the reporting date, or whether specific departures from legislation or regulation in force at the reporting date might be appropriate. The IPSASB recognized that there may be limited cases where departures from current legislation or regulation may be appropriate in order to provide more relevant information. A projection is therefore defined as "forward-looking financial information prepared on the basis of the entity's current policy assumptions, and assumptions about future economic and other conditions." Current policy assumptions are those "assumptions based on legislation or regulation in force at the reporting date with appropriate departures for defined circumstances." Circumstances where departures from current legislation or regulation are appropriate are detailed in paragraph 43 and discussed in paragraphs BC31-34.

BC13. Budgets and forecasts aim to provide details of intended outcomes. In contrast projections are not intended to provide approximations of actual outcomes. A budget is a plan of an entity's anticipated revenues or receipts and anticipated expenses or expenditure over a specified period. It may be related to service outputs or outcomes in the period. A forecast provides prospective information that includes anticipated actions and interventions by the entity although these may not be reflected in current legislation or regulation or within the limited departures inherent in the definition of a projection. The IPSASB agreed that some of the information in budgets or forecasts might also be used for projections.

Determining Whether to Report Long-Term Fiscal Sustainability Information

BC14. As discussed in paragraph BC8 the IPSASB concluded that the scope of the RPG should not be limited to particular levels of government. However, the IPSASB acknowledged that reporting long-term fiscal sustainability information might not be appropriate for all entities.

BC15. The Consultation Paper questioned whether reporting long-term fiscal sustainability information is appropriate for individual controlled entities. This reservation was based on a tentative view that (a) the cost of producing the information for such entities is likely to be greater than the benefits to users, (b) the production of separate reports and disclosures by individual entities within an economic entity might be confusing to users and (c) it could be misleading if entities with limited tax-raising powers and a dependence on resources from entities at other tiers of government provide projections that are contingent on taxation decisions over which they have little or no control. Some respondents to the Consultation Paper challenged this view and suggested that there are cases where users for long-term fiscal sustainability information of controlled entities can be identified. The example of a local government entity controlled by a state or provincial government was cited. These respondents proposed that the test for whether an entity reports long-term fiscal sustainability information should be to assess whether potential users exist for this type of information. The IPSASB was persuaded by these arguments and the RPG reflects these views in paragraphs 12 and 13.

BC16. The IPSASB acknowledged that direct evidence of the existence of users of long-term fiscal sustainability information might not be readily available. The IPSASB sought to identify characteristics which might indicate the existence of users across the three dimensions of long-term fiscal sustainability. The IPSASB had reservations about whether there would be significant numbers of users to justify the costs of reporting if entities did not have one or more of the following characteristics:

(a) Significant tax and/or other revenue raising powers;

(b) Powers to incur significant debt; or

(c) The power and ability to determine the nature, level and method of service delivery including the introduction of new services.

BC17. The IPSASB believes that reporting long-term fiscal sustainability information is likely to be relevant at the whole of government level, consolidated national level, and for major sub-national entities such as regions, provinces, states and large local government entities (for examples, cities), which have tax raising powers enabling them to generate a significant proportion of their total revenues. The IPSASB remains of the view that reporting long-term sustainability information is unlikely to be appropriate for individual government departments and entities. This is because often they do not have tax raising powers, their expenditure is controlled through appropriations, and they do not have powers to incur debt.

Presenting Projections of Future Inflows and Outflows

BC18. The Consultation Paper considered three models for reporting long-term fiscal sustainability information and suggested that (a) the provision of additional statements providing details of projections and (b) summarized projections in narrative reporting were appropriate. Some respondents suggested that, although the Consultation Paper acknowledged that these reporting approaches were not mutually exclusive, the IPSASB should highlight that reporting long-term fiscal sustainability information just by displaying projections in statements is insufficient to meet user needs and that other presentation methods need to be deployed. The IPSASB was persuaded by this view and agreed to reflect this in paragraph 17 of the RPG).

BC19. The IPSASB considered whether it should recommend time horizons for projections for entities at particular levels of government. It acknowledged the view that standard time horizons for particular types of public sector entity might enhance comparability. The IPSASB decided that such benchmarks would be over-prescriptive and impractical. The scope of the RPG is such that standard time horizons would have to be determined for a wide range of entities, including individual reporting entities.[10] In addition the fiscal autonomy of entities at the same level of government can differ markedly between jurisdictions. The IPSASB concluded, however, that it is good practice for entities to explain the reason for the time horizons that they select. The IPSASB considers that the extent of an entity's dependence on other entities for funding will have an impact on time horizons; the higher the level of dependence, the higher the likelihood of shorter time horizons.

BC20. The Consultation Paper included illustrative examples of tabular statements showing 75 year projections for key programs and activities. The IPSASB noted the view of some respondents that a focus on the position at the end of the time horizon may obscure events between the reporting date and the end of the time horizon. The IPSASB accepted this view and included guidance on the need to balance the QCs of verifiability, faithful representation and relevance in displaying projections in paragraph 25 of the RPG.

Addressing the Dimensions of Long-Term Fiscal Sustainability

BC21. The IPSASB considered that providing a flexible framework for the disclosure of information might help entities to organize the way in which they communicate information and ensure that information is a faithful representation of an entity's long-term fiscal sustainability information.

BC22. ED 46 included three dimensions of long-term fiscal sustainability, as follows:

- Fiscal capacity;
- Service capacity; and
- Vulnerability.

BC23. The description of vulnerability was derived from the definition of vulnerability in Statement of Recommended Practice 4 (SORP-4), *Indicators of Financial Condition* issued by the Canadian Public Sector Accounting Board (PSAB). The definition in SORP-4 is "the degree to which a government is dependent on sources of funding outside its control or influence or is exposed to risks that could impair its ability to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others." The IPSASB considered that a variant of this notion is particularly important for entities at sub-national levels which have limited taxation powers and are therefore exposed to decisions, over which they have no or very limited control, taken by other entities at other levels of government.

[10] For example, such entities might include school boards or bodies responsible for water and drainage.

BC24. The descriptions of the other two dimensions in ED 46 were derived from the US Governmental Accounting Standards Board's (GASB)[11] definitions of "fiscal capacity" and "service capacity." The GASB defines fiscal capacity as "the government's ability and willingness to meet its financial obligations as they come due on an ongoing basis" and service capacity as "the government's ability and willingness to meet its commitments to provide services on an ongoing basis."

BC25. When developing the RPG based on ED 46, the IPSASB considered whether the notion of vulnerability in the ED was too narrow and whether vulnerability is a more pervasive factor in the analysis of the long-term fiscal sustainability of an entity's finances. The IPSASB concluded that vulnerability is an aspect of all three dimensions. Therefore, the IPSASB decided to (a) explain how the notion of vulnerability affects each dimension of long-term fiscal sustainability and (b) change the name of the vulnerability dimension to the revenue dimension because its description relates to changes in revenues.

BC26. The IPSASB also noted that the dictionary definition of "fiscal" includes revenue[12] while the description of fiscal capacity relates to the ability of the entity to meet financial commitments, in other words, its ability to maintain and service its debt. Therefore the IPSASB decided that the name of this dimension should be changed to the debt dimension to more closely reflect the description. The renaming of these two dimensions required a modification to the service capacity dimension so that the wording of the three dimensions is consistent. The IPSASB acknowledged that the dimensions are inter-related.

BC27. The IPSASB noted that the approach taken by the PSAB and the GASB had similarities to the "dimensions" of sustainability developed by Allen Schick[13] and discussed in the Consultation Paper.

BC28. One of the dimensions that Schick discussed was "economic growth." The IPSASB considered that explicitly introducing a dimension of economic growth was inappropriate because the determinants of economic growth are complex and not under the control of the reporting entity. However, assumptions about economic growth will be critical to the development of projections and are likely to feature heavily in sensitivity analyses.

Principles and Methodologies

BC29. The Consultation Paper discussed the principles that should be adopted for the inclusion of programs and activities in reporting long-term fiscal sustainability information and methodologies central to the outcome of projections. The

[11] *Preliminary Views of the Governmental Accounting Standards Board on Major Issues related to Economic Condition Reporting: Financial Projections*. (Governmental Accounting Standards Board: Norwalk, CT, USA, November 2011).

[12] The definition of fiscal is "of or relating to taxation, public revenues, or public debt" (Webster's Ninth New Collegiate Dictionary, 1984).

[13] Allen Schick, *Sustainable Budget Policy: Concepts and Approaches* (OECD: Paris, 2005).

areas addressed included whether projections should be based on current or future policy, the approach to revenue inflows, the approach to age-related and non-age-related programs and the approach to sensitivity analysis. The IPSASB considered whether, in order to meet the qualitative characteristic of comparability, the IPSASB should make firm recommendations on good practice.

BC30. The IPSASB did not consider it appropriate to make firm recommendations on good practice because (a) the scope of the RPG includes all public sector entities and practice that is appropriate at one level of government may not be suitable elsewhere in the public sector, (b) while reporting long-term fiscal sustainability information has become a feature of financial management in an increasing number of jurisdictions it is at an early stage of development and (c) it is not the intention of the IPSASB to usurp the role of other professional groups with expertise in this area. In some cases the IPSASB has considered it appropriate to express a view on a preferred high level approach. For example, the IPSASB has taken the view that projections are likely to be most useful when they are based on current policy assumptions and encompass both inflows as well as outflows. The IPSASB also noted that, at the national level, the Organisation for Economic Cooperation and Development has recommended that projections should be updated on an annual basis.

Current Policy Assumptions

BC31. Paragraphs 40–42 of ED 46 explained that an entity can depart from using current policy to calculate its projections (a) where there is a conflict between current policy and legal obligations and (b) where a policy has "sunset provisions."

BC32. The IPSASB introduced the term "current policy assumptions" to clarify that current policy means current legislation or regulation with departures where appropriate. Current policy assumptions are applied to the entire projection period for inflows or outflows that are individually projected. The RPG gives examples of where a departure may be appropriate in paragraphs 44-46. The IPSASB noted that paragraph 58(e) of the RPG recommends that any departures from current legislation or regulation be disclosed together with the reasons for such departures.

BC33. A respondent to ED 46 raised a concern that the concept of current policy should be broader than that proposed in the ED to deal with issues such as fiscal drag. Fiscal drag refers to the phenomenon that income tax inflows grow faster than the income it is levied on because, as an individual's income grows, an increasing proportion of it is taxed at a higher rate. Fiscal drag occurs if the rates and thresholds for the taxation of individuals are not adjusted over time, and is often addressed by governments through periodic increasing of tax thresholds.

BC34. The IPSASB concluded that the issue of fiscal drag is addressed in paragraph 47 of the RPG because it permits current policy assumptions to be applied to the demographic and economic assumptions, including assumptions over inflation. When a flow such as tax is modeled it may be based on a percentage of a variable such as GDP or reflect the application of current policy assumptions to the changing circumstances reflected in the demographic and economic assumptions.

Revision of RPG 1 as a result of the IPSASB's *The Applicability of IPSASs*, issued in April 2016

BC35. The IPSASB issued *The Applicability of IPSASs* in April 2016. This pronouncement amends references in all IPSASs as follows:

(a) Removes the standard paragraphs about the applicability of IPSASs to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSASs are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

RPG 2—FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

History of RPG

RPG 2, *Financial Statement Discussion and Analysis* was issued in July 2013.

Since then, RPG 2 has been amended by the following IPSASs:

- *The Applicability of IPSASs* (issued April 2016)

Table of Amended Paragraphs in RPG 2

Paragraph Affected	How Affected	Affected By
6	Deleted	The Applicability of IPSASs April 2016

July 2013

FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

CONTENTS

Objective

1. This Recommended Practice Guideline (RPG) provides guidance for preparing and presenting financial statement discussion and analysis. Financial statement discussion and analysis will assist users to understand the financial position, financial performance and cash flows presented in the general purpose financial statements (hereafter referred to as "financial statements").

Status and Scope

2. The reporting of information in accordance with this RPG represents good practice. An entity preparing and presenting financial statement discussion and analysis is encouraged to follow this RPG. Compliance with this RPG is not required in order for an entity to assert that its financial statements comply with International Public Sector Accounting Standards (IPSASs).

3. Financial statement discussion and analysis should be presented at least annually and should use the same reporting period as that covered by the financial statements.

4. The reporting boundary for financial statement discussion and analysis should be the same as that used for the financial statements.

5. Financial statement discussion and analysis should be issued with the financial statements.

6. [Deleted]

7. Financial statement discussion and analysis should not be described as complying with this RPG unless it complies with all the requirements of this RPG.

8. In some jurisdictions, preparation and presentation of financial statement discussion and analysis is a legislative or regulatory requirement, or required by other externally imposed regulations. Entities are encouraged to disclose information about the impact of such requirements on compliance with this RPG.

Definition

9. The following term is used in this RPG with the meaning specified:

   <u>Financial statement discussion and analysis</u> is an explanation of the significant items, transactions and events presented in an entity's financial statements and the factors that influenced them.

   Terms used in this RPG with the meanings specified in International Public Sector Accounting Standards (IPSASs) are set out in Appendix A.

Identification of Financial Statement Discussion and Analysis

10. Financial statement discussion and analysis should be clearly identified, and distinguished from the financial statements and from other information.

11. Separate identification of financial statement discussion and analysis enables users to distinguish:

    (a) Financial statements prepared and presented under the accrual basis of accounting in accordance with IPSASs;

    (b) Financial statement discussion and analysis prepared in accordance with this RPG; and

    (c) Other information presented in an annual report or other document that may be useful to users but is not the subject of requirements in IPSASs or recommendations in RPGs (but could be the subject of guidance in other RPGs).

12. Financial statement discussion and analysis should identify the financial statements to which it relates.

Presenting Financial Statement Discussion and Analysis

13. Financial statement discussion and analysis provides information useful to users for accountability and decision-making purposes by enabling users to gain an insight into the operations of the entity from the perspective of the entity itself. It also provides the opportunity to reflect the entity's interpretation of significant items, transactions and events affecting the financial position, financial performance and cash flows of the entity. Therefore, financial statement discussion and analysis complements the information in the financial statements.

14. Information in financial statement discussion and analysis should meet the qualitative characteristics of financial reporting taking into account the constraints on information included in general purpose financial reports (GPFRs)[1].

Content of Financial Statement Discussion and Analysis

15. The content of financial statement discussion and analysis should be consistent with the financial statements and the underlying items, transactions and events, as well as assumptions such as those relating to recognition and measurement.

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[1] The qualitative characteristics of financial reporting are relevance, faithful representation, understandability, timeliness, comparability and verifiability. The constraints on information are materiality, cost-benefit and the balance between the qualitative characteristics. See Chapter 3 of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* for further details.

16. Financial statement discussion and analysis should include the following, without merely replicating information in the financial statements:

(a) An overview of the entity's operations and the environment in which it operates;

(b) Information about the entity's objectives and strategies;

(c) An analysis of the entity's financial statements including significant changes and trends in an entity's financial position, financial performance and cash flows; and

(d) A description of the entity's principal risks and uncertainties that affect its financial position, financial performance and cash flows, an explanation of changes in those risks and uncertainties since the last reporting date and its strategies for bearing or mitigating those risks and uncertainties.

17. The form and specific content of an entity's financial statement discussion and analysis should reflect the nature of the entity and the regulatory environment in which it operates.

18. Where financial statement discussion and analysis includes information that is also in the financial statements, it should not merely repeat what is in the financial statements, but should analyze and explain how items, transactions and events affect the entity's financial position, financial performance and cash flows. Financial statement discussion and analysis should include cross-references to the financial statements where appropriate to avoid duplication of information.

Overview of the Entity's Operations and Environment

19. An overview of the entity helps users to understand the entity's operations and how the environment in which it operates affects its financial statements. This information assists users' understanding of an entity's financial statements. Information provided about an entity's operations in financial statement discussion and analysis may include current information, and changes from the prior period, relating to:

(a) The entity's mission and vision;

(b) The entity's governance (e.g., legislative or regulatory structure, management structure);

(c) The entity's relationships with other entities, with a focus on relationships that could significantly affect the entity's financial position, financial performance and cash flows (e.g., funding arrangements);

(d) External trends, events and developments in the legal, regulatory, social, political and macro-economic environment specific to the entity, which have or may have a significant impact on the entity's financial position, financial performance and cash flows (e.g., the impact of events in international markets on employment, the tax base, or interest rates); and

(e) The entity's main operations, including service delivery methods (e.g., outsourcing, service concession arrangements) and significant changes in them.

Information about the Entity's Objectives and Strategies

20. Financial statement discussion and analysis should discuss the entity's objectives and strategies relating to its financial position, financial performance and cash flows in a way that enables users of the financial statements to understand the entity's priorities and to identify the resources that must be managed to achieve these objectives and strategies. For example, such objectives and strategies could include managing surplus/deficit, and managing the levels of debt and reserves. Financial statement discussion and analysis should explain how achievement of the entity's objectives would be measured and over what time period progress would be measured.

21. Financial statement discussion and analysis should discuss significant changes in an entity's objectives and strategies from the previous period or periods.

Analysis of the Entity's Financial Statements

22. Financial statement discussion and analysis should include an analysis of significant changes and trends in an entity's financial position, financial performance and cash flows. An analysis of trends includes those financial statement items that are important and significant to gaining a better understanding of an entity's financial position, financial performance and cash flows and changes in financial position, financial performance and cash flows over a period of time.

23. Financial statement discussion and analysis should describe the significant items, transactions and events that have affected the financial position, financial performance and cash flows, without simply reiterating the information presented in the financial statements. Judgment is required in identifying the significant items, transactions and events.

24. If information from the financial statements has been adjusted for inclusion in financial statement discussion and analysis, that fact should be disclosed along with the nature of and reasons for the adjustments. When financial performance measures are derived from the financial statements, those

measures should be reconciled to measures presented in the financial statements that have been prepared in accordance with IPSASs.

25. Comparative information should be disclosed for amounts presented in financial statement discussion and analysis when it is relevant to an understanding of the current period's financial statement discussion and analysis.

26. When an entity is required or elects to make its approved budget(s) publicly available, IPSAS 24, *Presentation of Budget Information in Financial Statements* requires a comparison of budget and actual amounts in the financial statements. IPSAS 24 also requires an explanation of material differences between the budgeted and actual amounts and permits an entity to disclose this information either in the notes to the financial statements or in other public reports. When an entity elects to include this information in its financial statement discussion and analysis, it should apply the guidance in IPSAS 24 to these disclosures.

Risks and Uncertainties

27. Financial statement discussion and analysis should discuss the entity's principal risks and uncertainties that affect its financial position, financial performance and cash flows and include an explanation of how this relates to the objectives and strategies of the entity. This information would help users to evaluate the impact of those risks in the current period (e.g., contingent liabilities disclosed in the financial statements or the use of foreign currency hedges to mitigate risk) as well as expected outcomes.

28. The principal risks and uncertainties can be external or internal risks; any description of these risks and uncertainties should cover exposures to both negative consequences and potential opportunities.

29. A discussion of how the entity manages its risks and uncertainties helps users obtain a faithful representation of the entity's exposure to risks that directly affect financial statement items, which allows them to evaluate the entity's financial position, financial performance and cash flows. Such disclosure may include the entity's decision to "self-insure" in respect of some risks, or to mitigate risk by transferring or sharing it through insurance.

30. A discussion of these risks and uncertainties would provide relevant information to users about exposure or vulnerability to concentrations of risks such as significant loans to particular regions or industries, or dependence on a particular source of revenue.

31. Risks and uncertainties that affect the financial position, financial performance and cash flows may have a pervasive effect on the financial statements. Therefore, information relating to these risks and uncertainties may be reported separately, or in relevant sections throughout financial statement discussion and analysis.

Appendix A

Terms in this RPG Defined in IPSASs

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

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, RPG 2.

Background

BC1. The IPSASB approved a project in March 2008 to address "narrative reporting". In developing this RPG, the IPSASB clarified that the scope of the project was to address only those reports that provide discussion and analysis specifically relating to an entity's general purpose financial statements ("financial statements") as set out in IPSAS 1, *Presentation of Financial Statements* and not broader types of reports that may be considered general purpose financial reports as envisaged in the IPSASB's *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the *Conceptual Framework*). The IPSASB considers that it is important to provide narrative information related directly to the financial statements since this provides useful information for accountability and decision-making by users of financial statements.

BC2. In undertaking this project, the IPSASB considered, under its *Process for Reviewing and Modifying IASB Documents*, whether to develop guidance that was converged with *Management Commentary*, an IFRS Practice Statement. The IPSASB did not consider this approach to be appropriate because the users identified in the Practice Statement are investors whereas Chapter 2 of the *Conceptual Framework* identifies different users, which results in different information needs related to the financial statements. On this basis the IPSASB decided it was important to develop guidance on financial statement discussion and analysis specific to the public sector. Financial statement discussion and analysis assists users of public sector entities' financial statements by complementing and supplementing the financial statement explanations with insights and perspectives.

BC3. Financial statement discussion and analysis is intended to address similar matters to reports that may be termed "management discussion and analysis" and "management commentary" in various jurisdictions. However, the IPSASB did not consider those terms to accurately describe the nature of the report in relation to the financial statements. The IPSASB decided it was important to link financial statement discussion and analysis to the financial statements because financial statement discussion and analysis is intended to explain the financial statements, and not to stand alone. The IPSASB considers the term "financial statement discussion and analysis" clearly defines the scope of applicability of this RPG and its close linkage to the financial statements.

Exposure Draft 47, *Financial Statement Discussion and Analysis*

BC4. The IPSASB developed Exposure Draft (ED) 47, *Financial Statement Discussion and Analysis* which was issued in March 2012. This ED proposed that entities that prepare and present their financial statements in accordance with IPSASs should be required to prepare financial statement discussion and analysis. This meant that financial statement discussion and analysis would have the same level of authority as accrual-based IPSASs even though it related to a GPFR.

BC5. In developing the ED the IPSASB considered that financial statement discussion and analysis provides additional information necessary to meet the objectives of financial statements. Furthermore, the IPSASB considered that the benefits of providing financial statement discussion and analysis would outweigh the costs of preparing it, as the information is used in the preparation of the financial statements, and tailored to the specific circumstances of the entity. The IPSASB therefore proposed that financial statement discussion and analysis should be prepared by all entities that prepare their financial statements in accordance with IPSASs.

BC6. Some respondents to the ED raised the concern that entities might not be able to assert compliance with IPSASs applicable to the financial statements if they did not follow the proposed requirements in the ED (if issued as an IPSAS). In particular, respondents were concerned that financial statement discussion and analysis might still be considered to be a part of the IPSAS reporting framework even though the ED explicitly stated that financial statement discussion and analysis is not a component of the financial statements. Some of these respondents suggested that this would not be an issue if the ED was developed into non-authoritative guidance, e.g., a Recommended Practice Guideline (RPG).

BC7. The IPSASB considered whether the ED should be developed as an IPSAS or an RPG. The IPSASB considered this issue in the context of whether or not authoritative pronouncements could be developed for GPFRs, an issue on which members had varying views. The IPSASB noted that the scope of its *Conceptual Framework* is not limited to general purpose financial statements.

BC8. Respondents to the ED were split on this issue with a slight majority favoring the material not becoming an IPSAS. Of those not in favor of issuing an IPSAS, the majority of respondents expressed a clear view that it should be issued as guidance similar to the proposed RPG *Reporting on the Long-Term Sustainability of an Entity's Finances*.

BC9. As a well-established area of GPFRs, an authoritative pronouncement on financial statement discussion and analysis would help entities meet the accountability objective of financial reporting since it would enable users to gain an insight into the operations of the entity from the perspective of the entity itself. Financial statement discussion and analysis is an explanation of the financial statements but is not part of the financial statements and therefore it is not required for the fair presentation of the financial statements.

BC10. On balance the IPSASB decided that the ED should be developed into an RPG. The IPSASB considers that this RPG provides useful guidance for entities and its flexible application could benefit entities in jurisdictions that have local requirements or regulations. It will also promote comparability across entities that present financial statement discussion and analysis. Furthermore, the IPSASB considers that the RPG might encourage entities that are not accustomed to presenting financial statement discussion and analysis to provide users with this information.

BC11. Because financial statement discussion and analysis contributes to meeting the accountability objective of financial reporting, the IPSASB decided that it should consider the authority of this pronouncement on financial statement discussion and analysis in the future.

Forward-Looking Information

BC12. The IPSASB considered whether it should recommend that an entity disclose forward-looking information, such as forecasts. The IPSASB acknowledged concerns that in some jurisdictions providing forward-looking information might be seen as signaling political intent or committing a public sector entity to certain future actions. In addition, whether forward-looking information can be included in financial statement discussion and analysis will vary depending upon the regulatory and budgetary reporting environment in which the entity operates. Some members expressed the opinion that not including forward-looking information could have an impact on the ability of financial discussion and analysis to support decision-making of users and therefore its inclusion should be recommended. However, on balance the IPSASB decided not to recommend that an entity disclose forward-looking information, though such information may be provided if an entity so chooses.

Implementation Guidance and Illustrative Examples

BC13. ED 47 included Implementation Guidance on qualitative characteristics, and illustrative examples of information about the entity's financial statements and variances and trends. The IPSASB decided to delete the implementation guidance and illustrative examples on the basis that entities preparing financial statement discussion and analysis should focus on the guidance in the RPG. Moreover, the IPSASB observed that best-practice examples are available from other sources.

Revision of RPG 2 as a result of the IPSASB's *The Applicability of IPSASs*, issued in April 2016

BC14. The IPSASB issued *The Applicability of IPSASs* in April 2016. This pronouncement amends references in all IPSASs as follows:

(a) Removes the standard paragraphs about the applicability of IPSASs to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSASs are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

RPG 3—REPORTING SERVICE PERFORMANCE INFORMATION

History of RPG

RPG 3, *Reporting Service Performance Information* was issued in March 2015.

Since then, RPG 3 has been amended by the following IPSASs:

- *The Applicability of IPSASs* (issued April 2016)

Table of Amended Paragraphs in RPG 3

Paragraph Affected	How Affected	Affected By
3	Deleted	The Applicability of IPSASs April 2016

REPORTING SERVICE PERFORMANCE INFORMATION

CONTENTS

Objective

1. This Recommended Practice Guideline (RPG) provides guidance on reporting service performance information in General Purpose Financial Reports (GPFRs). Service performance information is information on the services that the entity provides, an entity's service performance objectives and the extent of its achievement of those objectives. Service performance information assists users of GPFRs (hereafter termed "users") to assess the entity's service efficiency and effectiveness.

Status and Scope

2. The reporting of information in accordance with this RPG represents good practice. An entity reporting service performance information should aim to achieve the principles set out in this RPG. Compliance with this RPG is not required in order for an entity to assert that its financial statements comply with International Public Sector Accounting Standards (IPSASs).

3. Although this RPG does not apply directly to commercial public sector entities, the services provided by a commercial public sector entity controlled by the reporting entity are within the scope of this RPG.

4. Service performance information should not be described as complying with this RPG unless it complies with all the principles in this RPG.

5. This RPG outlines information to be presented. An entity may present additional information if such information is useful in meeting the objectives of financial reporting and meets the qualitative characteristics of financial reporting.

6. In some jurisdictions the presentation of service performance information is a legislative or regulatory requirement. Entities are encouraged to disclose information about the impact of such requirements on compliance with this RPG.

7. A jurisdiction may have established service performance reporting requirements that extend beyond the guidelines in this RPG. These could include, for example, greater specification of required information organization, requirements for a larger set of information to display or disclose, and/or specific performance indicators or specific types of performance that are required to be presented. In that case the entity is encouraged to ensure that information identified through application of both this guideline and jurisdictional requirements is presented.

Definitions

8. The following terms are used in this RPG with the meanings specified:

Effectiveness is the relationship between actual results and service performance objectives.

Efficiency is the relationship between (a) inputs and outputs, or (b) inputs and outcomes.

Inputs are the resources used by an entity to provide outputs.

Outputs are the services provided by an entity to recipients external to the entity.

Outcomes are the impacts on society, which occur as a result of, or are reasonably attributable to, the entity's outputs.

Performance indicators are quantitative measures, qualitative measures, and/or qualitative descriptions of the nature and extent to which an entity is using resources, providing services, and achieving its service performance objectives.

A service performance objective is a description of the planned result(s) that an entity is aiming to achieve expressed in terms of inputs, outputs, outcomes or efficiency.

9. The Implementation Examples that accompany RPG 3 illustrate the terms defined above.

Effectiveness

10. When reporting on its effectiveness the entity reports the extent to which one or more of its service performance objectives has been achieved. The more effectively an entity operates as a service provider, the better will be its actual results when measured against its planned results.

Efficiency

11. An efficiency indicator can be used to show when a service is being provided more (or less) efficiently compared to a reference such as:

(a) Previous reporting periods;

(b) Expectations;

(c) Comparable service providers; or,

(d) Benchmarks.

12. If the same quantity and quality of outputs can be produced at less cost than before then production efficiency has improved and an efficiency indicator designed to report that type of efficiency gain will show an improvement. Similarly, if the quality of a service improves so that the outcomes achieved are better than those previously attained, with other variables such as service quantity (outputs) and cost holding constant, then this represents an increase

in efficiency, and an efficiency indicator designed to capture that type of efficiency gain will show an improvement. The converse—quality decreases so that outcomes are worse, with other variables such as service quantity (outputs) and cost holding constant—would indicate less efficient service provision.

Inputs

13. Resources used to produce outputs may include:

    (a) Human resources or labor;

    (b) Capital assets such as land, buildings and vehicles;

    (c) Cash and other financial assets; and,

    (d) Intangible assets such as intellectual property.

14. Inputs can be reported in terms of costs incurred or quantities used to produce outputs.

Outputs

15. Services provided by an entity to external recipients include:

    (a) Services provided directly to individuals and institutions—for example, health or education services or the provision of goods such as food or books;

    (b) Services provided indirectly to individuals and institutions—for example, services which aim to develop, promote, protect or defend a community, institution, country, or community values and rights;

    (c) Transfers to individuals and institutions—for example, cash transfers and the provision of economic incentives such as tax incentives;

    (d) Policies, regulations or legislation to achieve public policy goals, which includes, for example, revenue related legislation and the enforcement of such legislation; and

    (e) Collection of taxes and other revenues.

16. The receipt of services by recipients external to the entity is a critical factor in deciding whether services are outputs, rather than services consumed internally as part of an entity's production of outputs.

Outcomes

17. An entity's outcomes could be impacts affecting society as a whole or impacts on particular groups or institutions within society. Outcomes could be relatively direct impacts on recipients of the entity's services. They could

also be impacts on others that are not recipients of the entity's services but who benefit indirectly from those services.

18. Outcomes may include, for example, changes to educational achievements within society, changes to poverty and crime levels, or changes to the health of different groups within society.

19. There may be a strong, direct causal link between an entity's actions and its outcomes, but this will not always be the case. Factors beyond the entity's control may intervene to either hinder or facilitate the entity's achievement of outcomes.

Performance Indicators

20. Inputs, outputs, outcomes, efficiency and effectiveness are types of performance indicators.

21. Performance indicators may be quantitative measures—for example, the number of outputs produced, the cost of services, the time taken to provide a service, or a numerical target for an outcome. Performance indicators may be qualitative measures—for example descriptors such as poor/good/excellent or satisfactory/unsatisfactory, which could include service quality ratings by service recipients, citizens or experts. Use of quantitative and qualitative measures may help users with:

    (a) Their assessment of whether service performance objectives have been achieved; and,

    (b) Inter-period and inter-entity comparisons of service performance.

22. A performance indicator could also be in the form of a qualitative description. A qualitative description may be necessary to provide users with relevant and understandable information on service performance where there is a high level of complexity and judgment involved in a particular service.

Service Performance Objectives

23. Service performance objectives may be expressed using performance indicators of inputs, outputs, outcomes or efficiency, or through a combination of one or more of these four performance indicators. A service performance objective may also be expressed using a narrative description of a desired future state resulting from provision of services.

24. Service performance objectives will generally be specific, measurable, achievable, realistic and time-bound.

25. An entity's service performance objectives may all be expressed in the same type of performance indicator; for example, all expressed in outcomes. They may also be expressed in different types of performance indicators; for

example, some of the service performance objectives may be expressed in outcomes, while others are expressed in outputs and/or inputs.

26. A single service may contribute to achievement of one or more service performance objectives. Several services may contribute to the same service performance objective.

Reporting Boundary

27. For reporting service performance information the reporting boundary of the entity should be the same as that used for the financial statements.

28. The performance indicators presented will be relevant to the controlling entity's own service performance objectives. Unlike consolidated financial statements, which combine the finances of controlled entities, service performance information reported by a controlling entity is not usually a combination of the services reported by its controlled entities.

Annual Reporting and Reporting Period

29. Service performance information should be reported at least annually.

30. Service performance information should cover the same reporting period as that covered by the financial statements. However, a consideration of users' needs and an assessment of costs and benefits may indicate that the reporting period should be different from that covered by the entity's financial statements. This may be the case, for example, when service performance information presented by a controlling entity is based on service performance information reported by controlled entities that have a different reporting period.

31. Service performance objectives may require periods longer than one year to achieve. Users will need information on progress towards such multi-year service performance objectives. Paragraph 53 addresses the type of service performance information that can be presented to show annual progress towards multi-year service performance objectives.

Principles for Presentation of Service Performance Information

32. An entity should present service performance information that is useful to users for accountability and decision making purposes. Presentation should enable users to assess the extent, efficiency and effectiveness of the entity's service performance. It should be appropriate to the entity's service performance objectives and make the relationship between the entity's service performance objectives and its service performance achievements clear.

33. When used in combination with the information in an entity's financial statements, service performance information should enable users to assess

the entity's finances in the context of its achievement of service performance objectives and vice versa.

34. The service performance information presented should take account of the entity's specific circumstances, such as:

    (a) The services that the entity provides;

    (b) The nature of the entity; and,

    (c) The regulatory environment in which the entity operates.

35. The presentation of service performance information should achieve the qualitative characteristics of financial reporting, while applying the pervasive constraints on information in GPFRs. (The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) describes the qualitative characteristics and pervasive constraints.)

36. Aggregation or disaggregation of service performance information should be at a level that conveys a meaningful understanding of the entity's service performance achievements. The level of aggregation should not be so high as to conceal or obscure performance, while the level of disaggregation should not be so low as to result in detailed listings that also obscure performance and reduce understandability. Information reported should be sufficiently specific for users to hold the entity accountable for its service performance, particularly its performance with respect to its service performance objectives.

37. Comparability to other entities can be difficult to achieve in the context of service performance information since diverse services are provided. Even where two entities provide exactly the same service they may have different service performance objectives with the result that they need to report different, non-comparable performance indicators. Inter-entity comparability may need to be traded off against relevance, so that service performance objectives and their related performance indicators are chosen to be relevant to the service performance situation of the entity. Alternatively the needs of users may indicate that performance indicators that are comparable with those of other entities delivering the same services are relevant to the entity, and the two qualitative characteristics—comparability and relevance—are aligned.

Selection of Service Performance Information

Information for Display

38. The following information should be displayed:

    (a) Service performance objectives;

    (b) Performance indicators; and,

    (c) Total costs of the services.

39. With respect to performance indicators and the total costs of the services, the entity should display:

    (a) Planned and actual information for the reporting period; and

    (b) Actual information for the previous reporting period.

40. Where service performance information includes information that is also in the financial statements, cross-references to the financial statements should be presented so that users can assess the information within the context of the financial information reported in the financial statements.

41. Information found in an entity's legislation and planning documents (budget statement, mission statement, strategic plan, funding agreements, corporate plan, etc.) will usually help to identify the service performance objectives and performance indicators that are relevant to the entity.

Service Performance Objectives

42. Where the entity's service performance objectives change, the information presented should reflect the change. For example, an entity may initially have service performance objectives related to increasing either the inputs or outputs related to its services, and then later re-focus its performance towards improving either the services' efficiency or effectiveness. That change should be reflected in the service performance information that the entity presents.

Performance Indicators

43. Judgment is needed to determine the most suitable set of performance indicators to be reported. The overriding principle is that indicators should be selected on the basis of their importance to users and their usefulness in assessing the entity's achievements in terms of its service performance objectives. For performance indicators to be relevant they should link directly to one or more of the entity's service performance objectives. Alignment between the different indicators presented—for example between input, output and/or outcome performance indicators—and the service performance objectives helps users to assess the relationship between resources and results, and how resource availability may have influenced achievement of service performance objectives.

44. The performance indicators presented should allow users to assess how efficiently and effectively the entity has used its resources to deliver services and achieve its service performance objectives.

45. Where an entity has publicly reported planned performance indicators the actual performance indicators presented will usually be consistent with those previously made public. Those entities that publish their budget information and apply IPSAS 24, *Presentation of Budget Information in Financial*

Statements, should consider the relationship between that information and the service performance information that they report.

46. An entity is encouraged to display information about its intended outcomes and its achievements with respect to those outcomes.

47. There may be a large number of performance indicators that can be presented for an entity's service performance objectives. To ensure that the information is understandable and to avoid overwhelming users, entities generally will need to identify only those few key performance indicators that will best meet the needs of users for information that meets the objectives of financial reporting.

48. Performance indicators that involve quantification should be able to be measured reliably. Where performance indicators can be generated by a transaction processing system the use of such a system will support the verifiability and timeliness of reported information.

49. When selecting performance indicators entities should ensure that the indicators presented will provide a representationally faithful description of the achievement of service performance objectives. There may be trade-offs between different aspects of service performance, such that one aspect improves while another aspect deteriorates. Information presented should be neutral. Entities should avoid any tendency to present performance indicators that are biased towards reporting positive results. This helps to ensure that the qualitative characteristics are met and users can be confident that the performance indicators faithfully represent the entity's service performance.

50. Ease of measurement is likely to be a consideration when selecting performance indicators, but it should be secondary to the needs of users. The performance indicators presented should not over-emphasize easily measured dimensions.

51. In some situations a qualitative description (also called narrative information) should be presented as a performance indicator. This could be the case where service performance achievements cannot be reduced to a small set of quantitative or qualitative measures because the service:

    (a) Is complex;

    (b) Involves interrelated factors; and

    (c) Involves a large number of different possible indicators of success or progress, all of which involve judgment as to their relative importance.

52. Information reported on any particular service may include one or more different types of performance indicators; quantitative measures, qualitative measures and/or qualitative descriptions.

Multi-year Service Performance Objectives and Performance Indicators

53. The extended timeframe of multi-year service performance objectives should not be a deterrent to reporting multi-year objectives and disclosing progress towards their achievement, although ways to report on progress in a cost-effective way may need to be developed. Alternative or proxy measures that indicate progress towards achievement of the service performance objective may be able to be presented in the short-term, until information on achievement of the multi-year service performance objective is available. For example, where an entity establishes both annual outputs and longer term, multi-year outcomes for one or more service area there may be scope to treat annual reporting against outputs as indicative of progress towards achievement of the outcomes, with actual outcomes reported less frequently.

Total Costs of Services and Disaggregated Cost Information

54. In addition to display of the total costs of services, an entity may also choose to present disaggregated cost information. Disaggregated cost information could, for example, be costs related to individual service performance objectives, outcomes, service areas, individual services, the costs of outputs, or costs related to particular inputs. Users' assessment of efficiency may be supported through provision of costs related to either outputs or outcomes.

Planned and Actual Service Performance

55. Planned and actual service performance information should be reported consistently so that users' assessments of effectiveness are facilitated. Wherever possible, entities should report on the same performance indicators, with the same methodology and parameters for their computation, as that established before the start of the reporting period. This enables users to compare actual performance with planned performance at the end of the reporting period.

56. Consistency of performance indicators over several years facilitates long-term trend analysis. But such consistency should not be pursued at the expense of:

   (a) Improving the quality of performance indicators; or,

   (b) Aligning indicators with changed expectations from stakeholders.

57. An entity may need to address the issue of how to report on changes to planned service performance that occurred during the reporting period. This situation may arise, for example, when stakeholders revise their service performance expectations during the reporting period, resulting in an amendment to service performance objectives. Service performance objectives may also change as a result of a public sector combination, where accountability for services is transferred from one entity to another or reporting needs to be on services previously provided by two different entities and now provided by a single,

merged entity. In these situations it may be possible for the entity to report against both the original and the revised service performance objectives. The reason for, and the impact of, these changes could be outlined in narrative discussion and analysis, so that users have the information they need to understand reasons for variances between service performance objectives at the beginning of the reporting period and actual achievements, while also understanding the degree of actual achievement against the more up-to-date, revised service performance objectives.

Information for Disclosure

58. Judgment is needed to decide what information should be disclosed so that users:

(a) Understand the basis of the displayed service performance information; and,

(b) Receive a concise overview of the entity's service performance, which highlights the main issues relevant to their assessment of that service performance.

Basis of Displayed Service Performance Information

59. An entity should disclose sufficient information on the basis of displayed service performance information to enable users to evaluate whether the information on service performance objectives, performance indicators and total costs achieves the qualitative characteristics of financial reporting.

60. An entity should disclose information on the sources of displayed service performance information.

61. The following information should be disclosed:

(a) An explanation of the displayed service performance objectives, which describes how they have been established, the need for them to be achieved, and the relationship(s) between the service performance objectives and:

(i) The displayed performance indicators, and

(ii) The entity's overall objectives.

(b) An explanation of the relationship(s) between related performance indicators. (For example, information on the extent of alignment between input, output and/or outcome indicators, where the inputs and outputs contribute to achievement of a particular outcome.)

(c) An explanation of the basis for information aggregation (or disaggregation), which addresses the level of detail reported.

Disaggregated Information on Costs

62. If an entity chooses to present disaggregated information on costs then the basis for cost determination should be disclosed.

63. Cost determination information includes information such as:

(a) Cost allocation policies;

(b) The treatment of direct and indirect service related expenses; and/or

(c) A reconciliation or a comparison between the costs of services presented and total expenses.

Controlling Entity Disclosures

64. Where a controlling entity reports on services provided by its controlled entities the controlling entity should disclose information that explains the respective roles and responsibilities for service performance within the economic entity.

Disclosures when Reporting Period is Different

65. When the service performance information covers a reporting period different from that for the entity's financial statements, the following information should be disclosed:

(a) The fact that the reporting period is not the same as that for the financial statements;

(b) Why there is a difference; and,

(c) If financial information is included in the service performance report, either

(i) The reporting period of the financial statements from which the information has been derived, along with information to facilitate access to those financial statements; or

(ii) The source of the financial information reported, if the information has not been derived from the entity's financial statements, along with information to facilitate access to that source.

66. When the reporting period for information on some services is different from the reporting period of the entity's service performance report the following information should be considered for disclosure:

(a) The services affected,

(b) The applicable reporting period(s), and

(c) An explanation for the difference(s).

Disclosures when Separate from the Financial Statements

67. Paragraphs 72–75 below address the location of service performance information in a GPFR. Where service performance information is presented separately from the GPFR that includes the financial statements, the following information should be presented:

(a) The name of the entity;

(b) Where the entity is a controlling entity, a description of the group of entities controlled by the reporting entity;

(c) Where the entity is a controlled entity, the identity of the controlling entity;

(d) The reporting date and the reporting period covered by the service performance information;

(e) The financial statements to which the service performance information relates and sufficient information necessary for users to locate the financial statements;

(f) The presentation currency, as defined in IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*; and,

(g) The level of rounding used.

68. Where service performance information is presented in the GPFR that includes the financial statements, the applicable IPSAS(s) establishes that this information should be presented.

Narrative Discussion and Analysis

69. The entity should disclose narrative discussion and analysis on its service performance information. Narrative discussion and analysis complements the displayed service performance information by enabling users to gain insight from the entity on:

(a) Aspects of service performance that the entity considers should be highlighted; and

(b) Factors that affected service performance achievements during the reporting period.

70. Narrative discussion and analysis should provide a concise overview of the entity's service performance that:

(a) Discusses the degree to which service performance objectives have been met;

(b) Provides balanced explanations of the information displayed, which cover both positive and negative aspects of the entity's service performance; and

(c) Facilitates users' assessments of the efficiency and effectiveness of the entity's service performance.

71. The Implementation Examples that accompany RPG 3 illustrate types of information that could be included in narrative discussion and analysis.

Location of Service Performance Information

72. An entity may present service performance information either:

(a) As part of a GPFR that includes the financial statements; or,

(b) In a separately issued GPFR.

73. The following factors should be considered when making this decision:

(a) The extent to which the service performance information needs to be reviewed within the context of information in the financial statements, including information on budget-actual comparisons;

(b) Whether the needs of users and the qualitative characteristics are enhanced if the service performance information is included in the same GPFR as the financial statements or in a separate GPFR;

(c) Application of the pervasive constraints on information, including whether the benefits of including the information in the same GPFR as the financial statements justify the additional costs (if any) involved; and,

(d) Jurisdiction-specific requirements which could specify either that service performance information should be located in the same GPFR as the financial statements or in a separate GPFR.

74. With respect to point (a) in paragraph 73 above, an important factor in this decision is likely to be whether the primary objective of providing the service performance information is:

(a) To inform assessments on resource allocation decisions for the provision of services, in which case there is likely to be value in associating the reporting of service performance information with the financial statements that are compared to budget allocations; or

(b) To inform assessments on policy or strategy decisions, in which case there is likely to be value in associating the reporting of service performance information with information on policies or strategy.

75. Where an entity chooses to present its service performance information in a separate GPFR from the financial statements the separate GPFR should

be issued on a timely basis, which will usually be demonstrated through issuance at the same time as the financial statements or, if not at the same time, then very close to issuance of the financial statements.

Organization of Service Performance Information

76. The organization of service performance information within a GPFR should enable users to:

    (a) Understand an entity's service performance, including its achievement of service performance objectives;

    (b) Assess the entity's service efficiency and effectiveness; and

    (c) Use the service performance information for the purposes of accountability and decision making.

77. The service performance information should be organized so that connections are clear between displayed information and:

    (a) Disclosures on the basis of the displayed information, and

    (b) Narrative discussion and analysis.

78. One way to organize service performance information is in a "statement of service performance", which involves organizing information into a tabular or statement form. A statement of service performance can support understandability and comparability when the performance indicators presented are quantitative measures or qualitative measures reported on multiple services.

79. Where service performance information is presented through narrative or case studies a tabular approach is unlikely to be appropriate. In some cases a mixture of case studies and one or more tables or statements will be appropriate.

80. Entities may use several levels of reporting in order to achieve a balance between being:

    (a) Concise enough to be understandable; and,

    (b) Providing sufficient detail with respect to multiple aspects related to each service performance objective.

81. The use of several levels of reporting allows the display of concise reporting at higher levels, and display or disclosure of more detailed coverage at lower levels, where service areas, for example, could be disaggregated into two or more individual services.

82. IPSAS 18, *Segment Reporting,* applies to entities' identification of segments. It describes service segments and identifies factors that should be considered when grouping services into segments for financial reporting purposes.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, RPG 3.

Background

Project Initiation, Consultation Paper and Decision to Develop Guidance

BC1. The IPSASB's project on reporting service performance information began with a review of national standards, guidance, and regulatory requirements for service performance reporting (or its equivalent) from selected national jurisdictions, the United Nations, and the Organization for Economic Co-operation and Development. No two jurisdictions have identical service performance reporting frameworks, but there are similarities in the service performance information that is reported. Consideration of these similarities and of commonly used terms provided the basis for the Consultation Paper (CP), Reporting Service Performance Information, issued in 2011. The CP proposed a principles based framework for reporting service performance information and a standard terminology.

Development of a Recommended Practice Guideline

BC2. In 2013 the IPSASB decided that information additional to that included in the financial statements should presently be addressed through development of a Recommended Practice Guideline (RPG). Therefore a draft RPG, ED 54, Reporting Service Performance Information, was developed for reporting service performance information. This RPG is based on the service performance reporting framework developed for the CP, revised for the IPSASB's decisions during its review of responses to the CP and its subsequent review of responses to ED 54. This RPG is underpinned by the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework).

Overall Approach of RPG—Guidance on Decisions and Minimum Characteristics

BC3. During development of this RPG, the IPSASB considered whether its overall approach should aim to:

(a) Establish minimum characteristics of service performance information, consistent with an RPG's role as providing guidelines on good practice and requirements; or

(b) Provide a framework that identifies decisions that preparers need to make and guidance on those decisions, consistent with the framework approach in the CP and an RPG's function as guidance.

BC4. Given the diversity of services and reporting contexts, the IPSASB decided that the RPG should not attempt to standardize service performance reporting, but focus on achievement of principles. At the same time, the core type of service performance information that should be presented. This approach was decided on the basis that guidelines are needed on what type of information should be presented and it is possible to identify broad categories of information—for example, information on service performance objectives—that are applicable to all entities that report service performance information.

BC5. In developing an RPG for reporting service performance information the IPSASB acknowledged the challenge in developing guidance that would be useful when applied to diverse services, diverse service performance objectives, and diverse accountability and decision-making contexts world-wide. Arguably service performance reporting quality depends in part on the extent to which it meets the particular information needs arising from the services provided and the context for their provision. For example, a report that tells the story of factors influencing progress toward critical targets may look quite different to a report that provides an account of services delivered for the resources provided. The IPSASB considered these matters and was of the view that it would be most helpful to develop an RPG that identifies the decisions that preparers will need to make, then provides guidance on how such decisions should be made, rather than an RPG that establishes minimum standards.

BC6. The IPSASB's view is that principles applicable to reporting service performance information provide useful guidance, without attempting to establish global requirements that may not be appropriate for the variety of different services and different service delivery contexts that exist globally. Service performance information is a developing area, which means that the RPG should not be overly prescriptive.

BC7. Some respondents to the ED were concerned about an apparent contradiction between RPGs as pronouncements that do not establish requirements and paragraph 5 of the ED, which stated that compliance with the RPG involves compliance with all of its requirements. The IPSASB decided that the phrase "compliance with requirements" in this paragraph should be replaced with "compliance with principles". The basis for this is twofold. First, the RPG establishes principles which entities then use to guide their decisions on what service performance information they report. Second, while the paragraph still uses the idea of "compliance", the IPSASB considers that this is consistent with the RPG's role as a recommended guideline. The nature of an RPG as a guideline is established by the allowance for entities to not follow a particular RPG—in its entirety—without impacting negatively on the entity's IPSAS compliance. Preparers (or jurisdictions) may also choose to apply part of the RPG and, for example, progressively move towards full compliance, at which point compliance can be asserted. Nonetheless the specific content of an RPG involves a set of principles that establish good practice. An RPG may also, depending on the topic addressed, involve more flexibility of application than is the case for an IPSAS. This is the case for this RPG which includes options as to presentation and uses principles to guide preparers' decisions on what information to present.

Scope

BC8. When this RPG was issued, the IPSASB considered whether the RPG should apply to [Government Business Enterprises (GBEs)] (the term in square brackets is no longer used following the issue of *The Applicability of IPSASs* in April 2016). While acknowledging that GBEs provide services and may report service performance information on those services the IPSASB decided that this RPG should apply to all public sector entities other than GBEs. When this RPG was issued, this was consistent with the Preface to International Public Sector Accounting Standards, which stated that the IPSASB developed accounting standards and other publications for use by public sector entities, other than GBEs. This exclusion from the scope should not be read as implying that the guidance could not be applied by GBEs or that there is any barrier to GBEs applying this guidance.

BC9. In reaching this conclusion the IPSASB noted that where a controlling entity reports service performance information according to the recommendations in this RPG it may provide information on services provided by one or more controlled GBEs. Although the GBEs' own reporting was not within the scope of this RPG, the IPSASB decided that the information reported by the controlling entity—about the GBEs' services—needed to follow the RPG's requirements, if the controlling entity was to assert compliance with the RPG.

BC10. The IPSASB considered whether this RPG should apply to entities in national jurisdictions which already have extensive service performance information reporting requirements for their public sector entities—requirements that may extend beyond the principles approach to information which is set out in the RPG. The IPSASB's view is that, in such circumstances, the entity will need to ensure that jurisdictional requirements are met. While the RPG does not set out detailed comprehensive and specific requirements, this does not represent an encouragement to report less than is already reported under national or other requirements, nor is this viewed as in conflict with more extensive reporting. Paragraphs 6–7 of the RPG addresses the relationship between the RPG and jurisdictional requirements for service performance information, explaining that the RPG does not preclude the presentation of additional information and more extensive jurisdictional requirements would apply in addition to the guidelines in the RPG. The IPSASB concluded that the RPG adequately addresses this issue and the RPG should be able to be applied to entities in jurisdictions where extensive service performance information reporting requirements already exist.

Definitions of Terms

BC11. In reaching its view on the need for standardized service performance terminology the IPSASB noted that although entities use some terminology consistently, many of those entities have not defined some or all of the terms they use. Moreover, the same terms sometimes have different meanings in different jurisdictions. On this basis, the IPSASB concluded that a standardized service performance terminology was necessary to support the understandability and comparability of service performance information reported by entities in GPFRs.

BC12. The IPSASB developed the defined terms in the RPG, by basing them, as far as possible, on terms already used in jurisdictions with a well thought through and explicit approach to, and extensive experience in, service performance reporting.

BC13. During the review of responses on the CP and the ED, and then during subsequent development of the RPG the IPSASB revised the definition of an effectiveness indicator. The CP definition was: “Effectiveness indicators are measures of the relationship between outputs and outcomes.” This implies that the relationship between outputs and outcomes is relatively simple to measure. After further consideration the IPSASB considered that the relationship between outputs and outcomes is likely, in many situations, to be more complex than the simple relationship underpinning the original definition. Furthermore, the IPSASB considered that effectiveness is better understood to be the degree to which an entity is successful in achieving its service performance objectives. On this basis the IPSASB decided that effectiveness indicators show the extent to which an entity has achieved its services performance objectives

BC14. During development of the CP and ED 54, and the subsequent review of responses to ED 54, the IPSASB considered whether to include “economy indicators” in the RPG’s set of defined terms. IPSASB members decided to exclude economy indicators because the term is both confusing and unnecessary given other terms defined in the RPG. “Economy indicators” do not represent something additional to the ideas conveyed by either inputs or efficiency, for which the RPG establishes clear definitions. The IPSASB noted that the RPG’s approach to selection of service performance information allows jurisdictions to assess “economy”, whatever the meaning that a particular national jurisdiction gives that word. For example, the RPG supports the presentation of information on costs, on other inputs, and on efficiency.

BC15. Economy is a commonly used term in the context of service performance reporting. However different jurisdictions have different meanings for economy. For some jurisdictions economy means lower costs for service delivery without reference to impact on quantity and/or quality of services delivered. Other jurisdictions consider that this first view is not really economy and that using “economy” to describe situations where costs are reduced but service quantity and/or quality is negatively impacted could be misleading to users of GPFRs. A second view of economy is that it is only achieved if service delivery is maintained or enhanced, when costs or other inputs are reduced. This second view of economy fits the definition of "efficiency" in the RPG. Indeed, there is a third group of national jurisdictions that does not use the term "economy" on the basis that the term can be confusing and it overlaps with efficiency. Therefore the RPG does not define "economy indicators" and does not use the term "economy".

Reporting Entity

BC16. Service performance information should support the users of the GPFRs as they hold the entity accountable for its service provision and use of resources and make decisions affecting that entity. On that basis a majority of the IPSASB considered that service performance information should be prepared for the same reporting entity as for the financial statements. To be consistent with coverage in RPGs 1 and 2 (see paragraph 14 of RPG 1 and paragraph 4 of RPG 2) the wording in RPG 3 focuses on "reporting boundary" rather than reporting entity, In reaching this conclusion the IPSASB also noted that the RPG's accountability and decision making focus is not designed to apply to supply chains, networks or other combinations of individual entities that may be able to influence each other but do not have the ability to control.

BC17. Several respondents to the ED suggested that the RPG should also provide guidance for reporting on programs or policies that involve a group of entities that are not under common control, that is, "cross-boundary" reporting. The IPSASB acknowledged that there is a trade-off between service performance reporting that applies the same reporting entity boundary as for the financial statements and flexible boundaries that provide scope for cross-boundary reporting. A focus on the same reporting entity as for the financial statements has the benefit of following lines of control and supporting organization-focused accountability, while also facilitating both collection of service performance information and the integration of such information with financial information in the entity's financial statements. However there are cases where no single entity is accountable for a program or policy and requiring cross-boundary reporting, aligned with the program or policy, would provide information that better explains service performance related to that program or policy. The IPSASB considered expanding the RPG's scope to also include guidance for cross-boundary reporting on "programs" or "sets of activities that contribute to the same outcome(s)". The IPSASB decided that the RPG should remain focused on reporting by the same entity as that for the financial statements. This does not prevent national jurisdictions from adapting the RPG's principles and guidance for application to cross-boundary reporting.

BC18. The IPSASB considered concerns expressed by respondents to the CP and the ED over controlling entities being required to report all services provided by their controlled entities. That could have the result that information becomes too detailed and lengthy to meet the qualitative characteristics and support users' assessments for accountability and decision making. The IPSASB decided to include further explanation in the RPG to address this concern. On this basis the RPG states that controlling entities should report against their own service performance objectives rather than attempt to aggregate all those services provided by controlled entities.

Annual Reporting and Reporting Period

BC19. The IPSASB considered whether service performance information should be reported annually, when service performance objectives, whether expressed in outcomes, outputs or inputs, may require periods longer than one year to achieve. The majority of IPSASB members considered that service performance information should be reported annually because this is important to ensure that users' have the information they need for the purposes of accountability and decision-making. To address the existence of multi-year service performance objectives the IPSASB decided that the RPG could encourage entities to disclose information on their progress towards multi-year service performance objectives. The IPSASB noted that responses to the ED indicated generally strong support for annual reporting. The IPSASB confirmed that service performance information should be presented annually and use the same reporting period as that for the financial statements, unless users' needs require a different period.

Scope to Report More Frequently

BC20. Some respondents to the ED were concerned that it did not allow entities to report more frequently than annually. The IPSASB agreed with respondents who argued in favor of scope for more frequent reporting, noting that this is likely to increase transparency and accountability. As one respondent stated, more frequent reporting also can encourage "management dialogue between all those involved in the evaluated public policy mission and improves the management process by increasing the accountability of the public manager." The IPSASB decided to use the phrase "should be reported at least annually", which allows for more frequent reporting and is the same phrase as that used in IPSAS 1, Presentation of Financial Statements, to address reporting frequency.

Reporting Against Multi-Year Performance Objectives

BC21. The IPSASB considered concerns raised by some respondent to the ED that annual reporting could have negative consequences for outcome reporting, including the possibility that annual reporting could have the unintended effect of reducing the extent to which entities report outcomes. The IPSASB noted that for some outcomes annual measurement is very expensive and measurable change showing progress towards outcome achievement will not emerge for two or more years. One respondent noted that annual reporting in such cases may even be misleading. This problem is not restricted to service performance objectives focused on outcomes, but can also occur for outputs and input reporting. To address this concern the RPG includes explicit coverage on use of proxy measures and provides scope for entities to report outputs or inputs as indicative of progress towards achievement of outcomes or other types of multi-year service performance objectives.

Service Performance Information Issued at Same Time as the Financial Statements

BC22. The IPSASB considered whether the RPG should state that service performance information should be issued at the same time as the financial statements. The IPSASB noted that issuance at the same time as the financial statement supports timeliness, but may be very difficult for some entities to achieve. The IPSASB decided that, while acknowledging that it is desirable for service performance to be reported at the same time as the financial statements, the RPG should not state that this is necessary.

Controlling Entity and Controlled Entities with a Different Reporting Period

BC23. The IPSASB considered situations in which a controlling entity includes information on services that are provided by controlled entities with a different reporting period from that of the controlling entity. Ideally all the service performance information reported should cover the same reporting period. However there are situations where the benefits of aligning the information with the controlling entity's reporting period do not outweigh the costs involved. For example, some public sector entities provide service performance reports to donors who require a different reporting period from that for the entities' financial statements. The additional costs of preparing service performance reports for each reporting period (donors and financial statements) may not justify the benefits. On this basis the IPSASB decided that the RPG should acknowledge the possibility that some of the service performance information reported may be for a different reporting period and address this through additional disclosures.

Two Approaches for Reporting Service Performance Information

BC24. In developing this RPG the IPSASB acknowledged that there are differing approaches to reporting service performance information, including approaches that are more output-focused and approaches that are more outcome-focused. A more outputs-focused approach reports information about the services provided. This type of information is oriented towards resource providers and aims primarily to report on the services received for resources provided and whether resources have been used efficiently, although there is scope to widen the focus to include information about outcomes. A more outcome-focused approach tells a performance story, which generally reports on the achievement of outcomes, although there is scope to relate this performance story back to the costs of services. The information reported explains how well the entity is doing in terms of achieving its objectives, where those objectives are described in terms of outcomes.

BC25. The IPSASB considered whether the RPG should include guidance specifically tailored for each approach, but decided against this on the basis that the RPG's focus on achievement of objectives can be applied to either approach. Allowing entities to tailor their reporting to their objectives means that entities or jurisdictions do not need to fit their individual approach into either an output-focused approach or an outcome-focused approach in order to apply the RPG. This means that the RPG's content will be useful to a variety of entities applying different approaches. Entities' service performance objectives may even relate to inputs, when their reporting of service performance information is at an early stage. However, the ideal to which entities should, over time, aspire is the reporting of service performance information that reports comprehensively on both outcomes and outputs, along with information that allows users to assess the efficiency and effectiveness of both. This is consistent with the IPSASB's view, discussed below, that the performance indicators presented should form a holistic system such that they communicate a coherent, integrated view of the entity's service performance.

Principles for Presentation of Service Performance Information

BC26. The RPG sets out principles applicable to the presentation of service performance information, which includes principles applicable to decisions on information selection, location and organization. The RPG identifies factors that should be considered when making presentation decisions and generally proposes information that should be considered for presentation, in light of those principles, rather than prescribing an extensive list of information requirements. This principles-based approach is consistent with the IPSASB's decisions on the RPG's overall approach, developed during the consultation phase and further considered during both development of the ED and the IPSASB's review of responses to the ED. Although the RPG identifies the type of information that all entities should present, it does not prescribe an extensive set of information. The IPSASB has maintained the principles based approach proposed in the CP and then exposed in the ED on the basis that the principles-based approach:

(a) Allows entities the flexibility they need to report service performance information that is relevant an appropriate to their service performance objectives and will meet the needs of users of the information;

(b) Reduces the risk of "disclosure overload", which undermines the extent to which a report on service performance meets the needs of users and does not achieve either the qualitative characteristics or provide benefits in excess of the costs; and

(c) Requires entities to apply principles that will result in the presentation of the service performance information that users need for the purpose of accountability and decision-making.

BC27. The IPSASB determined that the key principles for reporting service performance information should be based on the users' needs that such information should meet, as established through consultation and with reference to the experience of different jurisdictions. The principles are consistent with the Conceptual Framework and have involved application of the Conceptual Framework to the reporting of service performance information.

Presentation of Service Performance Information

Consultation Paper's Dimensions and Components of Service Performance Information

BC28. The CP explained that there are four dimensions of service performance on which information should be presented. The four dimensions—why, what, how and when—relate to an entity's:

(a) Service performance objectives;

(b) Performance indicators;

(c) Comparison between planned and actual performance; and

(d) Time series that allow users to assess either changes in service provision over time or progress towards a multi-year goal.

BC29. The RPG's coverage of information selection addresses these four dimensions when it establishes that an entity should report:

(a) Information on an entity's service performance objectives, including the need or demand for these objectives to be achieved (the "why" dimension);

(b) Performance indicators to show achievements with respect to service performance objectives (the "what" dimension);

(c) Comparisons of actual performance to planned (or targeted) results, including information on the factors that influence results (the "how" dimension); and

(d) Annually on service performance information presenting actual information for the current and the previous reporting period (the "when" dimension).

BC30. The CP also established components of service performance information, which relate to these four dimensions. The RPG's coverage of information selection addresses the CP's components, which are:

(a) Narrative discussion of the achievement of objectives;

(b) Information on the "parameters" of the service performance information reported (termed "basis" in the RPG); and

(c) Information on the entity's service performance objectives, and its achievement of those service performance objectives.

Principles Rather than Specific Requirements

BC31. The IPSASB acknowledged that entities' presentation of service performance information will vary, depending on:

(a) The services that the entity provides;

(b) The nature of the entity; and

(c) The regulatory environment or other context within which the entity operates.

BC32. Because services provided, service performance objectives, and applicable service performance indicators depend on these different factors, the IPSASB decided that the RPG should not identify specific performance indicators that must be presented. Instead, it should identify broad types of information that should be reported and provide guidance on achievement of the qualitative characteristics when selecting service performance information.

BC33. The RPG identifies different types of performance indicators that could be presented, but does not require that particular performance indicators be presented. While efficiency and effectiveness indicators directly address those aspects of performance, the RPG's objective of providing information for users to assess efficiency and effectiveness does not mean that those two types of performance indicators must be presented. For example, efficiency can be calculated using information about outputs and their cost. Effectiveness can be assessed using information on service performance objectives and results achieved against those service performance objectives.

Information that Conveys a Coherent, Integrated View of the Entity's Service Performance

BC34. The IPSASB considered that the principles focused approach was appropriate because it allows entities at an early stage of developing service performance reporting to meet the RPG's guidelines and report service performance information consistent with their existing reporting capabilities. Nonetheless, the IPSASB's view is that good quality service performance information needs to be reported so that users can assess an entity's service performance, including both its achievement of objectives and the extent to which it has used resources efficiently and effectively to deliver outputs and achieve outcomes. Ideally the set of performance indicators presented should form a holistic system such that they communicate a coherent, integrated view of the entity's service performance.

Selection of Performance Indicators

BC35. The IPSASB considered whether the RPG should require entities to report all five types of performance indicators—inputs, outputs, outcomes, efficiency and effectiveness—for the services that they provide. This would result in comprehensive coverage of an entity's service performance, but it might not reflect an entity's actual service performance focus. In practice it is likely that an entity's service performance objectives will change over time. For example, service performance objectives may initially focus on inputs, then outputs and efficiency, and then outcomes. If an entity is able to adjust its reporting of performance indicators to align them with its service performance objectives, then the information presented is more likely to be useful to users and meet the qualitative characteristics, while supporting achievement of the financial reporting objectives. On that basis the IPSASB decided that the RPG should not require reporting of all five types of indicators but should instead provide guidance on how an entity should choose the types of performance indicators that it reports.

BC36. The IPSASB also considered whether the RPG should require entities to report outcome indicators. Outcome information is important to users, because it focuses on the ultimate reason for service provision, which is the impact that services have on the community. However outcome information can be very difficult for entities to provide, particularly when they are at an early stage in developing their services performance reporting or in situations where the reporting entity is one of many entities contributing to the same outcome(s). On that basis the IPSASB decided that the RPG should encourage but not require entities to present information on outcomes.

Total Costs of Services

BC37. The IPSASB considered providing guidelines on what costs should be included in the total costs of services. Costing of services involves management accounting considerations. The meaning of total costs of services may be jurisdiction specific and/or entity specific. Entities may report total costs of services that are equivalent to the total expense they present in their financial statements. Alternatively entities may exclude some costs, for example overhead, or some expense types, for example borrowing costs, with the result that the total costs of services differs from the total expenses presented in the financial statements. On this basis the IPSASB decided not to stipulate what is meant by the total costs of services.

Location of Service Performance Information

BC38. The IPSASB considered whether service performance information should be located in the same report as the financial statements or in a separate GPFR.

It noted that while many national jurisdictions treat service performance information as different in nature and therefore preferably kept separate from information provided with the financial statements, there are also jurisdictions that integrate service performance information into the same report as the financial statements, treating the two sets of information as complimentary. There are benefits to both approaches. In order to allow for jurisdictional differences the IPSASB decided that the RPG should allow entities to report service performance information either in the same report as the financial statements or in a separate report.

Organization of Service Performance Information

BC39. The IPSASB considered whether the RPG should:

(a) Propose one way that service performance information should be organized, with the main method considered being a tabular form, described as a "statement of service performance"; or

(b) Provide principles that should be applied to guide jurisdictions and/or preparers when they choose between different possible information organization approaches.

BC40. The IPSASB noted that in some jurisdictions there are requirements that service performance information be reported in a "statement of service performance". In other jurisdictions preparers apply principles to identify how best to organize information, with reference to the particular types of services, desired outcomes, or planned achievements on which information needs to be reported. Organizing information into a tabular or statement form can support understandability and comparability when numerical or "summary descriptive" performance indicators (e.g. "satisfactory or unsatisfactory") are reported on multiple services. But service achievements could be misrepresented or poorly described if a statement format is the only form of presentation permitted.

BC41. The IPSASB decided that the RPG should focus on principles applicable to this decision. By focusing on principles rather than stipulating a standard reporting structure, the RPG allows the choice of information organization to be tailored to:

(a) The nature of the services on which performance information is presented;

(b) The needs of users, so that it supports achievement of the objectives and qualitative characteristics of financial reporting; and

(c) The regulatory context, including the regulatory environment in which the entity operates.

BC42. Although this could result in less standardization, and reduced comparability between entities, service performance information differs from financial statements information due to the diversity of services reported. Unless the performance indicators themselves are comparable, a single presentation format will not provide the benefits of inter-entity comparability, but will sacrifice the benefits to be gained from allowing the organization of information to be tailored to an entity's service performance objectives and services provided so that it meets the needs of users.

Revision of RPG 3 as a result of the IPSASB's *The Applicability of IPSASs,* issued in April 2016

BC43. The IPSASB issued *The Applicability of IPSASs* in April 2016. This pronouncement amends references in all IPSASs as follows:

(a) Removes the standard paragraphs about the applicability of IPSASs to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSASs are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

Illustrative Examples

These examples accompany, but are not part of, RPG 3.

IE1. The examples in this appendix portray hypothetical situations. Although some aspects of the examples may be present in actual situations, all facts and circumstances of a particular situation would need to be evaluated when applying RPG 3. Where a cost is identified the amount is express in "currency units" (CU).

IE2. The first part of this appendix lists examples of terms defined in the RPG. It is not intended to be an exhaustive list of examples for all defined terms. The examples illustrate the meaning of different terms usually through reference to an entity that provides health services. The examples focus on one service— the provision of vaccinations to infants in order to prevent measles. The entity uses a range of inputs to produce its outputs (measles vaccinations). Those outputs are then expected to cause (directly or indirectly) the desired outcome(s).

IE3. The second part of this appendix provides an illustrative list of information that could be included in an entity's service performance narrative analysis and discussion.

Part 1: Examples of Defined Terms

- **Service Performance Objectives (SPO):**

  RPG 3 states that service performance objectives may be expressed using performance indicators of inputs, outputs, outcomes or efficiency, or through a combination of one or more of these four performance indicators. The following are examples of service performance objectives that have these different forms of expression. The first example is of a service performance objective that has a focus on inputs, the second has a focus on outputs, the third has a focus on outcomes, and then the last example has a focus on efficiency.

  - To apply 1,200 full-time equivalent days of medical staff time to vaccination services.
  - To provide 20,000 vaccinations to infants.
  - To reduce the percentage of infants who contract measles annually from 65% to 2% within five years i.e. by the end 20XX.
  - To reduce the total cost per vaccination from CU5 to CU4.

- **Input:** The number of full-time equivalent staff days used to provide vaccinations against measles.
- **Outputs:** The number of infants vaccinated against measles.
- **Outcome:** A reduction in the number of infants that contract measles. (The reduction could be expressed in absolute terms (5,000 fewer incidents of

measles) or as a percentage reduction (a 35% percentage reduction in infants contracting measles).

RPG 3 states that outcomes could be impacts affecting society as a whole or impacts on particular groups or institutions within society. Outcomes could be relatively direct impacts on recipients of the entity's services. They could also be impacts on others that are not recipients of the entity's services but who benefit indirectly from those services. RPG 3 also states that factors beyond the entity's control may intervene to either hinder or facilitate the entity's achievement of outcomes. The first example below illustrates an outcome that affects a particular group within society. The second and third examples illustrate a direct impact on service recipients and an indirect impact on non-recipients. The fourth example illustrates a situation where factors beyond the entity's control intervenes to facilitate the entity's achievement of an outcome.

- ○ A 35% reduction in the incidence of measles for infants within the lowest socio-economic decile.
- ○ A reduction in the number of incidents of measles experienced by recipients of measles vaccinations provided by the entity is an example of a direct impact on the recipients of the entity's services.
- ○ Children going to the same schools as those that vaccinated children attend but who have not received a vaccination will also be impacted indirectly by the entity's vaccination services, because their risk of contracting measles is reduced.
- ○ An outbreak of measles in a nearby region leads to extensive media coverage of measles related health risks and an increased vaccination rate in that nearby region covered by another health services provider. These factors facilitate achievement of the entity's outcome to reduce the incidence of measles in its own region. The factors evident in the other region (measles outbreak, media coverage and increased vaccination rate) are outside of the control of the entity.

- **Efficiency:**

RPG 3 states that efficiency is the relationship between (a) inputs and outputs, or (b) inputs and outcomes. The two examples in the first bullet point below illustrate efficiency expressed as the relationship between inputs and outputs. The example in the second bullet point illustrates efficiency expressed in terms of inputs and outcomes.

- ○ "Cost per infant vaccinated" is an example of an efficiency indicator that relates outputs (vaccinations) to an input (cost). Efficiency may also be expressed in terms of other inputs such as, for example, number of staff or staff time. For example, 1,000 vaccinations annually per qualified medical staff member.

- “Cost per reduction in number of infants contracting measles” is an example of an efficiency indicator that relates an outcome (reduction in number of infants contracting measles) to an input (cost).

- **Effectiveness:**

  RPG 3 states that effectiveness is the relationship between actual results and service performance objectives. Therefore an assessment of effectiveness depends on the type of service performance objectives that the entity has presented. The three examples below illustrate effectiveness for different service performance objectives. The first example illustrates effectiveness where the service performance objective was expressed in terms of inputs, the second in terms of outputs, and the third in terms of an outcome.

  - The service performance objective was to dedicate 20,000 hours of medical staff time to provision of measles vaccinations during the year ended 31 March 20XX. The actual result achieved was 18,000 hours of medical staff time. Therefore the entity effectiveness in this area was 90%.
  - The service performance objective was to provide 100,000 measles vaccinations to infants during the year ended 31 March 20XX. The actual result achieved was 99,000 vaccinations. Therefore the entity’s effectiveness in this area was 99%.
  - The service performance objective was to reduce the number of infants that contract measles by 3,000 compared to the previous year. The actual result achieved was a 3,000 reduction in infants contracting measles. Therefore the entity’s effectiveness in this area was 100%.

- **Performance indicator—Qualitative Description:**

  RPG 3 states that performance indicators are quantitative measures, qualitative measures, and/or qualitative descriptions of the nature and extent to which an entity is using resources, providing services, and achieving its service performance objectives. The example below illustrates a performance indicator expressed as a qualitative description:

  A government department (the Ministry) responsible for supporting the government’s relationships with other nations, including trade relationships, uses the following qualitative description as one of its performance indicators:

  Engagement with Latin America during this year is expected to include several successful ministerial-led business missions to national governments and ministerial engagement in two regional forums. The Ministry will provide host and other support for ministerial level visits from several countries in the region, and undertake bilateral foreign policy consultations. Consultations will include advocacy of free trade agreements. The diplomatic network in several Latin America countries will be expanded through additional consulates and honorary consuls.

Part 2: Narrative Discussion and Analysis—Types of Information

The following list provides examples of the different types of information that could be included in narrative discussion and analysis to help users' assessment of an entity's service performance:

(a) Particular service performance achievements, deficiencies and issues.

(b) Identification and discussion of the factors that may have influenced achievement (or non-achievement) of service performance objectives.

(c) Effectiveness indicators.

(d) Discussions of differences between planned and actual achievements.

(e) Comparisons of indicators:

  (i) Over time;

  (ii) To milestones; and/or,

  (iii) Between actual and planned results.

(f) Reasons for change(s), if the service performance objectives or performance indicators presented have changed compared to those presented for the previous year.

(g) Where an entity has multi-year service performance objectives, narrative about progress towards their achievement.

(h) Where outcomes are reported, information on the extent to which outcomes can be attributed to the entity's activities.

(i) Significant lessons learned during the reporting period with respect to the entity's service performance including, where relevant, plans on ways to address issues affecting service performance and areas that require further evaluation.

(j) Identification and discussion of the risks associated with the delivery of services and, if risk assessments for services have been carried out, information on how such risk trade-off decisions are informed and managed.

(k) Identification and discussion of the consequences—intended and unintended, direct and indirect—of the services provided.

If an entity provides a discussion of differences between planned and actual achievements this discussion could include, for example:

(a) Identification of the size of the variances; and

(b) Factors contributing to the variances. (For example, external factors, efficiencies or inefficiencies in internal processes, resource availability, or government service delivery decisions.)

The achievement of outcomes is often influenced by factors outside of the entity's control. If an entity provides narrative discussion and analysis on outcomes the disclosures should be sufficient to ensure that users do not overestimate the entity's role with respect to either improving or worsening outcomes. Where outcome information is displayed, information on the following may be useful for users:

(a) The extent to which the outcomes can be attributed to the entity's activities, and

(b) Other factors that may have influenced the outcomes.

The delivery of public services often follows a risk assessment, involving clear parameters around tolerance of different types of risks, including the risk of false positives and false negatives with respect to intervention decisions. Information on how an entity assesses risks as part of service delivery can support users' understanding of an entity's service performance.

GLOSSARY OF DEFINED TERMS

This Glossary contains all terms defined in the 40 accrual basis International Public Sector Accounting Standards (IPSASs) approved up to January 31, 2018. A list of these IPSASs is located on the inside back cover of the Glossary. This Glossary does not include terms defined in the Cash Basis IPSAS, *Financial Reporting under the Cash Basis of Accounting*. Users should refer to that Cash Basis IPSAS for these terms.

Definitions

References to accrual basis IPSASs are by Standard number and paragraph number. For example, 1.7 refers users to IPSAS 1, *Presentation of Financial Statements*, paragraph 7. References set out in brackets indicate a minor variation in wording.

Term	Definition	Location
accounting basis	The accrual or cash basis of accounting as defined in the accrual basis IPSASs and the Cash Basis IPSAS.	24.7
accounting policies	The specific principles, bases, conventions, rules, and practices applied by an entity in preparing and presenting financial statements.	3.7
accrual basis	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.	1.7
acquired operation	The operation that the acquirer gains control of in an acquisition.	40.5
acquirer	The entity that gains control of one or more operations in an acquisition.	40.5
acquisition	A public sector combination in which one party to the combination gains control of one or more operations, and there is evidence that the combination is not an amalgamation.	40.5
acquisition date	The date on which the acquirer gains control of the acquired operation.	40.5
active market	A market in which all the following	21.14

Term	Definition	Location
	Conditions exist: (a) The items traded within the market are homogeneous; (b) Willing buyers and sellers can normally be found at any time; and (c) Prices are available to the public.	
actuarial gains and losses Applicable up to periods beginning on or before December 31, 2017.	Comprise: (a) Experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and (b) The effects of changes in actuarial assumptions.	25.10
actuarial gains and losses Applicable for periods beginning on or after January 1, 2018.	Changes in the present value of the defined benefit obligation resulting from: (a) Experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and (b) The effects of changes in actuarial assumptions.	39.8
agricultural activity	The management by an entity of the biological transformation and harvest of biological assets for: • Sale; • Distribution at no charge or for a nominal charge; or • Conversion into agricultural produce or into additional biological assets for sale or for distribution at no charge or for a nominal charge.	27.9
agricultural produce	The harvested produce of the entity's biological assets.	27.9

Term	Definition	Location
amalgamation	Gives rise to a resulting entity and is either: (a) A public sector combination in which no party to the combination gains control of one or more operations; or (b) A public sector combination in which one party to the combination gains control of one or more operations, and in which there is evidence that the combination has the economic substance of an amalgamation.	40.5
amalgamation date	The date on which the resulting entity obtains control of the combining operations.	40.5
amortization	The systematic allocation of the depreciable amount of an intangible asset over its useful life.	31.16
amortized cost of a financial asset or financial liability	The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.	29.10
annual budget	An approved budget for one year. It does not include published forward estimates or projections for periods beyond the budget period.	24.7
appropriation	An authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority	24.7
approved budget	The expenditure authority derived from laws, appropriation bills, government ordinances, and other decisions related to the anticipated revenue or receipts for the budgetary period.	24.7
assets	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.	1.7

<table>
<tr><th>Term</th><th>Definition</th><th>Location</th></tr>
<tr><td>asset ceiling</td><td>The present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.</td><td>39.8</td></tr>
<tr><td>assets held by a long-term employee benefit fund

Applicable up to periods beginning on or before December 31, 2017.</td><td>Assets (other than non-transferable financial instruments issued by the reporting entity) that:
(a) Are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and
(b) Are available to be used only to pay or fund employee benefits, are not available to the reporting entity’s own creditors (even in bankruptcy), and cannot be returned to the reporting entity, unless either:
(i) The remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
(ii) The assets are returned to the reporting entity to reimburse it for employee benefits already paid.</td><td>25.10</td></tr>
</table>

Term	Definition	Location
assets held by a long-term employee benefit fund Applicable for periods beginning on or after January 1, 2018.	Assets (other than non-transferable financial instruments issued by the reporting entity) that: (a) Are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and (b) Are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in bankruptcy), and cannot be returned to the reporting entity, unless either: (i) The remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or (ii) The assets are returned to the reporting entity to reimburse it for employee benefits already paid.	39.8
available-for-sale financial assets	Those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through surplus or deficit.	29.10
bearer plant	A living plant that: (a) Is used in the production or supply of agricultural produce: (b) Is expected to bear produce for more than one period: and (c) Has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.	17.13, 27.9
benefits	The advantages an entity obtains from its involvement with other entities. Benefits may be financial or non-financial. The actual impact of an entity's involvement with another entity can have positive or negative aspects.	35.14

Term	Definition	Location
binding arrangement (for a service concession arrangement)	Describes contracts and other arrangements that confer similar rights and obligations on the parties to it as if they were in the form of a contract.	32.8
binding arrangement (for a joint arrangement)	An arrangement that confers enforceable rights and obligations on the parties to it as if it were in the form of a contract. It includes rights from contracts or other legal rights.	35.14
biological asset	A living animal or plant.	27.9
biological transformation	Comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset.	27.9
borrowing costs	Interest and other expenses incurred by an entity in connection with the borrowing of funds.	5.5
budgetary basis	The accrual, cash, or other basis of accounting adopted in the budget that has been approved by the legislative body.	24.7
carrying amount (of an intangible asset)	The amount at which an asset is recognized after deducting any accumulated amortization and accumulated impairment losses.	31.16
carrying amount (of investment property)	The amount at which an asset is recognized in the statement of financial position.	16.7
carrying amount (of property, plant, and equipment)	The amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.	17.13
carrying amount of a liability	The amount at which a liability is recognized in the statement of financial position.	10.7
carrying amount of an asset	The amount at which an asset is recognized in the statement of financial position, after deducting any accumulated depreciation and accumulated impairment losses thereon.	10.7
cash	Comprises cash on hand and demand deposits.	2.8
cash equivalents	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.	2.8

Term	Definition	Location
cash flows	Inflows and outflows of cash and cash equivalents.	2.8
cash-generating assets	Assets held with the primary objective of generating a commercial return.	21.14
cash-generating unit	The smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.	26.13
change in accounting estimate	An adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not correction of errors.	3.7
class of property, plant, and equipment	A grouping of assets of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements.	17.13
close members of the family of an individual	Close relatives of the individual or members of the individual's immediate family who can be expected to influence, or be influenced by, that individual in their dealings with the entity.	20.4
closing rate	The spot exchange rate at the reporting date.	4.10
combining operation	An operation that combines with one or more other operations to form the resulting entity in an amalgamation.	40.5
commencement of the lease term	The date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (i.e., the recognition of the assets, liabilities, revenue, or expenses resulting from the lease, as appropriate).	13.8
comparable basis	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.	24.7

Term	Definition	Location
composite social security programs	Programs established by legislation, and (a) Operate as multi-employer plans to provide post-employment benefits; as well as to (b) Provide benefits that are not consideration in exchange for service rendered by employees.	25.10
conditions on transferred assets	Stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.	23.7
consolidated financial statements	The financial statements of an economic entity in which the assets, liabilities, net assets/equity, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.	34.6
construction contract	A contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology, and function or their ultimate purpose or use.	11.4
constructive obligation	An obligation that derives from an entity's actions where: (a) By an established pattern of past practice, published policies, or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and (b) As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.	19.18
contingent asset	A possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.	19.18

Term	Definition	Location
contingent consideration	Usually an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquired operation as part of the exchange for control of the acquired operation if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.	40.5
contingent liability	(a) A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) A present obligation that arises from past events, but is not recognized because: (i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or (ii) The amount of the obligation cannot be measured with sufficient reliability.	19.18
contingent rent	That portion of the lease payments that is not fixed in amount, but is based on the future amount of a factor that changes other than with the passage of time (e.g., percentage of future sales, amount of future use, future price indices, future market rates of interest).	13.8
contractor	An entity that performs construction work pursuant to a construction contract.	11.4

Term	Definition	Location
contributions from owners	Future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which: (a) Conveys entitlement both to (i) distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to (ii) distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or (b) Can be sold, exchanged, transferred, or redeemed.	1.7
control	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.	2.8
control of an asset	Arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives, and can exclude or otherwise regulate the access of others to that benefit.	23.7
controlled entity	An entity that is controlled by another entity.	35.14
controlling entity	An entity that controls one or more entities.	35.14
cost	The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.	16.7
cost plus or cost-based contract	A construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially based contract, an additional percentage of these costs or a fixed fee, if any.	11.4
costs of disposal	Incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.	21.14

Term	Definition	Location
costs to sell	The incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes. Disposal may occur through sale or through distribution at no charge or for a nominal charge.	27.9
credit risk	The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.	30.8
currency risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.	30.8
current replacement cost	The cost the entity would incur to acquire the asset on the reporting date.	12.9
current service cost	The increase in the present value of the defined benefit obligation resulting from employee service in the current period.	25.10
date of adoption of IPSASs	The date an entity adopts accrual basis IPSASs for the first time, and is the start of the reporting period in which the first-time adopter adopts accrual basis IPSASs and for which the entity presents its first transitional IPSAS financial statements or its first IPSAS financial statements.	33.9
decision maker	An entity with decision-making rights that is either a principal or an agent for other parties.	35.14
deemed cost	An amount used as a surrogate for acquisition cost or depreciated cost at a given date.	33.9
deficit or surplus	Is: (a) The present value of the defined benefit obligation less (b) The fair value of plan assets (if any).	39.8
defined benefit plans Applicable up to periods beginning on or before December 31, 2017.	Postemployment benefit plans other than defined contribution plans.	25.10

Term	Definition	Location
defined benefit plans Applicable for periods beginning on or after January 1, 2018.	Post-employment benefit plans other than defined contribution plans.	39.8
defined contribution plans Applicable up to periods beginning on or before December 31, 2017.	Postemployment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.	25.10
defined contribution plans Applicable for periods beginning on or after January 1, 2018.	Post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.	39.8
depreciable amount	The cost of an asset, or other amount substituted for cost, less its residual value.	17.13
depreciation	The systematic allocation of the depreciable amount of an asset over its useful life.	17.13
derecognition	The removal of a previously recognized financial asset or financial liability from an entity's statement of financial position.	29.10

Term	Definition	Location
derivative	A financial instrument or other contract within the scope of [IPSAS 29] (see paragraphs 2–6) with all three of the following characteristics: (a) Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the "underlying"); (b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and (c) It is settled at a future date.	29.10
development	The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.	31.16
distributions to owners	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.	1.7
economic entity	A controlling entity and its controlled entities.	1.7, 35.14
economic life	Either: (a) The period over which an asset is expected to yield economic benefits or service potential to one or more users; or (b) The number of production or similar units expected to be obtained from the asset by one or more users.	13.8

Term	Definition	Location
effective interest method	A method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest revenue or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (e.g., prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see IPSAS 9, *Revenue from Exchange Transactions*), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).	29.10
employee benefits Applicable up to periods beginning on or before December 31, 2017.	All forms of consideration given by an entity in exchange for service rendered by employees.	25.10
employee benefits Applicable for periods beginning on or after January 1, 2018.	All forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment.	39.8

Term	Definition	Location
entity-specific value	The present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.	17.13
equity interests	For the purposes of this Standard, is used broadly to mean ownership interests of investor-owned entities and owner, member or participant interests of mutual entities.	40.5
equity instrument	Any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.	28.9
equity method (relating to interests in other entities)	Method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets/equity of the associate or joint venture. The investor's surplus or deficit includes its share of the investee's surplus or deficit and the investor's net assets/equity includes its share of changes in the investee's net assets/equity that have not been recognized in the investee's surplus or deficit.	36.8
events after the reporting date	Those events, both favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized for issue. Two types of events can be identified: (a) Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and (b) Those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).	14.5
exchange difference	The difference resulting from translating a given number of units of one currency into another currency at different exchange rates.	4.10
exchange rate	The ratio of exchange for two currencies.	4.10
exchange	Transactions in which one entity receives assets or services, or has liabilities	9.11

Term	Definition	Location
transactions	extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.	
executory contracts	Contracts under which neither party has performed any of its obligations, or both parties have partially performed their obligations to an equal extent.	19.18
expenses	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.	1.7
expenses paid through the tax system	Amounts that are available to beneficiaries regardless of whether or not they pay taxes.	23.7
fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.	9.11
fair value less costs to sell	The amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.	21.14
final budget	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	24.7
finance lease	A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.	13.8
financial asset	Any asset that is: (a) Cash; (b) An equity instrument of another entity; (c) A contractual right: (i) To receive cash or another financial asset from another entity; or	

Term	Definition	Location
	(ii) To exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity; or (d) A contract that will or may be settled in the entity's own equity instruments and is: (i) A non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or (ii) A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include puttable financial instruments classified as equity instruments in accordance with paragraphs 15 and 16, instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 17 and 18, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.	28.9
financial asset or financial liability at fair value through surplus or deficit	A financial asset or financial liability that meets either of the following conditions. (a) It is classified as held for trading. A financial asset or financial liability is classified as held for trading if: (i) It is acquired or incurred principally for the purpose of	29.10

Term	Definition	Location
	selling or repurchasing it in the near term; (ii) On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument). (b) Upon initial recognition it is designated by the entity as at fair value through surplus or deficit. An entity may use this designation only when permitted by paragraph 13 or when doing so results in more relevant information, because either: (i) It eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as “an accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or (ii) A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity’s key management personnel (as defined in IPSAS 20, *Related Party Disclosures*), for example the entity’s governing body and chief executive officer.	

Term	Definition	Location
financial guarantee contract	A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.	29.10
financial instrument	Any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.	28.9
financial liability	Any liability that is: (a) A contractual obligation: (i) To deliver cash or another financial asset to another entity; or (ii) To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or (b) A contract that will or may be settled in the entity's own equity instruments and is: (i) A non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or (ii) A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include puttable financial instruments classified as equity instruments in accordance with paragraphs 15 and 16,	28.9

Term	Definition	Location
	instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 17 and 18, or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments. As an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument if it has all the features and meets the conditions in paragraph 15 and 16 or paragraphs 17 and 18.	
financing activities	Activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.	2.8
fines	Economic benefits or service potential received or receivable by public sector entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.	23.7
firm commitment	A binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.	29.10
first IPSAS financial statements	The first annual financial statements in which an entity complies with the accrual basis IPSASs and can make an explicit and unreserved statement of compliance with those IPSASs because it adopted one or more of the transitional exemptions in this IPSAS that do not affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSASs.	33.9
first-time adopter	An entity that adopts accrual basis IPSASs for the first time and presents its first transitional IPSAS financial statements or its first IPSAS financial statements.	33.9

Term	Definition	Location
fixed price contract	A construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.	11.4
forecast transaction	An uncommitted but anticipated future transaction.	29.10
foreign currency	A currency other than the functional currency of the entity.	4.10
foreign operation	An entity that is a controlled entity, associate, joint venture, or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.	4.10
functional currency	The currency of the primary economic environment in which the entity operates.	4.10
general government sector	Comprises all organizational entities of the general government as defined in statistical bases of financial reporting	22.15
goodwill	An asset representing the future economic benefits arising from other assets acquired in an acquisition that are not individually identified and separately recognized.	40.5
grantor (in a service concession arrangement)	Is the entity that grants the right to use the service concession asset to the operator.	32.8
gross investment in the lease	The aggregate of: (a) The minimum lease payments receivable by the lessor under a finance lease; and (b) Any unguaranteed residual value accruing to the lessor.	13.8
group of biological assets	An aggregation of similar living animals or plants.	27.9

Term	Definition	Location
guaranteed residual value	(a) For a lessee, that part of the residual value that is guaranteed by the lessee or by a party related to the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable); and (b) For a lessor, that part of the residual value that is guaranteed by the lessee, or by a third party unrelated to the lessor, that is financially capable of discharging the obligations under the guarantee.	13.8
harvest	The detachment of produce from a biological asset or the cessation of a biological asset's life processes.	27.9
hedged item	An asset, liability, firm commitment, highly probable forecast transaction or net investment in a foreign operation that (a) exposes the entity to risk of changes in fair value or future cash flows and (b) is designated as being hedged ([IPSAS 29] paragraphs 87–94 and Appendix A paragraphs AG131–AG141 elaborate on the definition of hedged items).	29.10
hedge effectiveness	The degree to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or cash flows of the hedging instrument (see [IPSAS 29] Appendix A paragraphs AG145–AG156).	29.10
hedging instrument	A designated derivative or (for a hedge of the risk of changes in foreign currency exchange rates only) a designated non-derivative financial asset or non-derivative financial liability whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item ([IPSAS 29] paragraphs 81–86 and Appendix A paragraphs AG127–AG130 elaborate on the definition of a hedging instrument).	29.10
held-to-maturity investments	Non-derivative financial assets with fixed or determinable payments and fixed maturity	29.10

Term	Definition	Location
	that an entity has the positive intention and ability to hold to maturity (see [IPSAS 29] Appendix A paragraphs AG29–AG38) other than: (a) Those that the entity upon initial recognition designates as at fair value through surplus or deficit; (b) Those that the entity designates as available for sale; and (c) Those that meet the definition of loans and receivables. An entity shall not classify any financial assets as held to maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) other than sales or reclassifications that: (a) Are so close to maturity or the financial asset's call date (e.g., less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; (b) Occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or (c) Are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.	

Term	Definition	Location
identifiable	An asset is identifiable if it either: (a) Is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related binding arrangement, identifiable asset or liability, regardless of whether the entity intends to do so; or (b) Arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.	40.5
impairment	A loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.	21.14
impairment loss of a cash-generating asset	The amount by which the carrying amount of an asset exceeds its recoverable amount.	17.13
impairment loss of a non-cash-generating asset	The amount by which the carrying amount of an asset exceeds its recoverable service amount.	17.13
impracticable (1)	Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.	1.7

Term	Definition	Location
impracticable (2)	Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if: (a) The effects of the retrospective application or retrospective restatement are not determinable; (b) The retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or (c) The retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that: (i) Provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognized, measured, or disclosed; and (ii) Would have been available when the financial statements for that prior period were authorized for issue; from other information.	3.7
inception of the lease	The earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date: (a) A lease is classified as either an operating or a finance lease; and (b) In the case of a finance lease, the amounts to be recognized at the commencement of the lease term are determined.	13.8

Term	Definition	Location
initial direct costs	Incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or trader lessors.	13.8
intangible asset	An identifiable non-monetary asset without physical substance.	31.16
interest cost	The increase during a period in the present value of a defined benefit obligation that arises because the benefits are one period closer to settlement.	25.10
interest in another entity	Refers to involvement by way of binding arrangements or otherwise that exposes an entity to variability of benefits from the performance of the other entity. An interest in another entity can be evidenced by, but is not limited to, the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees. It includes the means by which an entity has control or joint control of, or significant influence over, another entity. An entity does not necessarily have an interest in another entity solely because of a typical funder/recipient or customer/supplier relationship.	37.7
interest rate implicit in the lease	The discount rate that, at the inception of the lease, causes the aggregate present value of: (a) The minimum lease payments; and (b) The unguaranteed residual value to be equal to the sum of (i) the fair value of the leased asset, and (ii) any initial direct costs of the lessor.	13.8
interest rate risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.	30.8

Term	Definition	Location
inventories	Assets: (a) In the form of materials or supplies to be consumed in the production process; (b) In the form of materials or supplies to be consumed or distributed in the rendering of services; (c) Held for sale or distribution in the ordinary course of operations; or (d) In the process of production for sale or distribution.	12.9
investing activities	The acquisition and disposal of long-term assets and other investments not included in cash equivalents.	2.8
investment entity	An entity that: (a) Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services; (b) Has the purpose of investing funds solely for returns from capital appreciation, investment revenue, or both; and (c) Measures and evaluates the performance of substantially all of its investments on a fair value basis.	35.14
investment property	Property (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation, or both, rather than for: (a) Use in the production or supply of goods or services, or for administrative purposes; or (b) Sale in the ordinary course of operations.	16.7
joint arrangement	An arrangement of which two or more parties have joint control.	36.8
joint control	The agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.	36.8

Term	Definition	Location
joint operation	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.	37.7
joint operator	A party to a joint operation that has joint control of that joint operation.	37.7
joint venture	A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.	36.8
joint venturer	A party to a joint venture that has joint control of that joint venture.	36.8
key management personnel	(a) All directors or members of the governing body of the entity; and (b) Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity. Where they meet this requirement, key management personnel include: (i) Where there is a member of the governing body of a whole-of-government entity who has the authority and responsibility for planning, directing, and controlling the activities of the reporting entity, that member; (ii) Any key advisors of that member; and (iii) Unless already included in (a), the senior management group of the reporting entity, including the chief executive or permanent head of the reporting entity.	20.4
lease	An agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time.	13.8

Term	Definition	Location
lease term	The non-cancelable period for which the lessee has contracted to lease the asset, together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.	13.8
legal obligation	An obligation that derives from: (a) A contract (through its explicit or implicit terms); (b) Legislation; or (c) Other operation of law.	19.18
lessee's incremental borrowing rate of interest	The rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.	13.8
liabilities	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.	1.7
liquidity risk	The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.	30.8
loans and receivables	Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:	29.10

Term	Definition	Location
	(a) Those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through surplus or deficit; (b) Those that the entity upon initial recognition designates as available for sale; or (c) Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.	
loans payable	Financial liabilities, other than short-term trade payables on normal credit terms.	30.8
market risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other price risk.	30.8
material	Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature and size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.	1.7
minimum lease payments	The payments over the lease term that the lessee is, or can be, required to make, excluding contingent rent, costs for services and, where appropriate, taxes to be paid by and reimbursed to the lessor, together with: (a) For a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or (b) For a lessor, any residual value guaranteed to the lessor by: (i) The lessee; (ii) A party related to the lessee; or	13.8

Term	Definition	Location
	(iii) An independent third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee. However, if the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised, the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it.	
monetary items	Units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.	4.10
multi-employer plans Applicable up to periods beginning on or before December 31, 2017.	Defined contribution plans (other than state plans and composite social security programs) or defined benefit plans (other than state plans) that: (a) Pool the assets contributed by various entities that are not under common control; and (b) Use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.	25.10
multi-employer plans Applicable for periods beginning on or after January 1, 2018.	Defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that: (a) Pool the assets contributed by various entities that are not under common control; and (b) Use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees.	39.8

Term	Definition	Location
multi-year budget	An approved budget for more than one year. It does not include published forward estimates or projections for periods beyond the budget period.	24.7
mutual entity	An entity, other than an investor-owned entity, that provides dividends, lower costs or other economic benefits directly to its owners, members or participants. For example, a mutual insurance company, a credit union and a co-operative entity are all mutual entities.	40.5
net assets/equity	The residual interest in the assets of the entity after deducting all its liabilities.	1.7
net defined benefit liability (asset)	The deficit or surplus, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.	39.8
net interest on the net defined benefit liability (asset)	The change during the period in the net defined benefit liability (asset) that arises from the passage of time.	39.8
net investment in a foreign operation	The amount of the reporting entity's interest in the net assets/equity of that operation.	4.10
net investment in the lease	The gross investment in the lease discounted at the interest rate implicit in the lease.	13.8
net realizable value	The estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.	12.9
non-cancelable lease	A lease that is cancelable only: (a) Upon the occurrence of some remote contingency; (b) With the permission of the lessor; (c) If the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or (d) Upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.	13.8
non-cash-generating assets	Assets other than cash-generating assets.	21.14

Term	Definition	Location
non-controlling interest	The net assets/equity in a controlled entity not attributable, directly or indirectly, to a controlling entity.	35.14
non-exchange transactions	Transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.	9.11
non-monetary items	Items that are not monetary items.	10.7
notes	Contain information in addition to that presented in the statement of financial position, statement of financial performance, statement of changes in net assets/equity and cash flow statement. Notes provide narrative descriptions or disaggregations of items disclosed in those statements and information about items that do not qualify for recognition in those statements.	1.7
obligating event	An event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.	19.18
onerous contract	A contract for the exchange of assets or services in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.	19.18
operating activities	The activities of the entity that are not investing or financing activities.	2.8
operating lease	A lease other than a finance lease.	13.8
operation	An integrated set of activities and related assets and/or liabilities that is capable of being conducted and managed for the purpose of achieving an entity’s objectives, by providing goods and/or services.	40.5
operator (in a service concession arrangement)	Is the entity that uses the service concession asset to provide public services subject to the grantor’s control of the asset.	32.8

Term	Definition	Location
original budget	The initial approved budget for the budget period.	24.7
other long-term employee benefits Applicable up to periods beginning on or before December 31, 2017.	Employee benefits (other than postemployment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.	25.10
other long-term employee benefits Applicable for periods beginning on or after January 1, 2018.	All employee benefits other than short-term employee benefits, post-employment benefits and termination benefits.	39.8
other price risk	The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.	30.8
oversight	The supervision of the activities of an entity, with the authority and responsibility to control, or exercise significant influence over, the financial and operating decisions of the entity.	20.4
owner-occupied property	Property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services, or for administrative purposes.	16.7
owners	For the purposes of this Standard, is used broadly to include any party with quantifiable ownership interests in an operation. This includes, but is not limited to, holders of equity interests of investor-owned entities and owners or members of, or participants in, mutual entities.	40.5
party to a joint arrangement	An entity that participates in a joint arrangement, regardless of whether that entity has joint control of the arrangement.	37.7

Term	Definition	Location
past due	A financial asset is past due when a counterparty has failed to make a payment when contractually due.	30.8
past service cost	The change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, postemployment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benifit obligation decreases).	25.10
plan assets Applicable up to periods beginning on or before December 31, 2017.	Comprise: (a) Assets held by a long-term employee benefit fund; and (b) Qualifying insurance policies.	25.10
plan assets Applicable for periods beginning on or after January 1, 2018.	Comprise: (a) Assets held by a long-term employee benefit fund; and (b) Qualifying insurance policies.	39.8
post-employment benefit plans Applicable up to periods beginning on or before December 31, 2017.	Formal or informal arrangements under which an entity provides postemployment benefits for one or more employees.	25.10
post-employment benefit plans Applicable for periods beginning on or after January 1, 2018.	Formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.	39.8

Term	Definition	Location
post-employment benefits Applicable up to periods beginning on or before December 31, 2017.	Employee benefits (other than termination benefits) which are payable after the completion of employment.	25.10
post-employment benefits Applicable for periods beginning on or after January 1, 2018.	Employee benefits (other than termination benefits and short-term employee benefits) that are payable after the completion of employment.	39.8
power	Consists of existing rights that give the current ability to direct the relevant activities of another entity.	35.14
present value of a defined benefit obligation Applicable up to periods beginning on or before December 31, 2017.	The present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.	25.10
present value of a defined benefit obligation Applicable for periods beginning on or after January 1, 2018.	The present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.	39.8
presentation currency	The currency in which the financial statements are presented.	4.10

Term	Definition	Location
prior period errors	Omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, faithfully representative information that: (a) Was available when financial statements for those periods were authorized for issue; and (b) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.	3.7
property, plant, and equipment	Tangible items that: (a) Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) Are expected to be used during more than one reporting period.	17.13
prospective application	Prospective application of a change in accounting policy and of recognizing the effect of a change in an accounting estimate, respectively, are: (a) Applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and (b) Recognizing the effect of the change in the accounting estimate in the current and future periods affected by the change	3.7
protective rights	Rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate.	35.14
provision	A liability of uncertain timing or amount.	19.18
public sector combination	The bringing together of separate operations into one public sector entity.	40.5

Term	Definition	Location
public sector combination under common control	Is a public sector combination in which all of the entities or operations involved are ultimately controlled by the same entity both before and after the public sector combination.	40.5
puttable instrument	A financial instrument that gives the holder the right to put the instrument back to the issuer for cash or another financial asset or is automatically put back to the issuer on the occurrence of an uncertain future event or the death or retirement of the instrument holder.	28.9
qualifying asset	An asset that necessarily takes a substantial period of time to get ready for its intended use or sale.	5.5
qualifying insurance policy Applicable up to periods beginning on or before December 31, 2017.	An insurance policy[1] issued by an insurer that is not a related party (as defined in IPSAS 20) of the reporting entity, if the proceeds of the policy: (a) Can be used only to pay or fund employee benefits under a defined benefit plan; and (b) Are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either: (i) The proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or (ii) The proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.	25.10

1 A qualifying insurance policy is not necessarily an insurance contract (see the relevant international ornational standard dealing with insurance contracts).

Term	Definition	Location
qualifying insurance policy Applicable for periods beginning on or after January 1, 2018.	An insurance policy[2] issued by an insurer that is not a related party (as defined in IPSAS 20) of the reporting entity, if the proceeds of the policy: (a) Can be used only to pay or fund employee benefits under a defined benefit plan; and (b) Are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either: (i) The proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or (ii) The proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.	39.8
recoverable amount (of an asset or a cash-generating unit)	The higher of an asset's or a cash-generating unit's fair value less costs to sell and its value in use.	26.13
recoverable amount (of property, plant, and equipment)	The higher of a cash-generating asset's fair value less costs to sell and its value in use.	17.13
recoverable service amount	The higher of a non-cash-generating asset's fair value less costs to sell and its value in use.	21.14
regular way purchase or sale	A purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.	29.10

[2] A qualifying insurance policy is not necessarily an insurance contract (see the relevant international ornational standard dealing with insurance contracts).

Term	Definition	Location
related party	Parties are considered to be related if one party has the ability to (a) control the other party, or (b) exercise significant influence over the other party in making financial and operating decisions, or if the related party entity and another entity are subject to common control. Related parties include: (a) Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by, the reporting entity; (b) Associates (see IPSAS 7, *Investments in Associates*); (c) Individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual; (d) Key management personnel, and close members of the family of key management personnel; and (e) Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in (c) or (d), or over which such a person is able to exercise significant influence.	20.4
related party transaction	A transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the reporting entity or the government of which it forms part.	20.4
relevant rights	Activities of the potentially controlled entity that significantly affect the nature or amount of the benefits that an entity receives from its involvement with that other entity.	35.14

Term	Definition	Location
remeasurements of the net defined benefit liability (asset)	Comprise: (a) Actuarial gains and losses; (b) The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and (c) Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).	39.8
removal rights	Rights to deprive the decision maker of its decision-making authority.	35.14
remuneration of key management personnel	Any consideration or benefit derived directly or indirectly by key management personnel from the reporting entity for services provided in their capacity as members of the governing body, or otherwise as employees of the reporting entity.	20.4
reporting date	The date of the last day of the reporting period to which the financial statements relate.	2.8
research	Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.	31.16
residual value (of property, plant, and equipment or an intangible asset)	The estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.	17.13
restrictions on transferred assets	Stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.	23.7
restructuring	A program that is planned and controlled by management, and materially changes either: (a) The scope of an entity's activities; or (b) The manner in which those activities are carried out.	19.18
resulting entity	The entity that is the result of two or more operations combining in an amalgamation	40.5

Term	Definition	Location
retrospective application	Applying a new accounting policy to transactions, other events, and conditions as if that policy had always been applied.	3.7
retrospective restatement	Correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.	3.7
return on plan assets Applicable up to periods beginning on or before December 31, 2017.	The interest, dividends or similar distributions and other revenue derived from the plan assets, together with realized and unrealized gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.	25.10
return on plan assets Applicable for periods beginning on or after January 1, 2018.	The interest, dividends or similar distributions and other revenue derived from the plan assets, together with realized and unrealized gains or losses on the plan assets, less: (a) Any costs of managing the plan assets; and (b) Any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.	39.8
revenue	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.	1.7
revenue from a structured entity	Includes, but is not limited to, recurring and non-recurring fees, interest, dividends or similar distributions, gains or losses on the remeasurement or derecognition of interests in structured entities and gains or losses from the transfer of assets and liabilities to the structured entity.	38.7

Term	Definition	Location
segment	A distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of (a) evaluating the entity's past performance in achieving its objectives and (b) making decisions about the future allocation of resources.	18.9
segment accounting policies	Accounting policies adopted for preparing and presenting the financial statements of the consolidated group or entity as well as those accounting policies that relate specifically to segment reporting.	18.27
segment assets	Are those operating assets that are employed by a segment in its operating activities, and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. If a segment's segment revenue includes interest or dividend revenue, its segment assets include the related receivables, loans, investments, or other revenue-producing assets. Segment assets do not include income tax or income tax-equivalent assets that are recognized in accordance with accounting standards dealing with obligations to pay income tax or income tax equivalents. Segment assets include investments accounted for under the equity method only if the net surplus (deficit) from such investments is included in segment revenue. Segment assets include a joint venturer's share of the operating assets of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IPSAS 8, *Interests in Joint Ventures*. Segment assets are determined after deducting related allowances that are reported as direct offsets in the entity's statement of financial position.	18.27

Term	Definition	Location
segment expense	An expense resulting from the operating activities of a segment that is directly attributable to the segment, and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to the provision of goods and services to external parties and expenses relating to transactions with other segments of the same entity. Segment expense does not include: (a) Interest, including interest incurred on advances or loans from other segments, unless the segment's operations are primarily of a financial nature; (b) Losses on sales of investments or losses on extinguishment of debt, unless the segment's operations are primarily of a financial nature; (c) An entity's share of net deficit or losses of associates, joint ventures, or other investments accounted for under the equity method; (d) Income tax or income tax-equivalent expense that is recognized in accordance with accounting standards dealing with obligations to pay income tax or income tax equivalents; or (e) General administrative expenses, head office expenses, and other expenses that	18.27

Term	Definition	Location
	arise at the entity level and relate to the entity as a whole. However, costs are sometimes incurred at the entity level on behalf of a segment. Such costs are segment expenses if they relate to the segment's operating activities and they can be directly attributed or allocated to the segment on a reasonable basis. Segment expense includes a joint venturer's share of the expenses of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IPSAS 8. For a segment's operations that are primarily of a financial nature, interest revenue and interest expense may be reported as a single net amount for segment reporting purposes only if those items are netted in the consolidated or entity financial statements.	
segment liabilities	Those operating liabilities that result from the operating activities of a segment, and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. If a segment's segment expense includes interest expense, its segment liabilities include the related interest-bearing liabilities. Segment liabilities include a joint venturer's share of the liabilities of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IPSAS 8. Segment liabilities do not include income tax or income tax equivalent liabilities that are recognized in accordance with accounting standards dealing with obligations to pay income tax or income tax equivalents.	18.27
segment revenue	Is revenue reported in the entity's statement of financial performance that is directly attributable to a segment, and the relevant portion of entity revenue that can be allocated on a reasonable basis to a segment, whether from budget appropriations or similar, grants, transfers, fines, fees, or sales to external customers or from transactions with other	18.27

Term	Definition	Location
	segments of the same entity. Segment revenue does not include: (a) Interest or dividend revenue, including interest earned on advances or loans to other segments, unless the segment's operations are primarily of a financial nature; or (b) Gains on sales of investments or gains on extinguishment of debt, unless the segment's operations are primarily of a financial nature. Segment revenue includes an entity's share of net surplus (deficit) of associates, joint ventures, or other investments accounted for under the equity method, only if those items are included in consolidated or total entity revenue. Segment revenue includes a joint venturer's share of the revenue of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IPSAS 8.	
separate financial statements	Those presented by an entity, in which the entity could elect, subject to the requirements in this Standard, to account for its investments in controlled entities, joint ventures and associates either at cost, in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement* or using the equity method as described in IPSAS 36, *Investments in Associates and Joint Ventures*.	34.6
separate vehicle	A separately identifiable financial structure, including separate legal entities or entities recognized by statute, regardless of whether those entities have a legal personality.	37.7

Term	Definition	Location
service concession arrangement	Is a binding arrangement between a grantor and an operator in which: (a) The operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time; and (b) The operator is compensated for its services over the period of the service concession arrangement.	32.8
service concession asset	It is an asset used to provide public services in a service concession arrangement that: (a) Is provided by the operator which: (i) The operator constructs, develops, or acquires from a third party; or (ii) Is an existing asset of the operator; or (b) Is provided by the grantor which: (i) Is an existing asset of the grantor; or (ii) Is an upgrade to an existing asset of the grantor.	32.8
service cost	Comprises: (a) Current service cost, which is the increase in the present value of the defined benefit obligation resulting from employee service in the current period; (b) Past service cost, which is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by a plan); and (c) Any gain or loss on settlement.	39.8

Term	Definition	Location
settlement	A transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.	39.8
short-term employee benefits Applicable up to periods beginning on or before December 31, 2017.	Employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.	25.10
short-term employee benefits Applicable for periods beginning on or after January 1, 2018.	Employee benefits (other than termination benefits) that are due to be settled wholly before twelve months after the end of the reporting period in which the employees render the related service.	39.8
significant influence (relating to related party transactions)	The power to participate in the financial and operating policy decisions of an entity, but not control those policies. Significant influence may be exercised in several ways, usually by representation on the board of directors or equivalent governing body but also by, for example, participation in (a) the policy making process, (b) material transactions between entities within an economic entity, (c) interchange of managerial personnel, or (d) dependence on technical information. Significant influence may be gained by an ownership interest, statute, or agreement. With regard to an ownership interest, significant influence is presumed in accordance with the definition contained in IPSAS 7.	20.4
significant influence (relating to interests in other entities)	The power to participate in the financial and operating policy decisions of another entity but is not control or joint control of those policies.	36.8
spot exchange rate	The exchange rate for immediate delivery.	4.10

Term	Definition	Location
state plans Applicable up to periods beginning on or before December 31, 2017.	Plans other than composite social security programs established by legislation that operate as if they are multi-employer plans for all entities in economic categories laid down in legislation.	25.10
state plans Applicable for periods beginning on or after January 1, 2018.	Plans established by legislation that operate as if they are multi-employer plans for all entities in economic categories laid down in legislation.	39.8
stipulations on transferred assets	Terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.	23.7
structured entity	Is: (a) In the case of entities where administrative arrangements or legislation are normally the dominant factors in deciding who has control of an entity, an entity that has been designed so that administrative arrangements or legislation are not the dominant factors in deciding who controls the entity, such as when binding arrangements are significant to determining control of the entity and relevant activities are directed by means of binding arrangements; or (b) In the case of entities where voting or similar rights are normally the dominant factor in deciding who has control of an entity, an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of binding arrangements.	38.7
tax expenditures	Preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.	23.7

Term	Definition	Location
taxable event	The event that the government, legislature, or other authority has determined will be subject to taxation.	23.7
taxes	Economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of the law.	23.7
termination benefits Applicable up to periods beginning on or before December 31, 2017.	Employee benefits payable as a result of either: (a) An entity's decision to terminate an employee's employment before the normal retirement date; or (b) An employee's decision to accept voluntary redundancy in exchange for those benefits.	25.10
termination benefits Applicable for periods beginning on or after January 1, 2018.	Are employee benefits provided in exchange for the termination of an employee's employment as a result of either: (a) An entity's decision to terminate an employee's employment before the normal retirement date; or (b) An employee's decision to accept an offer of benefits in exchange for the termination of employment.	39.8
transaction costs	Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability (see [IPSAS 29] Appendix A paragraph AG26). An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.	29.10
transfers	Inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.	23.7
unearned finance revenue	The difference between: (a) The gross investment in the lease; and (b) The net investment in the lease.	13.8

Term	Definition	Location
unguaranteed residual value	That portion of the residual value of the leased asset, the realization of which by the lessor is not assured or is guaranteed solely by a party related to the lessor.	13.8
useful life (of a lease)	The estimated remaining period, from the commencement of the lease term, without limitation by the lease term, over which the economic benefits or service potential embodied in the asset are expected to be consumed by the entity.	13.8
useful life (of a non-cash-generating asset)	Either: (a) The period of time over which an asset is expected to be used by the entity; or (b) The number of production or similar units expected to be obtained from the asset by the entity.	21.14
useful life (of property, plant, and equipment or an intangible asset)	Either: (a) The period over which an asset is expected to be available for use by an entity; or (b) The number of production or similar units expected to be obtained from the asset by an entity.	17.13
value in use of a cash-generating asset	The present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life	26.13
value in use of a non-cash-generating asset	The present value of the asset's remaining service potential.	21.14
vested employee benefits	Employee benefits that are not conditional on future employment.	25.10

Accrual IPSASs Issued as at January 31, 2018

Table A: List of IPSASs effective as at January 1, 2018

The 2018 Handbook includes all IPSASs. IPSASs show the latest amended text. Where an IPSAS includes paragraphs that are not yet effective these paragraphs are listed. Earlier application of the effective date of amended paragraphs is encouraged.

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
IPSAS 1—Presentation of Financial Statements (revised)	December 2006	January 1, 2008	153K	New	IPSAS 40	2016
IPSAS 2—Cash Flow Statements	May 2000	July 1, 2001				
IPSAS 3—Accounting Policies, Changes in Accounting Estimates and Errors (revised)	December 2006	January 1, 2008				
IPSAS 4—The Effects of Changes in Foreign Exchange Rates (revised)	April 2008	January 1, 2010				

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
IPSAS 5—Borrowing Costs	May 2000	July 1, 2001				
IPSAS 9—Revenue from Exchange Transactions	July 2001	July 1, 2002				
IPSAS 10—Financial Reporting in Hyperinflationary Economies	July 2001	July 1, 2002	22	Amended	IPSAS 40	2016
			38E	New	IPSAS 40	2016
IPSAS 11—Construction Contracts	July 2001	July 1, 2002				
IPSAS 12—Inventories (revised)	December 2006	January 1, 2008				
IPSAS 13—Leases (revised)	December 2006	January 1, 2008				

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
IPSAS 14—Events After the Reporting Date (revised)	December 2006	January 1, 2008	31	Amended	IPSAS 40	2016
			32E	New	IPSAS 40	2016
IPSAS 16—Investment Property (revised)	December 2006	January 1, 2008	18A	New	IPSAS 40	2016
			87	Amended	IPSAS 40	2016
			90	Amended	IPSAS 40	2016
			101E	New	IPSAS 40	2016
IPSAS 17—Property, Plant, and Equipment (revised)	December 2006	January 1, 2008	60	Amended	IPSAS 40	2016
			88	Amended	IPSAS 40	2016
			107N	New	IPSAS 40	2016
IPSAS 18—Segment Reporting	June 2002	July 1,2003	34	Amended	IPSAS 40	2016
			37	Amended	IPSAS 40	2016
			76E	New	IPSAS 40	2016
IPSAS 19—Provisions, Contingent Liabilities and Contingent Assets	October 2002	January 1, 2004	4A	New	IPSAS 40	2016
			111G	New	IPSAS 40	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
IPSAS 20—Related Party Disclosures	October 2002	January 1, 2004				
IPSAS 21—Impairment of Non-Cash-Generating Assets	December 2004	January 1, 2006	14	Amended	IPSAS 40	2016
			20A	New	IPSAS 40	2016
			82H	New	IPSAS 40	2016
IPSAS 22—Disclosure of Information About the General Government Sector	December 2006	January 1, 2008				
IPSAS 23—Revenue from Non-Exchange Transactions (Taxes and Transfers)	December 2006	June 30, 2008	1	Amended	IPSAS 40	2016
			2	Amended	IPSAS 40	2016
			6	Amended	IPSAS 40	2016
			124E	New	IPSAS 40	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
IPSAS 24—Presentation of Budget Information in Financial Statements	December 2006	January 1, 2009				
IPSAS 26 — Impairment of Cash-Generating Assets	February 2008	April 1, 2009	2	Amended	IPSAS 40	2016
			7	Deleted	IPSAS 40	2016
			18A	New	IPSAS 40	2016
			20A	New	IPSAS 40	2016
			23	Amended	IPSAS 40	2016
			71	Amended	IPSAS 40	2016
			76	Amended	IPSAS 40	2016
			88	Amended	IPSAS 40	2016
			90A	New	IPSAS 40	2016
			90B	New	IPSAS 40	2016
			90C	New	IPSAS 40	2016
			90D	New	IPSAS 40	2016
			90E	New	IPSAS 40	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			90F	New	IPSAS 40	2016
			90G	New	IPSAS 40	2016
			90H	New	IPSAS 40	2016
			90I	New	IPSAS 40	2016
			90J	New	IPSAS 40	2016
			90K	New	IPSAS 40	2016
			90L	New	IPSAS 40	2016
			90M	New	IPSAS 40	2016
			90N	New	IPSAS 40	2016
			90O	New	IPSAS 40	2016
			91	Amended	IPSAS 40	2016
			92	Amended	IPSAS 40	2016
			96	Deleted	IPSAS 40	2016
			97A	New	IPSAS 40	2016
			97B	New	IPSAS 40	2016
			97C	New	IPSAS 40	2016
			97D	New	IPSAS 40	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			97E	New	IPSAS 40	2016
			97F	New	IPSAS 40	2016
			97G	New	IPSAS 40	2016
			97H	New	IPSAS 40	2016
			98	Amended	IPSAS 40	2016
			99	Amended	IPSAS 40	2016
			100	Amended	IPSAS 40	2016
			102	Amended	IPSAS 40	2016
			103	Amended	IPSAS 40	2016
			106	Amended	IPSAS 40	2016
			107	Amended	IPSAS 40	2016
			108	Amended	IPSAS 40	2016
			110	Amended	IPSAS 40	2016
			111	Amended	IPSAS 40	2016
			111A	New	IPSAS 40	2016
			111B	New	IPSAS 40	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			120	Amended	IPSAS 40	2016
			122	Amended	IPSAS 40	2016
			122A	New	IPSAS 40	2016
			123	Amended	IPSAS 40	2016
			124	Amended	IPSAS 40	2016
			125	Amended	IPSAS 40	2016
			126J	New	IPSAS 40	2016
IPSAS 27—Agriculture	December 2009	April 1, 2011	48	Amended	IPSAS 40	2016
			56F	New	IPSAS 40	2016
IPSAS 28—Financial Instruments: Presentation	January 2010	January 1, 2013				
IPSAS 29—Financial Instruments: Recognition and Measurement	January 2010	January 1, 2013	2	Amended	IPSAS 40	2016
			125G	New	IPSAS 40	2016
			AG35	Amended	IPSAS 40	2016
			AG131	Amended	IPSAS 40	2016
			B4	Amended	IPSAS 40	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
IPSAS 30—Financial Instruments: Disclosures	January 2010	January 1, 2013				
IPSAS 31—Intangible Assets	January 2010	April 1, 2011	3	Amended	IPSAS 40	2016
			6	Amended	IPSAS 40	2016
			18	Amended	IPSAS 40	2016
			18A	New	IPSAS 40	2016
			24	Amended	IPSAS 40	2016
			26A	New	IPSAS 40	2016
			39A	New	IPSAS 40	2016
			39B	New	IPSAS 40	2016
			39C	New	IPSAS 40	2016
			39D	New	IPSAS 40	2016
			39E	New	IPSAS 40	2016
			40	Amended	IPSAS 40	2016
			41	Amended	IPSAS 40	2016
			66	Amended	IPSAS 40	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			67	Amended	IPSAS 40	2016
			93A	New	IPSAS 40	2016
			110	Amended	IPSAS 40	2016
			114A	New	IPSAS 40	2016
			117	Amended	IPSAS 40	2016
			132I	New	IPSAS 40	2016
IPSAS 32—Service Concession Arrangements: Grantor	October 2011	January 1, 2014				
IPSAS 33—First-time Adoption of Accrual Basis IPSASs	January 2015	January 1, 2017	62A	New	IPSAS 40	2016
			62B	New	IPSAS 40	2016
			62C	New	IPSAS 40	2016
			86	Amended	IPSAS 40	2016
			129	Amended	IPSAS 40	2016
			130	Amended	IPSAS 40	2016
			132	Amended	IPSAS 40	2016
			154C	New	IPSAS 40	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
IPSAS 34—Separate Financial Statements	January 2015	January 1, 2017				
IPSAS 35—Consolidated Financial Statements	January 2015	January 1, 2017	4	Amended	IPSAS 40	2016
			40	Amended	IPSAS 40	2016
			52	Amended	IPSAS 40	2016
			55A	New	IPSAS 40	2016
			56	Amended	IPSAS 40	2016
			57	Amended	IPSAS 40	2016
			63	Amended	IPSAS 40	2016
			79C	New	IPSAS 40	2016
			79D	New	IPSAS 40	2016
IPSAS 36—Investments in Associates and Joint Ventures	January 2015	January 1, 2017	26	Amended	IPSAS 40	2016
			31	Amended	IPSAS 40	2016
			33	Amended	IPSAS 40	2016
			34A	New	IPSAS 40	2016
			34B	New	IPSAS 40	2016
			51B	New	IPSAS 40	2016

IPSAS	Issued	Original Effective Date On or After	Paragraphs Not Yet Effective			
			Paras not yet Effective	How Affected	Origin of Amendment	Handbook with Original Para
			51C	New	IPSAS 40	2016
IPSAS 37—Joint Arrangements	January 2015	January 1, 2017	24A	New	IPSAS 40	2016
			32	Amended	IPSAS 40	2016
			41A	New	IPSAS 40	2016
			42B	New	IPSAS 40	2016
			42C	New	IPSAS 40	2016
			AG33A	New	IPSAS 40	2016
			AG33B	New	IPSAS 40	2016
			AG33C	New	IPSAS 40	2016
			AG33D	New	IPSAS 40	2016
IPSAS 38—Disclosures in Interests in Other Entities	January 2015	January 1, 2017				
IPSAS 39—Employee Benefits	July 2016	January 1, 2018				

Table B: List of IPSASs not yet Effective as at January 1, 2018

IPSAS	Issued	Original Effective Date On or After	Other IPSASs Affected
IPSAS 40—Public Sector Combinations	January 2017	January 1, 2019	IPSAS 1 IPSAS 10 IPSAS 14 IPSAS 16 IPSAS 17 IPSAS 18 IPSAS 19 IPSAS 21 IPSAS 23 IPSAS 26 IPSAS 27 IPSAS 29 IPSAS 31 IPSAS 33 IPSAS 35 IPSAS 36 IPSAS 37

Table C: List of IPSASs no Longer Effective at January 1, 2017

This Table is a list of those IPSASs that are no longer applicable as they have been superceeded and/or removed.

IPSAS	Issued	Original Effective Date On or After	Reason and Date No Longer Effective
IPSAS 6—Consolidated and Separate Financial Statements (revised)	December 2006	January 1, 2008	IPSAS 6 is superseded by IPSASs 34–35 from periods beginning on or after January 1, 2017.
IPSAS 7—Investments in Associates (revised)	December 2006	January 1, 2008	IPSAS 7 is superseded by IPSASs 36 from periods beginning on or after January 1, 2017.
IPSAS 8—Interests in Joint Ventures (revised)	December 2006	January 1, 2008	IPSAS 8 is superseded by IPSASs 37 from periods beginning on or after January 1, 2017.
IPSAS 15—Financial Instruments: Disclosure and Presentation	December 2001	January 1, 2003	IPSAS 15 is superseded by IPSASs 28–30 from periods beginning on or after January 1, 2013.
IPSAS 25—Employee Benefits	February 2008	January 1, 2011	IPSAS 25 is superseded by IPSAS 39 from periods beginning on or after January 1, 2018.

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