

**IPSAS 3—NET SURPLUS OR DEFICIT FOR THE PERIOD,
FUNDAMENTAL ERRORS AND CHANGES IN
ACCOUNTING POLICIES**

Acknowledgment

This International Public Sector Accounting Standard is drawn primarily from International Accounting Standard (IAS) 8, “Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies” published by the International Accounting Standards Committee (IASC). The International Accounting Standards Board (IASB) and the International Accounting Standards Committee Foundation (IASCF) were established in 2001 to replace IASC. The International Accounting Standards (IASs) issued by IASC remain in force until they are amended or withdrawn by IASB. Extracts from IAS 8 are reproduced in this publication of the Public Sector Committee of the International Federation of Accountants with the permission of IASB.

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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 classification, disclosure and accounting treatment of certain items in the financial statements so that all entities prepare and present these items on a consistent basis. This enhances comparability both with the entity’s financial statements of previous periods and with the financial statements of other entities.

Accordingly, this Standard requires the classification and disclosure of extraordinary items and the separate disclosure of certain items in the financial statements. It also specifies the accounting treatment for changes in accounting estimates, changes in accounting policies and the correction of fundamental errors.

The disclosure of extraordinary items in the cash flow statement is required by International Public Sector Accounting Standard (IPSAS) 2, “Cash Flow Statements.”

Scope

- 1. An entity which prepares and presents financial statements under the accrual basis of accounting should apply this Standard in presenting surplus or deficit from ordinary activities and extraordinary items in the statement of financial performance and in accounting for changes in accounting estimates, fundamental errors and changes in accounting policies.**
2. This Standard deals with, among other things, the disclosure of certain items of net surplus or deficit for the period. These disclosures are made in addition to any other disclosures required by other International Public Sector Accounting Standards, including IPSAS 1, “Presentation of Financial Statements.”
3. The tax effects of extraordinary items, fundamental errors and changes in accounting policies are not considered in this Standard as they are not relevant for many public sector entities. International Accounting Standard (IAS) 12, “Income Taxes” contains guidance on the treatment of tax effects. Where IAS 12 refers to unusual items, this should be read as extraordinary items as defined in this Standard.
- 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.

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

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.

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.

A **discontinued operation**¹ results from the sale or abandonment of an operation that represents a separate, major line of business of an entity and of which the assets, net surplus or deficit and activities can be distinguished physically, operationally and for financial reporting purposes.

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.

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

Extraordinary items are 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.

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

Foreign entity is a foreign operation, the activities of which are not an integral part of those of the reporting 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.

¹ IFAC PSC has not yet addressed the issue of discontinuing operations, which was previously included within International Accounting Standard (IAS) 8 (Revised 1993), "Net Profit/Loss for the Period, Fundamental Errors and Changes in Accounting Policies" and which is now the subject of a separate Standard, International Accounting Standard (IAS) 35, "Discontinuing Operations."

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.

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.

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.

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

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

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

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.

Future Economic Benefits or Service Potential

7. 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

8. 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. 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

9. "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.

Net Surplus or Deficit for the Period

10. **All items of revenue and expense recognized in a period should be included in the determination of the net surplus or deficit for the period unless an International Public Sector Accounting Standard requires or permits otherwise.**
11. Normally, all items of revenue and expense recognized in a period are included in the determination of the net surplus or deficit for the period. This includes extraordinary items and the effects of changes in accounting

estimates. However, circumstances may exist when certain items may be excluded from net surplus or deficit for the current period. This Standard deals with two such circumstances: the correction of fundamental errors and the effect of changes in accounting policies.

12. Other International Public Sector Accounting Standards deal with items which may meet definitions of revenue or expense but which are usually excluded from the determination of net surplus or deficit. Examples include a revaluation surplus on physical assets (which are accounted for in accordance with appropriate standards on property, plant and equipment) and gains and losses arising on the translation of the financial statements of a foreign entity (see IPSAS 4, “The Effects of Changes in Foreign Exchange Rates”).
13. **The net surplus or deficit for the period comprises the following components, each of which should be disclosed on the face of the statement of financial performance:**
 - (a) **Surplus or deficit from ordinary activities; and**
 - (b) **Extraordinary items.**

Extraordinary Items

14. **The nature and the amount of each extraordinary item should be separately disclosed.**
15. Extraordinary items should be separately disclosed in the statement of financial performance.
16. Extraordinary items should be rare, unusual and material. The disclosure of cash flows associated with extraordinary items within a cash flow statement is required by IPSAS 2. IPSAS 2 outlines the requirements for the disclosure of extraordinary items within a cash flow statement. It requires that the cash flows associated with extraordinary items be classified as arising from operating, investing or financing activities as appropriate, and separately disclosed.

Distinct from Ordinary Activities

17. Virtually all items of revenue and expense included in the determination of net surplus or deficit for the period arise in the course of the ordinary activities of the entity.
18. Whether an event or transaction is clearly distinct from the ordinary activities of the entity is determined by the nature of the event or transaction in relation to the activities ordinarily carried on by the entity rather than by the frequency with which such events are expected to occur.

An event or transaction may be extraordinary for one entity or level of government, but not extraordinary for another entity or level of government because of the differences between their respective ordinary activities. In the context of whole-of-government reporting, extraordinary items will be extremely rare.

Not Expected to Recur in Foreseeable Future

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

Outside the Control or Influence of the Entity

20. The event or transaction should be outside the control or influence of the entity. An event or transaction is presumed to be outside the control or influence of an entity if the decisions or determinations of the entity do not normally influence the occurrence of that transaction or event. However, a gain or loss arising because of a decision to sell an asset rather than hold the asset is not to be considered extraordinary because the event originated within the entity and was therefore within the control or influence of management.

Examples of Extraordinary Items

21. Examples of extraordinary items should be considered in the context of the entity's operating environment and the level of government within which it operates. Judgment should be exercised in each case. Although an event may meet the definition of an extraordinary item for a particular level of government, for example, local or provincial government, it is unlikely that many events will be extraordinary in the context of a national government.
22. Examples of the costs associated with events or transactions that may, although not necessarily, give rise to extraordinary items for some public sector entities or levels of government are:
 - (a) Short-term costs associated with the provision of services to refugees where the need for such services was unforeseen at the beginning of the period, outside the ordinary scope of activities for the entity and outside the control of the entity. If such services were provided for more than one reporting period they would not generally be classified as extraordinary; and
 - (b) The costs associated with the provision of services following a natural or man-made disaster, for example, the provision of shelter

to homeless people following an earthquake. In order for a such an event to qualify as an extraordinary event it would need to be of a magnitude that would not normally be expected in either the geographic area in which it occurred or the geographic area associated with the entity, and the provision of emergency services or the restoration of essential services would need to be outside the scope of ordinary activities of the entity concerned. Where an entity has responsibility for providing assistance to those affected by natural disasters then costs associated with this activity would not generally meet the definition of an extraordinary item.

23. By contrast, the following activities, or the prevention of such activities, are generally within the control of an entity and would rarely, if ever, be extraordinary for an entity:
- (a) Gains or losses from exchange of foreign currencies;
 - (b) The gain or loss on disposal of an activity of the entity; and
 - (c) Restructuring costs.
24. The restructuring of activities is an example of an event which would not normally be extraordinary for either an individual public sector entity or the whole-of-government entity which incorporates that government body. All three criteria within the definition of an extraordinary item must be satisfied before an item can be classified as extraordinary. A restructuring may clearly be distinct from the ordinary activities of the entity. However, at the whole-of-government level, restructuring may occur frequently. More importantly, restructuring is usually within the control or influence of a whole-of-government entity.

Disclosure of Extraordinary Items

25. The disclosure of the nature and amount of each extraordinary item may be made on the face of the statement of financial performance, or in the notes to the financial statements. If disclosure is made in the notes to the financial statements, the total amount of all extraordinary items should be disclosed on the face of the statement of financial performance.

Surplus or Deficit from Ordinary Activities

26. **When items of revenue and expense within surplus or deficit from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the entity for the period, the nature and amount of such items should be disclosed separately.**

27. Although the items described in paragraph 26 are not extraordinary items, the nature and amount of such items may be relevant to users of financial statements. The disclosures may assist users in understanding the financial position and performance of an entity and in making projections about financial position and performance. Disclosure of such information is usually made in the notes to the financial statements.
28. Circumstances which may give rise to the separate disclosure of items of revenue and expense in accordance with paragraph 26 include:
 - (a) The write-down of inventories to net realizable value or property, plant and equipment to recoverable amount, as well as the reversal of such write-downs;
 - (b) A restructuring of the activities of an entity and the reversal of any provisions for the costs of restructuring;
 - (c) Disposals of items of property, plant and equipment;
 - (d) Privatizations or other disposals of long-term investments;
 - (e) Discontinued operations;
 - (f) Litigation settlements; and
 - (g) Other reversals of provisions.
29. Where the impact of a government's restructuring has a material impact upon the financial statements, relevant disclosures in relation to the statement of financial performance would include staff expenses such as redundancy or retraining, relocation and refurbishment expenses, and the net surplus or deficit associated with the sale or disposal of assets.

Changes in Accounting Estimates

30. As a result of the uncertainties inherent in delivering services, conducting trading or other activities, many financial statement items cannot be measured with precision but can only be estimated. The estimation process involves judgments based on the latest information available. Estimates may be required, for example, of tax revenue due to government, bad debts arising from uncollected taxes, inventory obsolescence, the useful lives or expected pattern of consumption of economic benefits or service potential of depreciable assets, or the percentage completion of road construction. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.
31. An estimate may have to be revised if changes occur regarding the circumstances on which the estimate was based or as a result of new information, more experience or subsequent developments. By its nature,

the revision of the estimate does not bring the adjustment within the definitions of an extraordinary item or a fundamental error.

32. Sometimes it is difficult to distinguish between a change in accounting policy and a change in an accounting estimate. In such cases, the change is treated as a change in an accounting estimate, with appropriate disclosure.
33. **The effect of a change in an accounting estimate should be included in the determination of net surplus or deficit in:**
 - (a) **The period of the change, if the change affects the period only; or**
 - (b) **The period of the change and future periods, if the change affects both.**
34. A change in an accounting estimate may affect the current period only or both the current period and future periods. For example, a change in the estimate of the amount of bad debts affects only the current period and is therefore recognized immediately. However, a change in the estimated useful life or the expected pattern of consumption of economic benefits or service potential of a depreciable asset affects the depreciation expense in the current period and in each period during the remaining useful life of the asset. In both cases, the effect of the change relating to the current period is recognized as revenue or expense in the current period. The effect, if any, on future periods is recognized in future periods.
35. **The effect of a change in an accounting estimate should be included in the same statement of financial performance classification as was used previously for the estimate.**
36. To ensure the comparability of financial statements of different periods, the effect of a change in an accounting estimate for estimates which were previously included in the surplus or deficit from ordinary activities is included in that component of net surplus or deficit. The effect of a change in an accounting estimate for an estimate which was previously included as an extraordinary item is reported as an extraordinary item.
37. **The nature and amount of a change in an accounting estimate that has a material effect in the current period or which is expected to have a material effect in subsequent periods should be disclosed. If it is impracticable to quantify the amount, this fact should be disclosed.**

Fundamental Errors

38. Errors in the preparation of the financial statements of one or more prior periods may be discovered in the current period. Errors may occur as a result of mathematical mistakes, mistakes in applying accounting policies, misinterpretation of facts, fraud or oversights. The correction of these errors is normally included in the determination of net surplus or deficit for the current period.
39. On rare occasions, an error has such a significant effect on the financial statements of one or more prior periods that those financial statements can no longer be considered to have been reliable at the date of their issue. These errors are referred to as fundamental errors. An example of a fundamental error is the omission of a major class of revenue or expense from the financial statements. The correction of fundamental errors that relate to prior periods requires the restatement of the comparative information or the presentation of additional pro forma information.
40. The correction of fundamental errors can be distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, the gain or loss recognized on the outcome of a contingency which previously could not be estimated reliably does not constitute the correction of a fundamental error.

Benchmark Treatment

41. **The amount of the correction of a fundamental error that relates to prior periods should be reported by adjusting the opening balance of accumulated surpluses or deficits. Comparative information should be restated, unless it is impracticable to do so.**
42. The financial statements, including the comparative information for prior periods, are presented as if the fundamental error had been corrected in the period in which it was made. Therefore the amount of the correction that relates to each period presented is included within the net surplus or deficit for that period. The amount of the correction relating to periods prior to those included in the comparative information in the financial statements is adjusted against the opening balance of accumulated surpluses or deficits in the earliest period presented. Any other information reported with respect to prior periods, such as historical summaries of financial data, is also restated.
43. The restatement of comparative information does not necessarily give rise to the amendment of financial statements which have been approved by the governing body or registered or filed with regulatory authorities. However, national laws may require the amendment of such financial statements.

44. **An entity should disclose the following:**
- (a) **The nature of the fundamental error;**
 - (b) **The amount of the correction for the current period and for each prior period presented;**
 - (c) **The amount of the correction relating to periods prior to those included in the comparative information; and**
 - (d) **The fact that comparative information has been restated or that it is impracticable to do so.**

Allowed Alternative Treatment

45. **The amount of the correction of a fundamental error should be included in the determination of net surplus or deficit for the current period. Comparative information should be presented as reported in the financial statements of the prior period. Additional pro forma information, prepared in accordance with paragraph 41, should be presented unless it is impracticable to do so.**
46. The correction of the fundamental error is included in the determination of the net surplus or deficit for the current period. However, additional information is presented, often as separate columns, to show the net surplus or deficit of the current period and any prior periods presented as if the fundamental error had been corrected in the period when it was made. It may be necessary to apply this accounting treatment in countries where the financial statements are required to include comparative information which agrees with the financial statements presented in prior periods.
47. **An entity should disclose the following:**
- (a) **The nature of the fundamental error;**
 - (b) **The amount of the correction included in each period for which pro forma information is presented and the amount of the correction relating to periods prior to those included in the pro forma information. If it is impracticable to present pro forma information, this fact should be disclosed; and**
 - (c) **The amount of any correction recognized in net surplus or deficit for the current period.**

Changes in Accounting Policies

48. Users need to be able to compare the financial statements of an entity over a period of time to identify trends in its financial position, performance and cash flows. Therefore the same accounting policies are normally adopted in each period.

49. **The selection and application of accounting policies are discussed in IPSAS 1. A change from one basis of accounting to another basis of accounting is a change in accounting policy.**
50. **A change in the accounting treatment, recognition or measurement of a transaction or event within a basis of accounting is regarded as a change in accounting policy.**
51. **A change in accounting policy should be made only if required by statute (including a mandatory regulation), or by an accounting standard setting body, or if the change will result in more relevant or reliable information about the financial position, financial performance or cash flows of the entity.**
52. The following are not changes in accounting policies:
 - (a) The adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions; and
 - (b) The adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial.
53. The initial adoption of a policy to carry assets at revalued amounts is a change in accounting policy. However, where another appropriate accounting standard establishes requirements for dealing with revaluations in relation to a specific class of assets, such as property, plant and equipment, such changes should be dealt with in accordance with that Standard.
54. A change in accounting policy is applied retrospectively or prospectively in accordance with the requirements of this Standard. Retrospective application results in the new accounting policy being applied to events and transactions as if the new accounting policy had always been in use. Therefore, the accounting policy is applied to events and transactions from the date of origin of such items. Prospective application means that the new accounting policy is applied to the events and transactions occurring after the date of the change. With respect to prospective application, no adjustments relating to prior periods are made either to the opening balance of accumulated surpluses or deficits or in reporting the net surplus or deficit for the current period because existing balances are not recalculated. However, the new accounting policy is applied to existing balances as from the date of the change. For example, an entity may decide to change its accounting policy for borrowing costs and capitalize those costs in conformity with the allowed alternative treatment in IPSAS 5, "Borrowing Costs." Under prospective application, the new policy only applies to

borrowing costs that are incurred after the date of the change in accounting policy.

Adoption of an International Public Sector Accounting Standard

55. **A change in accounting policy which is made on the adoption of an International Public Sector Accounting Standard should be accounted for in accordance with the specific transitional provisions, if any, in that International Public Sector Accounting Standard. In the absence of any transitional provisions, the change in accounting policy should be applied in accordance with the benchmark treatment in paragraphs 59, 60, 63 and 64 or the allowed alternative in paragraphs 65, 67 and 68.**
56. The transitional provisions in an International Public Sector Accounting Standard may require either a retrospective or a prospective application of a change in accounting policy.
57. IPSAS 1 sets out the principles to be applied in the selection and application of accounting policies.
58. When an entity has not adopted a new International Public Sector Accounting Standard which has been published but which has not yet come into effect, the entity is encouraged to disclose the nature of the future change in accounting policy and an estimate of the effect of the change on its net surplus or deficit, financial position, and/or net increase/(decrease) in cash and cash equivalents as appropriate.

Other Changes in Accounting Policies—Benchmark Treatment

59. **A change in accounting policy should be applied retrospectively unless the amount of any resulting adjustment that relates to prior periods is not reasonably determinable.**
60. **Any resulting adjustment should be reported as an adjustment to the opening balance of accumulated surpluses or deficits. Comparative information should be restated unless it is impracticable to do so.**
61. The financial statements, including the comparative information for prior periods, are presented as if the new accounting policy had always been in use. Therefore, comparative information is restated in order to reflect the new accounting policy. The amount of the adjustment relating to periods prior to those included in the financial statements is adjusted against the opening balance of accumulated surpluses or deficits of the earliest period presented. Any other information with respect to prior periods, such as historical summaries of financial data, is also restated.

62. The restatement of comparative information does not necessarily give rise to the amendment of financial statements which have been approved by the governing body or registered or filed with regulatory authorities. However, national laws may require the amendment of such financial statements.
63. **The change in accounting policy should be applied prospectively when the amount of the adjustment to the opening balances required by paragraph 60 cannot be reasonably determined.**
64. **When a change in accounting policy has a material effect on the current period or any prior period presented, or may have a material effect in subsequent periods, an entity should disclose the following:**
 - (a) **The reasons for the change;**
 - (b) **The amount of the adjustment for the current period and for each period presented;**
 - (c) **The amount of the adjustment relating to periods prior to those included in the comparative information; and**
 - (d) **The fact that comparative information has been restated or that it is impracticable to do so.**

Other Changes in Accounting Policies—Allowed Alternative Treatment

65. **A change in accounting policy should be applied retrospectively unless the amount of any resulting adjustment that relates to prior periods is not reasonably determinable. Any resulting adjustment should be included in the determination of the net surplus or deficit for the current period. Comparative information should be presented as reported in the financial statements of the prior period. Additional pro forma comparative information, prepared in accordance with paragraph 60, should be presented unless it is impracticable to do so.**
66. Adjustments resulting from a change in accounting policy are included in the determination of the net surplus or deficit for the period. However, additional comparative information is presented, often as separate columns, in order to show the net surplus or deficit and the financial position of the current period and any prior periods presented as if the new accounting policy had always been applied. It may be necessary to apply this accounting treatment in countries where the financial statements are required to include comparative information which agrees with the financial statements presented in prior periods.

67. **The change in accounting policy should be applied prospectively when the amount to be included in net surplus or deficit for the current period required by paragraph 65 cannot be reasonably determined.**
68. **When a change in accounting policy has a material effect on the current period or any prior period presented, or may have a material effect in subsequent periods, an entity should disclose the following:**
 - (a) **The reasons for the change;**
 - (b) **The amount of the adjustment recognized in net surplus or deficit in the current period; and**
 - (c) **The amount of the adjustment included in each period for which pro forma information is presented and the amount of the adjustment relating to periods prior to those included in the financial statements. If it is impracticable to present pro forma information, this fact should be disclosed.**

Effective Date

69. **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.**
70. 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

This appendix is illustrative only and does not form part of the standards. The purpose of this appendix is to illustrate the application of the standards and to assist in clarifying their meaning. Extracts from the financial statements are provided to show the effects on the financial statements of the transactions described in this appendix. These extracts do not necessarily conform with all the disclosure and presentation requirements of other International Public Sector Accounting Standards.

Extraordinary Items

The examples shown below are intended to illustrate the disclosure of extraordinary items in a statement of financial performance. The disclosure of extraordinary items in a cash flow statement is required by IPSAS 2. The classification of an event or transaction as extraordinary is dependent upon the nature of the event and the entity. Events or transactions which may be an extraordinary item for one entity may not be extraordinary for another entity. In particular, few events are likely to be extraordinary at the whole-of-government level.

Public Sector Entity—Statement of Financial Performance (Extract)

	<u>20X2</u>	<u>20X1</u>
Surplus from ordinary activities	7,900	8,400
Extraordinary item — loss on destruction of overseas broadcasting operation (Note 1)	–	(3,150)
	7,900	5,250
Net surplus for the period	7,900	5,250

Extracts from Notes to the Financial Statements

1. On 1 October 20X1, the overseas broadcasting operations of the entity were destroyed by an earthquake. The results of this operation had previously been reported in the “Broadcasting” segment. The loss arising from the earthquake has been accounted for as an extraordinary item as earthquakes are uncommon in this region. The loss arising from the earthquake is the net carrying amount of the assets and liabilities of the operation at the date of the earthquake. The revenues recognized relating to this operation from 1 January 20X1 until 1 October 20X1 were 10,000 and the surplus was 2,000.

Fundamental Errors

During 20X2, the entity discovered that revenue from income taxes was incorrect. Income taxes of 6,500 that should have been recognized in 20X1 were incorrectly omitted from 20X1 and recognized as revenue in 20X2.

The entity's accounting records for 20X2 show revenue from taxation of 60,000 (including the 6,500 taxation which should have been recognized in 20X1), and expenses of 86,500.

In 20X1, the entity reported:

Revenue from taxation	34,000
User charges	3,000
Other operating revenue	30,000
Total revenue	67,000
Expenses	(60,000)
Net surplus	7,000

Public Sector Entity—Statement of Financial Performance under the Benchmark Treatment (*Extract*)

	<u>20X2</u>	<u>20X1</u> <u>(restated)</u>
Revenue from taxation	53,500	40,500
User charges	4,000	3,000
Other operating revenue	40,000	30,000
Total revenue	97,500	73,500
Expenses	(86,500)	(60,000)
Net surplus	11,000	13,500

NET SURPLUS OR DEFICIT FOR THE PERIOD, FUNDAMENTAL ERRORS
AND CHANGES IN ACCOUNTING POLICIES

Public Sector Entity—Statement of Changes in Net Assets/Equity under the Benchmark Treatment

	<u>20X2</u>	<u>20X1</u> <u>(restated)</u>
Opening accumulated surpluses as previously reported	17,000	10,000
Correction of fundamental error (Note 1)	6,500	–
Opening accumulated surpluses	23,500	10,000
Net surplus	11,000	13,500
Closing accumulated surpluses	34,500	23,500

Extracts from Notes to the Financial Statements

2. Revenue from taxation of 6,500 was incorrectly omitted from the financial statements of 20X1. The financial statements of 20X1 have been restated to correct this error.

Public Sector Entity—Statement of Financial Performance under the Allowed Alternative Treatment (Extract)

	<u>20X2</u>	<u>20X1</u>	<u>Pro forma</u>	
			<u>20X2</u> <u>(restated)</u>	<u>20X1</u> <u>(restated)</u>
Revenue from taxation (Note 1)	60,000	34,000	53,500	40,500
User charges	4,000	3,000	4,000	3,000
Other operating revenue	40,000	30,000	40,000	30,000
Total revenue	104,000	67,000	97,500	73,500
Expenses	(86,500)	(60,000)	(86,500)	(60,000)
Net surplus	17,500	7,000	11,000	13,500

Public Sector Entity—Statement of Changes in Net Assets/Equity under the Allowed Alternative Treatment

	<u>20X2</u>	<u>20X1</u>	<u>Pro forma</u>	
			<u>20X2</u> <u>(restated)</u>	<u>20X1</u> <u>(restated)</u>
Opening accumulated surpluses as previously reported	17,000	10,000	17,000	10,000
Correction of fundamental error (Note 1)	—	—	6,500	—
Opening accumulated surpluses as restated	17,000	10,000	23,500	10,000
Net surplus	17,500	7,000	11,000	13,500
Closing accumulated surpluses	34,500	17,000	34,500	23,500

Extracts from Notes to the Financial Statements

- Revenue from taxation of 6,500 was incorrectly omitted from the financial statements of 20X1. Restated pro forma information for 20X2 and 20X1 is presented as if the error had been corrected in 20X1.

Changes in Accounting Policy

During 20X2, the entity changed its accounting policy with respect to the treatment of borrowing costs that are directly attributable to the acquisition of a hydro-electric power station which is under construction. In previous periods, the entity had capitalized such costs in accordance with the allowed alternative treatment in IPSAS 5. The entity has now decided to expense, rather than capitalize, these costs in order to conform with the benchmark treatment in IPSAS 5.

The entity capitalized borrowing costs of 2,600 during 20X1 and 5,200 in periods prior to 20X1. All borrowing costs incurred in previous years with respect to the acquisition of the power station were capitalized.

The accounting records for 20X2 show surplus from operating activities before interest of 30,000; and interest expense of 3,000 (which relates only to 20X2).

NET SURPLUS OR DEFICIT FOR THE PERIOD, FUNDAMENTAL ERRORS
AND CHANGES IN ACCOUNTING POLICIES

In 20X1, the entity reported:

Surplus from operating activities before interest	18,000
Interest expense	<u>—</u>
Net surplus from ordinary activities	<u>18,000</u>

20X1 opening accumulated surpluses were 20,000 and closing accumulated surpluses were 38,000.

Public Sector Entity—Statement of Financial Performance under the Benchmark Treatment (Extract)

	<u>20X2</u>	<u>20X1</u>
		<u>(restated)</u>
Surplus from operating activities before interest	30,000	18,000
Interest expense	<u>(3,000)</u>	<u>(2,600)</u>
Net surplus from ordinary activities	<u>27,000</u>	<u>15,400</u>

Public Sector Entity—Statement of Changes in Net Assets/Equity under the Benchmark Treatment

	<u>20X2</u>	<u>20X1</u>
		<u>(restated)</u>
Opening accumulated surpluses as previously reported	38,000	20,000
Change in accounting policy with respect to the capitalization of interest (Note 1)	<u>(7,800)</u>	<u>(5,200)</u>
Opening accumulated surpluses as restated	30,200	14,800
Net surplus	<u>27,000</u>	<u>15,400</u>
Closing accumulated surpluses	<u>57,200</u>	<u>30,200</u>

Extracts from Notes to the Financial Statements

4. During 20X2, the entity changed its accounting policy with respect to the treatment of borrowing costs relating to a hydro-electric power station which is in the course of construction for use. In order to conform with the benchmark treatment in IPSAS 5, the entity now expenses rather than capitalizes such costs. This change in accounting policy has been accounted for retrospectively. The comparative statements for 20X1 have been restated to conform to the changed policy. The effect of the change is an increase in interest expense of 3,000 (20X2) and 2,600 (20X1). Opening accumulated surpluses for 20X1 have been reduced by 5,200 which is the amount of the adjustment relating to periods prior to 20X1.

Public Sector Entity—Statement of Financial Performance under the Allowed Alternative Treatment (*Extract*)

	<u>20X2</u>	<u>20X1</u>	<u>Pro forma</u>	
			<u>20X2</u>	<u>20X1</u>
			<u>(restated)</u>	<u>(restated)</u>
Surplus from operating activities before interest	30,000	18,000	30,000	18,000
Interest expense	(3,000)	–	(3,000)	(2,600)
Cumulative effect of change in accounting policy	(7,800)	–	–	–
Net surplus	19,200	18,000	27,000	15,400

NET SURPLUS OR DEFICIT FOR THE PERIOD, FUNDAMENTAL ERRORS
AND CHANGES IN ACCOUNTING POLICIES

**Public Sector Entity—Statement of Changes in Net Assets/Equity under the
Allowed Alternative Treatment**

	<u>20X2</u>	<u>20X1</u>	<u>Pro forma</u>	
			<u>20X2</u> <u>(restated)</u>	<u>20X1</u> <u>(restated)</u>
Opening accumulated surpluses as previously reported	38,000	20,000	38,000	20,000
Change in accounting policy with respect to the capitalization of interest (Note 1)	—	—	(7,800)	(5,200)
Opening accumulated surpluses as restated	38,000	20,000	30,200	14,800
Net surplus	19,200	18,000	27,000	15,400
Closing accumulated surpluses	57,200	38,000	57,200	30,200

Extracts from Notes to the Financial Statements

64. An adjustment of 7,800 has been made in the statement of financial performance for 20X2 representing the effect of a change in accounting policy with respect to the treatment of borrowing costs relating to the construction of a hydro-electric power station which is in the course of construction for use. In order to conform with the benchmark treatment in IPSAS 5, the entity now expenses rather than capitalizes such costs. This change in accounting policy has been accounted for retrospectively. Restated pro forma information, which assumes that the new policy had always been in use, is presented. The opening accumulated surpluses in the pro forma information for 20X1 have been reduced by 5,200 which is the amount of the adjustment relating to periods prior to 20X1.

Comparison with IAS 8

International Public Sector Accounting Standard (IPSAS) 3, “Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies,” is drawn primarily from International Accounting Standard (IAS) 8, “Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies.” The main differences between IPSAS 3 and IAS 8 are as follows:

- Commentary additional to that in IAS 8 has been included in IPSAS 3 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 3 uses different terminology, in certain instances, from IAS 8. 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 3. The equivalent terms in IAS 8 are “enterprise,” “income,” “income statement,” “balance sheet” and “equity.”
- IPSAS 3 contains a different set of definitions of technical terms from IAS 8 (paragraph 6).
- IPSAS 3 contains a different definition of extraordinary items from IAS 8. IPSAS 3 contains a specific requirement that extraordinary items must be outside the control or influence of the entity (paragraph 6).