IPSAS 1—PRESENTATION OF FINANCIAL STATEMENTS

Acknowledgment

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IPSAS 1—PRESENTATION OF FINANCIAL STATEMENTS

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The standards, which have been set in bold 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 objective of this Standard is to prescribe the manner in which general purpose financial statements should be presented in order to ensure comparability both with the entity's own financial statements of previous periods and with the financial statements of other entities. To achieve this objective, this Standard sets out overall considerations for the presentation of financial statements, guidance for their structure, and minimum requirements for the content of financial statements prepared under the accrual basis of accounting. The recognition, measurement and disclosure of specific transactions and other events are dealt with in other International Public Sector Accounting Standards.

Scope

1. **This Standard should be applied in the presentation of all general purpose financial statements prepared and presented under the accrual basis of accounting in accordance with International Public Sector Accounting Standards.**

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 that are presented separately or within another public document such as an annual report. This Standard does not apply to condensed interim financial information.

3. This Standard applies equally to the financial statements of an individual entity and to consolidated financial statements for an economic entity, such as whole-of-government financial statements.

4. **This Standard applies to all public sector entities other than Government Business Enterprises.**

5. Government Business Enterprises (GBEs) are required to comply with International Accounting Standards (IASs) issued by the International Accounting Standards Committee. The Public Sector Committee's Guideline No. 1, "Financial Reporting by Government Business Enterprises" notes that IASs are relevant to all business enterprises, regardless of whether they are in the private or public sector. Accordingly,

Guideline No. 1 recommends that GBEs should present financial statements that conform, in all material respects, to IASs.

Definitions

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

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

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.

Associate is an entity in which the investor has significant influence and which is neither a controlled entity nor a joint venture of the investor.

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

Cash comprises cash on hand and demand deposits.

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 and cash equivalents.

Consolidated financial statements are the financial statements of an economic entity presented as those of a single entity.

Contributions from owners means 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 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 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.**

Control is the power to govern the financial and operating policies of another entity so as to benefit from its activities.

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

Controlling entity is an entity that has one or more controlled entities.

Distributions to owners means 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.

Economic entity means a group of entities comprising a controlling entity and one or more controlled entities.

Equity method is a method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets/equity of the investee. The statement of financial performance reflects the investor's share of the results of operations of the investee.

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.

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.

Extraordinary items are revenue or expenses 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.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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.**

Foreign currency is a currency other than the reporting currency of an entity.

Foreign operation is a controlled entity, associate, joint venture or branch of the reporting entity, the activities of which are based or conducted in a country other than the country of the reporting entity.

Fundamental errors are errors discovered in the current period that are of such significance that the financial statements of one or more prior periods can no longer be considered to have been reliable at the date of their issue.

Government Business Enterprise 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.**

Joint venture is a binding arrangement whereby two or more parties are committed to undertake an activity which is subject to joint control.

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.

Materiality: 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.

Minority interest is that part of the net surplus (deficit) and of net assets/equity of a controlled entity attributable to interests which are not owned, directly or indirectly through controlled entities, by the controlling entity.

Net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities.

Net surplus/deficit comprises the following components:

(a) **Surplus or deficit from ordinary activities; and**

(b) **Extraordinary items.**

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.

Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Reporting currency is the currency used in presenting the financial statements.

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

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.

Surplus/deficit from ordinary activities is the residual amount that remains after expenses arising from ordinary activities have been deducted from revenue arising from ordinary activities.

Economic Entity

7. 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.

8. Other terms sometimes used to refer to an economic entity include "administrative entity," "financial entity," "consolidated entity" and "group."

9. 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.

Future Economic Benefits or Service Potential

10. Assets 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.

Government Business Enterprises

11. Government Business Enterprises (GBEs) include both trading enterprises, such as utilities, and financial enterprises, such as financial institutions. GBEs are, in substance, no different from entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in the community with goods and services at either no charge or a significantly reduced charge. International Public Sector Accounting Standard (IPSAS) 6, "Consolidated Financial Statements and Accounting for Controlled Entities" provides guidance on determining whether control exists for financial reporting purposes, and should be referred to in determining whether a GBE is controlled by another public sector entity.

Net Assets/Equity

12. "Net assets/equity" is the term used in this Standard to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.

Purpose of Financial Statements

13. Financial statements are a structured representation of the financial position of and the transactions undertaken by an entity. The objectives of general purpose financial statements are to provide information about the financial position, performance and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically, the objectives of general purpose financial reporting in the public sector should be to provide information useful for decision-making, and to demonstrate the accountability of the entity for the resources entrusted to it by:

    (a) Providing information about the sources, allocation and uses of financial resources;

    (b) Providing information about how the entity financed its activities and met its cash requirements;

    (c) Providing information that is useful in evaluating the entity's ability to finance its activities and to meet its liabilities and commitments;

    (d) Providing information about the financial condition of the entity and changes in it; and

    (e) Providing aggregate information useful in evaluating the entity's performance in terms of service costs, efficiency and accomplishments.

14. General purpose financial statements can also have a predictive or prospective role, providing information useful in predicting the level of resources required for continued operations, the resources that may be generated by continued operations, and the associated risks and uncertainties. Financial reporting may also provide users with information:

    (a) Indicating whether resources were obtained and used in accordance with the legally adopted budget; and

    (b) Indicating whether resources were obtained and used in accordance with legal and contractual requirements, including financial limits established by appropriate legislative authorities.

15. To meet these objectives, the financial statements provide information about an entity's:

    (a) Assets;

    (b) Liabilities;

    (c) Net assets/equity;

    (d) Revenue;

(e) Expenses; and

(f) Cash flows.

16. Whilst the information contained in financial statements can be relevant for the purpose of meeting the objectives in paragraph 13, it is unlikely to enable all these objectives to be met. This is likely to be particularly so in respect of entities whose primary objective may not be to make a profit, as managers are likely to be accountable for the achievement of service delivery as well as financial objectives. Supplementary information, including non-financial statements, may be reported alongside the financial statements in order to provide a more comprehensive picture of the entity's activities during the period.

Responsibility for Financial Statements

17. The responsibility for the preparation and presentation of financial statements varies within and across jurisdictions. In addition, a jurisdiction may draw a distinction between who is responsible for preparing the financial statements and who is responsible for approving or presenting the financial statements. Examples of people or positions who may be responsible for the preparation of the financial statements of individual entities (such as government departments or their equivalent) include the individual who heads the entity (the permanent head or chief executive) and the head of the central finance agency (or the senior finance official, such as the controller or accountant-general).

18. The responsibility for the preparation of the consolidated financial statements of the government as a whole usually rests jointly with the head of the central finance agency (or the senior finance official, such as the controller or accountant-general) and the finance minister (or equivalent).

Components of Financial Statements

19. **A complete set of financial statements includes the following components:**

(a) **Statement of financial position;**

(b) **Statement of financial performance;**

(c) **Statement of changes in net assets/equity;**

(d) **Cash flow statement; and**

(e) **Accounting policies and notes to the financial statements.**

20. The components listed in paragraph 19 are referred to by a variety of names both within and across jurisdictions. The statement of financial position may also be referred to as a balance sheet or statement of assets and

liabilities. The statement of financial performance may also be referred to as a statement of revenues and expenses, an income statement, an operating statement, or a profit and loss statement. The notes to the financial statements may include items referred to as "schedules" in some jurisdictions.

21. The financial statements provide users with information about an entity's resources and obligations at the reporting date and the flow of resources between reporting dates. This information is useful for users making assessments of an entity's ability to continue to provide goods and services at a given level, and the level of resources that may need to be provided to the entity in the future so that it can continue to meet its service delivery obligations.

22. Public sector entities are typically subject to budgetary limits in the form of appropriations or budget authorizations (or equivalent), which may be given effect through authorizing legislation. General purpose financial reporting by public sector entities may provide information on whether resources were obtained and used in accordance with the legally adopted budget. Where the financial statements and the budget are on the same basis of accounting, this Standard encourages the inclusion in the financial statements of a comparison with the budgeted amounts for the reporting period. Reporting against budgets may be presented in various different ways, including:

(a) The use of a columnar format for the financial statements, 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) A statement by the individual(s) responsible for the preparation of the financial statements that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or expenses incurred without appropriation or other form of authority, then details may be disclosed by way of footnote to the relevant item in the financial statements.

23. Entities are encouraged to present additional information to assist users in assessing the performance of the entity, and its stewardship of assets, as well as making and evaluating decisions about the allocation of resources. This additional information may include details about the entity's outputs and outcomes in the form of performance indicators, statements of service performance, program reviews and other reports by management about the entity's achievements over the reporting period.

24. Entities are also encouraged to disclose information about compliance with legislative, regulatory or other externally-imposed regulations. When information about compliance is not included in the financial statements, it may be useful for a note to refer to any documents that include that information. Knowledge of non-compliance is likely to be relevant for accountability purposes and may affect a user's assessment of the entity's performance and direction of future operations. It may also influence decisions about resources to be allocated to the entity in the future.

Overall Considerations

Fair Presentation and Compliance with International Public Sector Accounting Standards

25. **Financial statements should present fairly the financial position, financial performance and cash flows of an entity. The appropriate application of International Public Sector Accounting Standards, with additional disclosures when necessary, results, in virtually all circumstances, in financial statements that achieve a fair presentation.**

26. **An entity whose financial statements comply with International Public Sector Accounting Standards should disclose that fact. Financial statements should not be described as complying with International Public Sector Accounting Standards unless they comply with all the requirements of each applicable International Public Sector Accounting Standard.**

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

28. **In the extremely rare circumstances when management concludes that compliance with a requirement in a Standard would be misleading, and therefore that departure from a requirement is necessary to achieve a fair presentation, an entity should disclose:**

    (a) **That management has concluded that the financial statements fairly present the entity's financial position, financial performance and cash flows;**

    (b) **That it has complied in all material respects with applicable International Public Sector Accounting Standards except that it has departed from a Standard in order to achieve a fair presentation;**

    (c) **The Standard from which the entity has departed, the nature of the departure, including the treatment that the Standard would**

require, the reason why that treatment would be misleading in the circumstances, and the treatment adopted; and

(d) **The financial impact of the departure on the entity's net surplus or deficit, assets, liabilities, net assets/equity, and cash flows for each period presented.**

29. Financial statements may be described as being "based on" or "complying with the significant requirements of," or "in compliance with the accounting requirements of" International Public Sector Accounting Standards. There may be no further information, although it is clear that significant disclosure requirements, if not accounting requirements, are not met. Such statements are misleading because they detract from the reliability and understandability of the financial statements.

30. In order to ensure that financial statements that claim compliance with International Public Sector Accounting Standards will meet the standards required by users internationally, this Standard includes an overall requirement that financial statements should give a fair presentation, guidance on how the fair presentation requirement is met, and further guidance for determining the extremely rare circumstances when a departure is necessary. It also requires prominent disclosure of the circumstances surrounding a departure. However, where an entity adopts International Public Sector Accounting Standards, the existence of conflicting national requirements (for example, where financial reporting requirements set by the government conflict with these Standards) is not, in itself, sufficient to justify a departure in financial statements that claim compliance with International Public Sector Accounting Standards.

31. Departures from the requirements of an International Public Sector Accounting Standard in order to comply with statutory/legislative financial reporting requirements in a particular jurisdiction do not constitute departures necessary to achieve fair presentation as outlined in paragraph 28. If such departures are material an entity cannot claim to be complying with International Public Sector Accounting Standards.

32. In virtually all circumstances, a fair presentation is achieved by compliance in all material respects with applicable International Public Sector Accounting Standards. A fair presentation requires:

(a) Selecting and applying accounting policies in accordance with paragraph 37;

(b) Presenting information, including accounting policies, in a manner which provides relevant, reliable, comparable and understandable information; and

(c) Providing additional disclosures when the requirements in International Public Sector Accounting Standards are insufficient to enable users to understand the impact of particular transactions or events on the entity's financial position and financial performance.

33. In extremely rare circumstances, application of a specific requirement in an International Public Sector Accounting Standard might result in misleading financial statements. This will be the case only when the treatment required by the Standard is clearly inappropriate and thus a fair presentation cannot be achieved either by applying the Standard or through additional disclosure alone. Departure is not appropriate simply because another treatment would also give a fair presentation.

34. When assessing whether a departure from a specific requirement in International Public Sector Accounting Standards is necessary, consideration is given to:

(a) The objective of the requirement and why that objective is not achieved or is not relevant in the particular circumstances; and

(b) The way in which the entity's circumstances differ from those of other entities which follow the requirement.

35. Because the circumstances requiring a departure are expected to be extremely rare and the need for a departure will be a matter for considerable debate and subjective judgment, it is important that users are aware that the entity has not complied in all material respects with International Public Sector Accounting Standards. It is also important that they are given sufficient information to enable them to make an informed judgment on whether the departure is necessary and to calculate the adjustments that would be required to comply with the Standard.

36. **When, in accordance with specific provisions in that Standard, an International Public Sector Accounting Standard is applied before its effective date, that fact should be disclosed.**

Accounting Policies

37. **Management should select and apply an entity's accounting policies so that the financial statements comply with all the requirements of each applicable International Public Sector Accounting Standard. Where there is no specific requirement, management should develop policies to ensure that the financial statements provide information that is:**

(a) **Relevant to the decision-making needs of users; and**

(b) **Reliable in that they:**

(i) **Represent faithfully the financial performance and financial position of the entity;**

(ii) **Reflect the economic substance of events and transactions and not merely the legal form;**

(iii) **Are neutral, that is, free from bias;**

(iv) **Are prudent; and**

(v) **Are complete in all material respects.**

38. **If one or more alternative accounting policies (benchmark or allowed alternative) are available under an International Public Sector Accounting Standard, an entity should choose and apply consistently one of those policies unless the Standard specifically requires or permits categorization of items (transactions, events, balances, amounts, etc.) for which policies are to be chosen. If a Standard requires or permits separate categorization of items, a single accounting policy should be selected and applied consistently to each category.**

39. **Once an initial policy has been selected, a change in accounting policy should only be made in accordance with International Public Sector Accounting Standard (IPSAS) 3, "Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies" and applied to all items or categories of items in the manner specified in paragraph 38.**

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

41. The quality of information provided in financial statements determines the usefulness of the financial statements to users. Paragraph 37 requires the development of accounting policies to ensure that the financial statements provide information that meets a number of qualitative characteristics. Appendix 2 to this Standard summarizes the qualitative characteristics of financial reporting.

42. In the absence of a specific International Public Sector Accounting Standard, management uses its judgment in developing an accounting policy that provides the most useful information to users of the entity's financial statements. In making this judgment, management considers:

(a) The requirements and guidance in International Public Sector Accounting Standards dealing with similar and related issues;

(b) The definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described in other publications of the International Federation of Accountants—Public Sector Committee; and

(c) Pronouncements of other standard setting bodies and accepted public or private sector practices to the extent, but only to the extent, that these are consistent with (a) of this paragraph. For example, pronouncements of the International Accounting Standards Committee (IASC), including the "Framework for the Preparation and Presentation of Financial Statements," International Accounting Standards and interpretations issued by the IASC's Standing Interpretations Committee.

Going Concern

43. **When preparing financial statements an assessment of an entity's ability to continue as a going concern should be made. This assessment should be made by those responsible for the preparation of the financial statements. Financial statements should be prepared on a going concern basis unless there is an intention to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so. 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, those uncertainties should be disclosed. When the financial statements are not prepared on a going concern basis, that fact should be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not considered to be a going concern.**

44. Financial statements are normally prepared on the assumption that the entity is a going concern and will continue in operation and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate, those responsible for the preparation of the financial statements take into account all available information for the foreseeable future, which should be at least, but is not limited to, twelve months from the approval of the financial statements.

45. The degree of consideration depends on the facts in each case, and assessments of the going concern assumption are not predicated on the solvency test usually applied to business enterprises. There may be circumstances where the usual going concern tests of liquidity and solvency appear unfavorable, but other factors suggest that the entity is nonetheless a going concern. For example:

(a) In assessing whether a 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 they may operate for extended periods with negative net assets/equity; and

(b) For an individual entity, an assessment of its statement of financial position at the reporting date may suggest that the going concern assumption is not appropriate. However, there may be multi-year funding agreements, or other arrangements, in place that will ensure the continued operation of the entity.

46. The determination of whether the going concern assumption is appropriate is primarily relevant for individual entities rather than for a government as a whole. For individual entities, in assessing whether the going concern basis is appropriate, those responsible for the preparation of the financial statements may need to consider a wide range of factors surrounding current and expected performance, potential and announced restructurings of organizational units, estimates of revenue or the likelihood of continued government funding, and potential sources of replacement financing before it is appropriate to conclude that the going concern assumption is appropriate.

Consistency of Presentation

47. **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 statement 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 an International Public Sector Accounting Standard.**

48. A significant acquisition or disposal, or a review of the financial statement presentation, might suggest that the financial statements should be presented differently. For example, an entity may dispose of a 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 based on the principal activities of the economic entity as a financial institution is unlikely to be relevant for the new economic entity.

49. 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 62. Where an entity has adopted International Public Sector Accounting Standards, 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.

Materiality and Aggregation

50. **Items that are material by virtue of their nature should be presented separately in the financial statements. Items that are material by virtue of their size but which have the same nature may be aggregated. Immaterial amounts should be aggregated with amounts of a similar nature or function and need not be presented separately.**

51. 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.

52. In this context, information is material if its non-disclosure could influence the decision-making and evaluations of users about the allocation and stewardship of resources, and the performance of the entity, made on the basis of the financial statements. Materiality depends on the size and nature of the item judged in the particular circumstances of its omission. In deciding whether an item or an aggregate of items is material, the size and nature of the item are evaluated together. Depending on the circumstances, either the size or the nature of the item could be the determining factor. For example, individual revenues or receipts with the same nature and function are aggregated even if the individual amounts are large. However, large items which differ in nature or function are presented separately.

53. 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.

Offsetting

54. **Assets and liabilities should not be offset except when offsetting is required or permitted by another International Public Sector Accounting Standard.**

55. **Items of revenue and expense should not be offset except when, and only when:**

    (a) **An International Public Sector Accounting Standard requires or permits it; or**

    (b) **Gains, losses and related expenses arising from the same or similar transactions and other events are not material. Such amounts should be aggregated in accordance with paragraph 50.**

56. It is important that both assets and liabilities, and revenue and expenses, when material, are reported separately. Offsetting in either the statement of financial performance or the statement of financial position, except when offsetting reflects the substance of the transaction or event, detracts from the ability of users to understand the transactions undertaken and to assess the future cash flows of the entity. The reporting of assets net of valuation allowances, for example obsolescence allowances on inventories and doubtful debts allowances on receivables, is not offsetting.

57. Revenue relating to exchange transactions is measured at the fair value of consideration received or receivable, taking into account the amount of any trade discounts and volume rebates allowed by the entity. An entity undertakes, in the course of its ordinary activities, other transactions which do not generate revenue but which are incidental to the main revenue generating activities. The results of such transactions are presented, when this presentation reflects the substance of the transaction or event, by netting any revenue with related expenses arising on the same transaction. For example:

    (a) Gains and losses on the disposal of non-current assets, including investments and operating assets, are reported by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses;

    (b) Expenses that are reimbursed under a contractual arrangement with a third party (for example, a sub-letting agreement) are netted against the related reimbursement; and

    (c) Extraordinary items may be presented net of related taxation and minority interest, where appropriate, with the gross amounts shown in the notes.

58. In addition, gains and losses arising from a group of similar transactions are reported on a net basis, for example foreign exchange gains and losses and gains and losses arising on financial instruments held for trading purposes.

Such gains and losses are, however, reported separately if their size, nature or incidence is such that separate disclosure is required by IPSAS 3.

59. The offsetting of cash flows is dealt with in IPSAS 2, “Cash Flow Statements.”

Comparative Information

60. **Unless an International Public Sector Accounting Standard permits or requires otherwise, comparative information should be disclosed in respect of the previous period for all numerical information 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.**

61. 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, are 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.

62. **When the presentation or classification of items 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.**

63. 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 are disclosed. IPSAS 3 contains guidance on the adjustments required to comparative information following a change in accounting policy that is applied retrospectively.

Structure and Content

Introduction

64. This Standard requires certain disclosures on the face of the financial statements, requires other line items to be disclosed either on the face of the financial statements or in the notes, and sets out recommended formats as an appendix to the Standard which an entity may follow as appropriate in its own circumstances.

65. This Standard uses the term disclosure in a broad sense, encompassing items presented on the face of each financial statement as well as in the notes to the financial statements. Disclosures required by other International Public Sector Accounting Standards are made in accordance with the requirements of those Standards. Unless this or another Standard specifies to the contrary, such disclosures are made either on the face of the relevant financial statement or in the notes.

Identification of Financial Statements

66. **Financial statements should be clearly identified and distinguished from other information in the same published document.**

67. International Public Sector Accounting Standards apply 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 International Public Sector Accounting Standards from other information which may be useful to users but is not the subject of Standards.

68. **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.**

69. The requirements in paragraph 68 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; the above items are then presented frequently enough to ensure a proper understanding of the information given.

70. 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.

Reporting Period

71. **Financial statements should be presented at least annually. When, in exceptional circumstances, an entity's reporting date changes and 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 for a period other than one year being used; and**

    (b) **The fact that comparative amounts for certain statements such as the statement of financial performance, changes in net assets/equity, cash flows and related notes are not comparable.**

72. In exceptional circumstances an entity may be required to, or decide to, change its reporting date, for example in order to align the reporting cycle more closely with the budgeting cycle. When this is the case, it is important that users are aware that the amounts shown for the current period and comparative amounts are not comparable and that the reason for the change in reporting date is disclosed. A further example is where, in making the transition from cash to accrual accounting, an entity changes the reporting date for entities within the economic entity to enable the preparation of consolidated financial statements.

73. Normally, 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 to those that would be presented for one year.

Timeliness

74. The usefulness of financial statements is 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. 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.

Statement of Financial Position

The Current/Non-current Distinction

75. **Each entity should determine, based on the nature of its operations, whether or not to present current and non-current assets and current and non-current liabilities as separate classifications on the face of the statement of financial position. Paragraphs 79 to 88 of this Standard apply when this distinction is made. When an entity chooses not to make this classification, assets and liabilities should be presented broadly in order of their liquidity.**

76. **Whichever method of presentation is adopted, an entity should disclose for each asset and liability item that combines amounts expected to be recovered or settled both before and after twelve months from the reporting date, the amount expected to be recovered or settled after more than twelve months.**

77. When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realized within the current operating cycle, and liabilities that are due for settlement within the same period.

78. Information about the maturity dates of assets and liabilities is useful in assessing the liquidity and solvency of an entity. Guidance on the disclosure of the maturity dates of financial assets and financial liabilities can be found in International Accounting Standard (IAS) 32, "Financial Instruments: Disclosure and Presentation." Financial assets include trade and other receivables and financial liabilities include trade and other payables. Information on the expected date of recovery and settlement of non-monetary assets and liabilities such as inventories and provisions is also useful whether or not assets and liabilities are classified between current and non-current.

Current Assets

79. **An asset should be classified as a current asset when it:**

    (a) **Is expected to be realized in, or is held for sale or consumption in, the normal course of the entity's operating cycle; or**

    (b) **Is held primarily for trading purposes or for the short-term and expected to be realized within twelve months of the reporting date; or**

    (c) **Is cash or a cash equivalent asset.**

    All other assets should be classified as non-current assets.

80. This Standard uses the term "non-current assets" to include intangible, operating and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as their meaning is clear.

81. The operating cycle of an entity is the time taken to convert inputs or resources into outputs. For instance, governments transfer resources to public sector entities so that they can convert those resources into goods and services, or outputs, to meet the government's desired social, political and economic outcomes.

82. Current assets include taxes receivable, user charges receivable, fines and regulatory fees receivable, inventories and accrued investment revenue that are either realized, consumed or sold, as part of the normal operating cycle even when they are not expected to be realized within twelve months of the reporting date. Marketable securities are classified as current assets if they are expected to be realized within twelve months of the reporting date; otherwise they are classified as non-current assets.

Current Liabilities

83. **A liability should be classified as a current liability when it:**

    (a) **Is expected to be settled in the normal course of the entity's operating cycle; or**

    (b) **Is due to be settled within twelve months of the reporting date.**

    All other liabilities should be classified as non-current liabilities.

84. Current liabilities can be categorized in a similar way to current assets. Some current liabilities, such as government transfers payable and accruals for employee and other operating costs, form part of the working capital used in the normal operating cycle of the entity. Such operating items are classified as current liabilities even if they are due to be settled after more than twelve months from the reporting date.

85. Other current liabilities are not settled as part of the current operating cycle, but are due for settlement within twelve months of the reporting date. Examples are the current portion of interest-bearing liabilities, bank overdrafts, dividends payable, income taxes and other non-trade payables. Interest-bearing liabilities that provide the financing for working capital on a long-term basis, and are not due for settlement within twelve months, are non-current liabilities.

86. **An entity should continue to classify its long-term interest-bearing liabilities as non-current, even when they are due to be settled within twelve months of the reporting date if:**

(a) **The original term was for a period of more than twelve months;**

(b) **The entity intends to refinance the obligation on a long-term basis; and**

(c) **That intention is supported by an agreement to refinance, or to reschedule payments, which is completed before the financial statements are approved.**

The amount of any liability that has been excluded from current liabilities in accordance with this paragraph, together with information in support of this presentation, should be disclosed in the notes to the statement of financial position.

87. Some obligations that are due to be repaid within the next operating cycle may be expected to be refinanced or "rolled-over" at the discretion of the entity and, therefore, are not expected to use current working capital of the entity. Such obligations are considered to form part of the entity's long-term financing and should be classified as non-current. However, in situations in which refinancing is not at the discretion of the entity (as would be the case if there were no agreement to refinance), the refinancing cannot be considered automatic and the obligation is classified as current unless the completion of a refinancing agreement before approval of the financial statements provides evidence that the substance of the liability at the reporting date was long term.

88. Some borrowing agreements incorporate undertakings (covenants) by the borrower which have the effect that the liability becomes payable on demand if certain conditions related to the borrower's financial position are breached. In these circumstances, if the conditions have been breached, the liability is classified as non-current only when:

(a) The lender has agreed, prior to the approval of the financial statements, not to demand payment as a consequence of the breach; and

(b) It is not probable that further breaches will occur within twelve months of the reporting date.

Information to be Presented on the Face of the Statement of Financial Position

89. **As a minimum, the face of the statement of financial position should include line items which present the following amounts:**

(a) **Property, plant and equipment;**

(b) **Intangible assets;**

(c) **Financial assets [excluding amounts shown under (d), (f) and (h)];**

(d) **Investments accounted for using the equity method;**

(e) **Inventories;**

(f) **Recoverables from non-exchange transactions, including taxes and transfers;**

(g) **Receivables from exchange transactions;**

(h) **Cash and cash equivalents;**

(i) **Taxes and transfers payable;**

(j) **Payables under exchange transactions;**

(k) **Provisions;**

(l) **Non-current liabilities;**

(m) **Minority interest; and**

(n) **Net assets/equity.**

90. **Additional line items, headings and sub-totals should be presented on the face of the statement of financial position when an International Public Sector Accounting Standard requires it, or when such presentation is necessary to present fairly the entity's financial position.**

91. This Standard does not prescribe the order or format in which items are to be presented. Paragraph 89 simply provides a list of items that are so different in nature or function that they deserve separate presentation on the face of the statement of financial position. Illustrative formats are set out in Appendix 1 to this Standard. Adjustments to the line items above include the following:

(a) Line items are added when another International Public Sector Accounting Standard requires separate presentation on the face of the statement of financial position, or when the size, nature or function of an item is such that separate presentation would assist in presenting fairly the entity's financial position; and

(b) The descriptions used and the ordering of items may be amended according to the nature of the entity and its transactions, to provide information that is necessary for an overall understanding of the entity's financial position.

92. The line items listed in paragraph 89 are broad in nature and need not be limited to items falling within the scope of other Standards. For example, the line item intangible assets includes goodwill and assets arising from development costs.

93. The judgment on whether additional items are separately presented is based on an assessment of:

(a) The nature and liquidity of assets and their materiality, leading, in most cases, to the separate presentation of goodwill and assets arising from development costs, monetary and non-monetary assets and current and non-current assets;

(b) Their function within the entity, leading, for example, to the separate presentation of operating and financial assets, inventories, receivables and cash and cash equivalent assets; and

(c) The amounts, nature and timing of liabilities, leading, for example, to the separate presentation of interest-bearing and non-interest-bearing liabilities and provisions, classified as current or non-current as appropriate.

94. Assets and liabilities that differ in nature or function are sometimes subject to different measurement bases. For example certain classes of property, plant and equipment may be carried at cost, or at revalued amounts. The use of different measurement bases for different classes of assets suggests that their nature or function differs and therefore that they should be presented as separate line items.

Information to be Presented either on the Face of the Statement of Financial Position or in the Notes

95. **An entity should disclose, either on the face of the statement of financial position or in the notes to the statement of financial position, further sub-classifications of the line items presented, classified in a manner appropriate to the entity's operations. Each item should be sub-classified, when appropriate, by its nature, and amounts payable to and receivable from the controlling entity, fellow controlled entities and associates and other related parties should be disclosed separately.**

96. The detail provided in sub-classifications, either on the face of the statement of financial position or in the notes depends on the requirements of International Public Sector Accounting Standards and the size, nature and function of the amounts involved. The factors set out in paragraph 93 are also used to decide the basis of sub-classification. The disclosures will vary for each item, for example:

(a) Tangible assets should be classified by class in accordance with any appropriate standards that address accounting for property, plant and equipment;

(b) Receivables are analyzed between amounts receivable from user charges, taxes and other non-reciprocal revenues, other members of the economic entity, receivables from related parties, prepayments, and other amounts;

(c) Inventories are sub-classified in accordance with appropriate standards that address accounting for inventories, into classifications such as merchandise, production supplies, materials, work in progress and finished goods;

(d) Taxes and transfers payable are analyzed between tax refunds payable, transfers payable, and amounts payable to other members of the economic entity;

(e) Provisions are analyzed showing separately provisions for employee benefit costs and any other items classified in a manner appropriate to the entity's operations; and

(f) Components of net assets/equity are analyzed showing separately contributed capital, accumulated surpluses and deficits and any reserves.

97. **When an entity has no share capital, it should separately disclose the following, either on the face of the statement of financial position or in the notes:**

(a) **Net assets/equity, showing separately:**

(i) **Contributed capital, being the cumulative total at the reporting date of contributions from owners, less distributions to owners;**

(ii) **Accumulated surpluses or deficits;**

(iii) **Reserves, including a description of the nature and purpose of each reserve within net assets/equity; and**

(iv) **Minority interests; and**

(b) **The amount of a distribution (other than the return of capital) proposed or declared after the reporting date but before the financial statements were authorized for issue.**

98. Many public sector entities will not have share capital but the entity will be controlled exclusively by another public sector entity. The nature of the government's interest in the net assets/equity of the entity is likely to be a combination of contributed capital and the aggregate of the entity's accumulated surpluses or deficits and reserves—which reflect the net assets/equity attributable to the entity's operations.

99. In some cases, there may be a minority interest in the net assets/equity of the entity. For example, at whole-of-government level, the economic entity may include a Government Business Enterprise that has been partly privatized. Accordingly, there may be private shareholders who have a financial interest in the net assets/equity of the entity.

100. **When an entity has share capital, in addition to the disclosures in paragraph 97, it should disclose the following, either on the face of the statement of financial position or in the notes:**

(a) **For each class of share capital:**

(i) **The number of shares authorized;**

(ii) **The number of shares issued and fully paid, and issued but not fully paid;**

(iii) **Par value per share, or that the shares have no par value;**

(iv) **A reconciliation of the number of shares outstanding at the beginning and at the end of the year;**

(v) **The rights, preferences and restrictions attaching to that class, including restrictions on the distribution of dividends and the repayment of capital;**

(vi) **Shares in the entity held by the entity itself or by controlled entities or associates of the entity; and**

(vii) **Shares reserved for issuance under options and sales contracts, including the terms and amounts;**

(b) **A description of the nature and purpose of each reserve within net assets/equity;**

(c) **The amount of dividends that were proposed or declared after the reporting date but before the financial statements were authorized for issue; and**

(d) **The amount of any cumulative preference dividends not recognized.**

Statement of Financial Performance

Information to be Presented on the Face of the Statement of Financial Performance

101. **As a minimum, the face of the statement of financial performance should include line items which present the following amounts:**

(a) **Revenue from operating activities;**

(b) **Surplus or deficit from operating activities;**

(c) **Finance costs;**

(d) **Share of net surpluses or deficits of associates and joint ventures accounted for using the equity method;**

(e) **Surplus or deficit from ordinary activities;**

(f) **Extraordinary items;**

(g) **Minority interest share of net surplus or deficit; and**

(h) **Net surplus or deficit for the period.**

Additional line items, headings and sub-totals should be presented on the face of the statement of financial performance when required by an International Public Sector Accounting Standard, or when such presentation is necessary to present fairly the entity's financial performance.

102. In the context of the statement of financial performance, operating activities refers to those activities which an entity carries out in order to achieve its primary objectives. Revenues and expenses arising from operating activities are distinguished from those arising from holding assets or financing an entity's operations. For example, a local government's operations may include the generation of revenue from property taxes and the incurrence of expenses such as wages, depreciation and consumables. Other items such as finance costs and gains and losses on the sale of property, plant and equipment are generally incidental to the local government's primary objectives and therefore outside its operating activities.

103. The effects of an entity's various activities, transactions and other events differ in terms of their impact on its ability to meet its service delivery obligations, and the disclosure of the elements of performance assists in an understanding of the performance achieved and in predicting future results.

Additional line items are included on the face of the statement of financial performance and the descriptions used and the ordering of items are amended when this is necessary to explain the elements of performance. Factors to be taken into consideration include materiality and the nature and function of the various components of revenue and expenses. Revenue and expense items are offset only when the criteria in paragraph 55 are met.

Information to be Presented either on the Face of the Statement of Financial Performance or in the Notes

104. **An entity should present, either on the face of the statement of financial performance or in the notes to the statement of financial performance, a sub-classification of total revenue, classified in a manner appropriate to the entity's operations.**

105. **An entity should present, either on the face of the statement of financial performance or in the notes to the statement of financial performance, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, as appropriate.**

106. Entities are encouraged to present the analysis in paragraph 105 on the face of the statement of financial performance.

107. Expense items are further sub-classified in order to highlight the costs and cost recoveries of particular programs, activities or other relevant segments of the reporting entity. This information may be provided in one of two ways.

108. The first analysis is referred to as the nature of expense method. Expenses are aggregated in the statement of financial performance according to their nature, (for example depreciation, purchases of materials, transport costs, wages and salaries), and are not reallocated amongst various functions within the entity. This method is simple to apply in many smaller entities because no allocations of operating expenses between functional classifications are necessary. An example of a classification using the

Revenue from operating activities		X
Salaries and employee benefits	X	
Depreciation and amortization expense	X	
Other operating expenses	X	
Total expenses		(X)
Surplus from operating activities		X

nature of expense method is as follows:

109. The second analysis, referred to as the functional method of expense classification, classifies expenses according to the program or purpose for which they were made. This presentation often provides more relevant information to users than the classification of expenses by nature, although the allocation of expenses to functions can be arbitrary and involves considerable judgment. An example of the functional method of expense classification is as follows:

Total revenue	X
Expenses:	
Health expenses	(X)
Education expenses	(X)
Other expenses	(X)
Surplus/(deficit)	X

110. The expenses associated with the main functions undertaken by the entity are shown separately. In this example, the entity has functions relating to the provision of health and education services. The entity would present expense line items for each of these functions.

111. **Entities classifying expenses by function should disclose additional information on the nature of expenses, including depreciation and amortization expense, salaries and employee benefits, and finance costs.**

112. The choice of analysis between the functional method and the nature of expense method depends on both the historical and regulatory factors and the nature of the organization. Both methods provide an indication of the costs which might be expected to vary, directly and indirectly, with the outputs of the entity. Because each method of presentation has its merits for different types of entities, this Standard provides a choice between classifications based on what fairly presents the elements of an entity's performance.

113. **When an entity provides a dividend to its owners and has share capital, it should disclose, either on the face of the statement of financial performance or in the notes, the amount of dividends per share, declared or proposed, for the period covered by the financial statements.**

Changes in Net Assets/Equity

114. **An entity should present, as a separate component of its financial statements, a statement showing:**

(a) **The net surplus or deficit for the period;**

(b) **Each item of revenue and expense, which, as required by other standards, is recognized directly in net assets/equity, and the total of these items; and**

(c) **The cumulative effect of changes in accounting policy and the correction of fundamental errors dealt with under the benchmark treatments in IPSAS 3.**

115. **In addition, an entity should present, either within this statement or in the notes:**

(a) **Contributions by owners and distributions to owners, in their capacity as owners;**

(b) **The balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date, and the movements for the period; and**

(c) **To the extent that components of net assets/equity are separately disclosed, a reconciliation between the carrying amount of each component of net assets/equity at the beginning and the end of the period, separately disclosing each movement.**

116. Changes in an entity's net assets/equity between two reporting dates reflect the increase or decrease in its wealth during the period, under the particular measurement principles adopted and disclosed in the financial statements.

117. The overall change in net assets/equity represents the total net surplus/deficit for the period, other revenues and expenses recognized directly as changes in net assets/equity, together with any contributions by, and distributions to, owners in their capacity as owners.

118. Contributions by, and distributions to, owners include transfers between two entities within an economic entity (for example, a transfer from a government, acting in its capacity as owner, to a government department). Contributions by owners, in their capacity as owners, to controlled entities are recognized as a direct adjustment to net assets/equity only where they explicitly give rise to residual interests in the entity in the form of rights to net assets/equity.

119. IPSAS 3 requires all items of revenue and expense recognized in a period to be included in the determination of net surplus or deficit for the period unless an International Public Sector Accounting Standard requires or permits otherwise. Other Standards require certain items, such as revaluation surpluses and deficits and certain foreign exchange differences, to be recognized directly as changes in net assets/equity along with capital

transactions with and distributions to the entity's owners. Since in assessing the changes in an entity's financial position between two reporting dates it is important to take into consideration all items which contribute to the change in position, this Standard requires a separate component of the financial statements which highlights both an entity's net surplus/deficit for the period and those items that have been recognized directly in net assets/equity during the period.

120. The requirements in paragraphs 114 and 115 may be met by using a columnar format which reconciles the opening and closing balances of each element within net assets/equity, including all items listed in paragraphs 114 and 115. Paragraph 114 also requires a sub-total of all items of revenue and expense, which, as required by other Standards, have been recognized directly in net assets/equity.

Cash Flow Statement

121. IPSAS 2 sets out requirements for the presentation of the cash flow statement and related disclosures. It states that cash flow information is useful in providing users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents, and the needs of the entity to utilize those cash flows.

Notes to the Financial Statements

Structure

122. **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;**

(b) **Disclose the information required by international public sector accounting standards that is not presented elsewhere in the financial statements; and**

(c) **Provide additional information which is not presented on the face of the financial statements but that is necessary for a fair presentation.**

123. **Notes to the financial statements should be presented in a systematic manner. Each item on the face of the statement of financial performance, statement of financial position and cash flow statement should be cross-referenced to any related information in the notes.**

124. Notes to the financial statements include narrative descriptions or more detailed schedules or analyses of amounts shown on the face of the

statement of financial performance, statement of financial position, cash flow statement and statement of changes in net assets/equity, as well as additional information such as contingent liabilities and commitments. They include information required and encouraged to be disclosed by International Public Sector Accounting Standards, and other disclosures necessary to achieve a fair presentation.

125. Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them with those of other entities:

(a) Statement of compliance with International Public Sector Accounting Standards (see paragraph 26);

(b) Statement of the measurement basis (bases) and accounting policies applied;

(c) Supporting information for items presented on the face of each financial statement in the order in which each line item and each financial statement is presented; and

(d) Other disclosures, including:

(i) Contingencies, commitments and other financial disclosures; and

(ii) Non-financial disclosures.

126. In some circumstances, it may be necessary or desirable to vary the ordering of specific items within the notes. For example, information on interest rates and fair value adjustments may be combined with information on maturities of financial instruments although the former are statement of financial performance disclosures and the latter relate to the statement of financial position. Nevertheless, a systematic structure for the notes is retained as far as practicable.

127. Information about the basis of preparation of the financial statements and specific accounting policies may be presented as a separate component of the financial statements.

Presentation of Accounting Policies

128. **The accounting policies section of the notes to the financial statements should describe the following:**

(a) **The measurement basis (or bases) used in preparing the financial statements;**

(b) **The extent to which the entity has applied any transitional provisions in any international public sector accounting standard; and**

(c) **Each specific accounting policy that is necessary for a proper understanding of the financial statements.**

129. In addition to the specific accounting policies used in the financial statements, it is important for users to be aware of the measurement basis (bases) used (historical cost, current cost, realizable value, fair value or present value) because they form the basis on which the whole of the financial statements are prepared. When more than one measurement basis is used in the financial statements, for example when certain items are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

130. 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 performance and financial position. The accounting policies that an entity might consider presenting include, but are not restricted to, the following:

(a) Revenue recognition

(b) Consolidation principles, including controlled entities

(c) Investments

(d) Recognition and depreciation/amortization of tangible and intangible assets

(e) Capitalization of borrowing costs and other expenditure:

  (i) Inventories held for sale

  (ii) Other qualifying assets

(f) Construction contracts

(g) Investment properties

(h) Financial instruments and investments

(i) Leases

(j) Research and development costs

(k) Inventories:

  (i) Held for resale

  (ii) For consumption

(l) Provisions

(m) Employee benefit costs

(n) Foreign currency translation and hedging

(o) Definition of segments and the basis for allocation of costs between segments

(p) Inflation accounting

(q) Government grants

131. Each entity considers the nature of its operations and the policies which the user 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-reciprocal 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 and the hedging of such gains and losses would be expected. In consolidated financial statements, the policy used for determining goodwill and minority interest is disclosed.

132. An accounting policy may be significant even if amounts shown for current and prior periods are not material. It is also appropriate to disclose an accounting policy for each policy not covered by existing International Public Sector Accounting Standards, but selected and applied in accordance with paragraph 37.

Other Disclosures

133. **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; and**

(d) **The name of the controlling entity and the ultimate controlling entity of the economic entity (where applicable).**

Transitional Provisions

134. **All provisions of this Standard should be applied from the date of first adoption of this Standard, except in relation to items which have not been recognized as a result of transitional provisions under another International Public Sector Accounting Standard. The disclosure**

provisions of this Standard would not be required to apply to such items until the transitional provision in the other International Public Sector Accounting Standard expires.

135. Notwithstanding the existence of transitional provisions under another International Public Sector Accounting Standard, entities that are in the process of adopting the accrual basis of accounting for financial reporting purposes are encouraged to comply in full with the provisions of that other Standard as soon as possible.

Effective Date

136. **This International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after July 1, 2001. Earlier application is encouraged.**

137. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, 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.

Appendix 1

Illustrative Financial Statement Structure

This appendix is illustrative only and does not form part of the standards. The purpose of the appendix is to illustrate the application of the standards and to assist in clarifying their meaning.

The Standard sets out the components of financial statements and minimum requirements for disclosure on the face of the statement of financial position and the statement of financial performance as well as for the presentation of changes in net assets/equity. It also establishes further items that may be presented either on the face of the relevant financial statement or in the notes.

The purpose of this appendix is to provide examples of the ways in which the requirements for the presentation of the statement of financial performance, statement of financial position and changes in net assets/equity might be presented in the primary financial statements. The order of presentation and the descriptions used for line items should be changed where necessary in order to achieve a fair presentation in each entity's particular circumstances. For example, line items of a public sector entity such as a defense department are likely to be significantly different from those for a central bank. The financial statements have been prepared for a national government and the statement of financial performance (by function) illustrates the functions of government classifications used in the Government Finance Statistics. These functional classifications are unlikely to apply to all public sector entities. Refer to this Standard for an example of more generic functional classifications for other public sector entities.

Public Sector Entity-Statement of Accounting Policies (Extract)

Reporting entity

These financial statements are for a public sector entity (national government of Country A). The financial statements encompass the reporting entity as specified in the relevant legislation (Public Finance Act 20XX). This comprises:

- Central government ministries; and
- Government Business Enterprises.

Basis of preparation

The financial statements comply with International Public Sector Accounting Standards for the accrual basis of accounting. The measurement base applied is historical cost adjusted for revaluations of assets.

The financial statements have been prepared on a going concern basis and the accounting policies have been applied consistently throughout the period.

Public Sector Entity — Statement of Financial Position as of 31 December 20X2 (In Thousands of Currency Units)

	20X2	20X2	20X1	20X1
ASSETS				
Current assets				
Cash and cash equivalents	X		X	
Receivables	X		X	
Inventories	X		X	
Prepayments	X		X	
Investments	X		X	
		X		X
Non-current assets				
Receivables	X		X	
Investments	X		X	
Other financial assets	X		X	
Infrastructure, plant and equipment	X		X	
Land and buildings	X		X	
Intangible assets	X		X	
Other non-financial assets	X		X	
		X		X
Total assets		X		X
LIABILITIES				
Current liabilities				
Payables	X		X	
Short-term borrowings	X		X	
Current portion of borrowings	X		X	
Provisions	X		X	
Employee benefits	X		X	
Superannuation	X		X	
		X		X
Non-current liabilities				
Payables	X		X	
Borrowings	X		X	
Provisions	X		X	
Employee benefits	X		X	
Superannuation	X		X	
		X		X
Total liabilities		X		X
Net assets		X		X

NET ASSETS/EQUITY				
Capital contributed byother government entities	X		X	
Reserves	X		X	
Accumulated surpluses/(deficits)	X		X	
		X		X
Minority interest		X		X
Total net assets/equity		X		X

Public Sector Entity—Statement of Financial Performance for the Year Ended 31 December 20X2 (Illustrating the Classification of Expenses by Function)

(In thousands of currency units)

	20X2	20X1
Operating revenue		
Taxes	X	X
Fees, fines, penalties and licenses	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
Other operating revenue	X	X
Total operating revenue	X	X
Operating expenses		
General public services	X	X
Defense	X	X
Public order and safety	X	X
Education	X	X
Health	X	X
Social protection	X	X
Housing and community amenities	X	X
Recreational, cultural and religion	X	X
Economic Affairs	X	X
Environmental protection	X	X
Total operating expenses	X	X
Surplus/(deficit) from operating activities	X	X
Finance costs	(X)	(X)
Gains on sale of property, plant and equipment	X	X
Total non-operating revenue (expenses)	(X)	(X)

Surplus/(deficit) from ordinary activities	X	X
Minority interest share of surplus/(deficit)[1]	(X)	(X)
Net surplus/(deficit) before extraordinary items	X	X
Extraordinary items	(X)	(X)
Net surplus/(deficit) for the period	X	X

1 The minority interest share of the surplus/(deficit) from ordinary activities includes the minority interest share of extraordinary items. The presentation of extraordinary items net of minority interest is permitted by paragraph 57(c) of International Public Sector Accounting Standard (IPSAS) 1, "Presentation of Financial Statements." Disclosure of the minority interest share of extraordinary items is shown in the notes to the financial statements.

Public Sector Entity—Statement of Financial Performance for the Year Ended 31 December 20X2 (Illustrating the Classification of Expenses by Nature)

(In Thousands of Currency Units)

	20X2	20X1
Operating revenue		
Taxes	X	X
Fees, fines, penalties and licenses	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
Other operating revenue	X	X
Total operating revenue	X	X
Operating expenses		
Wages, salaries and employee benefits	X	X
Grants and other transfer payments	X	X
Supplies and consumables used	X	X
Depreciation and amortization expense	X	X
Other operating expenses	X	X
Total operating expenses	X	X
Surplus/(deficit) from operating activities	X	X
Finance costs	(X)	(X)
Gains on sale of property, plant and equipment	X	X
Total non-operating revenue (expenses)	(X)	(X)
Surplus/(deficit) from ordinary activities	X	X
Minority interest share of surplus/(deficit)[2]	(X)	(X)
Net surplus/(deficit) before extraordinary items	X	X
Extraordinary items	(X)	(X)
Net surplus/(deficit) for the period	X	X

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2 The minority interest share of the surplus/(deficit) from ordinary activities includes the minority interest share of extraordinary items. The presentation of extraordinary items net of minority interest is permitted by paragraph 57(c) of IPSAS 1, "Presentation of Financial Statements." Disclosure of the minority interest share of extraordinary items is shown in the notes to the financial statements.

Public Sector Entity—Statement of Changes in Net Assets/Equity for the Year Ended 31 December 20X2

(In Thousands of Currency Units)

	Contributed Capital	Revaluation Reserve	Translation Reserve	Accumulated Surpluses/ (Deficits)	Total
Balance at 31 December 20X0	X	X	(X)	X	X
Changes in accounting policy	(X)			(X)	(X)
Restated balance	X	X	X	X	X
Surplus on revaluation of property		X			X
Deficit on revaluation of investments		(X)			(X)
Currency translation differences			(X)		(X)
Net gains and losses not recognized in the statement of financial performance		X	(X)		X
Net surplus for the period				X	X
Balance at 31 December 20X1	X	X	(X)	X	X
Deficit on revaluation of property		(X)			(X)
Surplus on revaluation of investments		X			X
Currency translation differences			(X)		X
Net gains and losses not recognized in the statement of financial performance		(X)	(X)		(X)
Net deficit for the period				(X)	(X)
Balance at 31 December 20X2	X	X	(X)	X	X

Appendix 2

Qualitative Characteristics of Financial Reporting

Paragraph 37 of this Standard requires the development of accounting policies to ensure 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. 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 statements. 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.

However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or revenue, or the deliberate overstatement of liabilities or expenses, because the financial statements would not be neutral and, therefore, not have the quality of reliability.

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 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.

Comparison with IAS 1

International Public Sector Accounting Standard (IPSAS) 1, "Presentation of Financial Statements," is drawn primarily from International Accounting Standard (IAS) 1, "Presentation of Financial Statements." The main differences between IPSAS 1 and IAS 1 are as follows:

- Commentary additional to that in IAS 1 has been included in IPSAS 1 to clarify the applicability of the standards to accounting by public sector entities for example, discussion on the application of the going concern concept has been expanded.
- IAS 1 allows the presentation of either a statement showing all changes in net assets/equity, or a statement showing changes in net assets/equity other than those arising from capital transactions with owners and distributions to owners in their capacity as owners. IPSAS 1 requires the presentation of a statement showing all changes in net assets/equity.
- IPSAS 1 uses different terminology, in certain instances, from IAS 1. The most significant examples are the use of the terms "entity," "revenue," "statement of financial performance," "statement of financial position" and "net assets/equity" in IPSAS 1. The equivalent terms in IAS 1 are "enterprise," "income," "income statement," "balance sheet" and "equity."
- The definition of the term "extraordinary item" differs from that used in IAS 8, "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies." The definition includes an additional criterion, namely that the items be "outside the control or influence of the entity" (paragraph 6).
- IPSAS 1 contains a different set of definitions of technical terms from IAS 1 (paragraph 6).
- IPSAS 1 contains a transitional provision allowing the non-disclosure of items which have been excluded from the financial statements due to the application of a transitional provision in another IPSAS (paragraph 134).

IPSAS 1 contains a summary of qualitative characteristics (based on the IASC framework) in Appendix 2.