

International Federation of Accountants

Presentation of Public-Sector Specific IPSASs

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Challenges of Accrual Accounting
in the Public Sector

Rome, Italy

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Agenda

1. Development Stages of the IPSASs
2. Specific Aspects of Governmental Accounting Justifying a Public-Sector Specific Approach
3. Public Sector Specific IPSASs
 - a) IPSAS 21: Impairment of Non-Cash Generating Assets
 - b) IPSAS 22: Disclosure of Financial Information about the General Government Sector
 - c) IPSAS 23: Revenues from Non-exchange Transactions
 - d) IPSAS 24: Presentation of Budget Information in Financial Statements
 - e) ED 43: Service Concession Arrangements
4. Current State of Public Sector Specific IPSASs



1. Development stages of IPSASs

Stage 1 (1996-2002): With the financial support of several international institutions a first set of standards for financial reporting of jurisdictions based on IAS/IFRS was developed („Core Set“, IPSAS 1 to IPSAS 20)

Stage 2 (2003-2009): Within the „Convergence Program“ of the IPSASB“ the IFRS are the conceptual basis for IPSASs as far as they are appropriate to the public sector specifics („Stable Platform, 31.12.2009)

Stage 3 (ongoing since 2010): Conceptual Framework as one of the main areas of concern. Focus on public sector critical projects.

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2. Specific Aspects of Governmental Accounting Justifying a Public-Sector Specific Approach

Specific Aspect of Governmental Accounting

Services for the public as specific task

task fulfillment by involving different entities/levels of administration
=> control, transfers to subordinated levels

use of assets without direct link to cash inflows

shortage of financial resources leads to alternative ways of (re-)investment (e.g. service concession arrangements)

wide spectrum of tasks contains specific issues such as social security (social benefits => donations, services in-kind etc.)

Taxes /transfers as source of financing – long term sustainability of public finances

Use of taxpayer's money leads to high importance of the budget
=> compliance with budget as main target

Interventional and Control Task

Non-market related activities, such as governmental interventions due to financial crisis (e.g. concessionary loans)

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3. Public Specific IPSAS

- a) IPSAS 21: Impairment of Non-Cash Generating Assets
- b) IPSAS 22: Disclosure of Financial Information about the General Government Sector
- c) IPSAS 23: Revenues from Non-exchange Transactions
- d) IPSAS 24: Presentation of Budget Information in Financial Statements
- e) ED 43: Service Concession Arrangements

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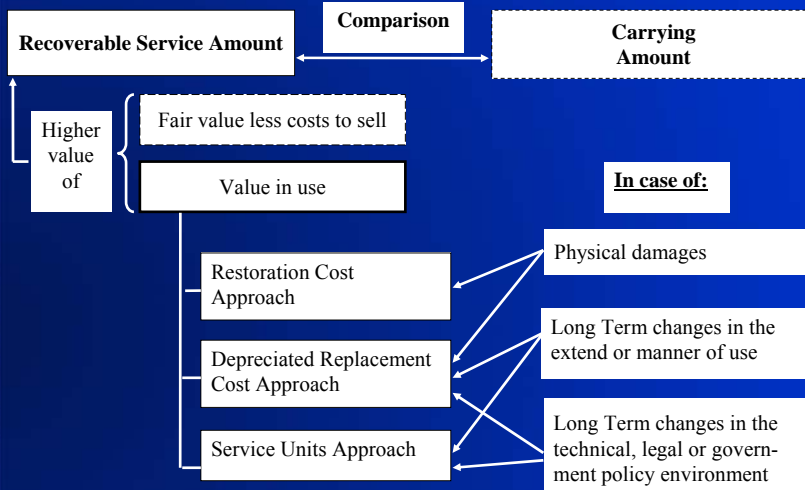
IPSAS 21: Impairment of Non-Cash Generating Assets

Objective	<ul style="list-style-type: none"> ➤ prescribe the procedures that an entity applies to determine whether a non-cash-generating asset is impaired ➤ specifies when an entity would reverse an impairment loss and prescribes disclosures
Content	<ul style="list-style-type: none"> ➤ Impairment Testing: <ul style="list-style-type: none"> ➤ assess at each reporting date whether there is any indication that an asset may be impaired ➤ if so, entity must estimate the recoverable service amount ➤ asset is impaired when the carrying amount exceeds its recoverable service amount. ➤ an impairment loss must be recognized immediately in surplus or deficit ➤ potential reversals: assess at each reporting date whether there is any indication that an impairment loss recognized may no longer exist or may have decreased
Practical Implications	<ul style="list-style-type: none"> ➤ Determination of recoverable service amount, i.e. fair value and value in use, as a practical challenge

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IPSAS 21: Impairment of Non-Cash Generating Assets



IPSAS 22: Disclosure of Financial Information about the General Government Sector

Objective	<ul style="list-style-type: none"> ➤ prescribe disclosure requirements to present information about the general government sector (GGS) in consol. F/S ➤ Provide better understanding of relationship between market / non-market activity as well as F/S and statistical basis
Content	<ul style="list-style-type: none"> ➤ applies for governments that present consol. F/S under the accrual and elect to disclose financial information ➤ statistical bases of financial reporting: public sector comprises the general government sector (GGS), the public financial corporations sector (PFCS) and public non-financial corporations sector (PNFCS). ➤ IPSAS 22: consol. F/S are to be disaggregated to present the GGS as one sector of the government reporting entity ➤ GGS must recognize its investment in PFCS and NPFCS as an asset and must account for that asset at the carrying amount of the net assets of the entities
Practical Implications	<ul style="list-style-type: none"> ➤ Due to high requirements of IPSAS 22 application is currently less relevant for many governments



IPSAS 22: Disclosure of Financial Information about the General Government Sector

STATEMENT OF FINANCIAL PERFORMANCE FOR THE GGS - FOR YEAR ENDED DECEMBER 31, 20X2 – CLASSIFICATION OF FUNCTION OF GOVERNMENT

(in thousands of currency units)

	GGS		PFC and PNFC		Eliminations		Total W-of-G	
	20X2	20X1	20X2	20X1	20X2	20X1	20X2	20X1
Revenue								
Taxes	X	X			(X)	(X)	X	X
Fees, fines, penalties	X	X	X	X	(X)	(X)	X	X
Revenue from other sectors	X	X	X	X	(X)	(X)		
Transfers from other governments	X	X	X	X			X	X
Other operating revenue	X	X	X	X	(X)	(X)	X	X
Total revenue	X	X	X	X	(X)	(X)	X	X

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IPSAS 23: Revenue from Non-Exchange Transactions (Taxes and Transfers)

Objective	<ul style="list-style-type: none"> ➤ prescribe requirements for the financial reporting of revenue arising from non-exchange transactions, especially taxes and transfers ➤ deals with issues that need to be considered in recognizing and measuring revenue from non-exchange transactions including the identification of contributions from owners
Content	<ul style="list-style-type: none"> ➤ in a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange ➤ <i>Recognition of assets from non-exchange transactions</i> an inflow of resources, other than services in-kind, that meets the definition of an asset is recognized when, and only when: <ul style="list-style-type: none"> (a) probable that the future economic benefits or service potential associated with the asset will flow to the entity, and (b) fair value of the asset can be measured reliably. ➤ <i>Measurement of assets from non-exchange transactions</i> According to IPSAS 23.42, an asset acquired through a non-exchange transaction is initially measured at its fair value as at the date of acquisition.

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IPSAS 23: Revenue from Non-Exchange Transactions (Taxes and Transfers)

Content	<p>➤ <i>Recognition and Measurement of revenue from non-exchange transactions</i></p> <p>An inflow of resources from a non-exchange transaction recognized as an asset is recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow. This is generally the case if and for as long as the future inflow of resources is contingent on unsatisfied conditions. When an entity satisfies a present obligation recognized as a liability in respect of an inflow of resources from a non-exchange transaction recognized as an asset, it reduces the carrying amount of the liability recognized and recognizes an amount of revenue equal to that reduction.</p> <p>Revenue from non-exchange transactions is measured at the amount of the increase in net assets recognized by the entity.</p>
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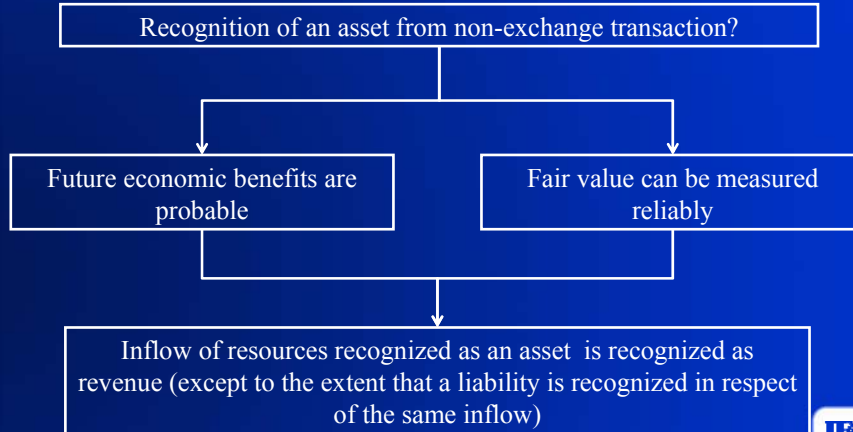
IPSAS 23: Revenue from Non-Exchange Transactions (Taxes and Transfers)

Content	<p>➤ <i>Present obligations recognized as liabilities</i></p> <p>Present obligation is a duty to act or perform in a certain way and may give rise to a liability in respect of any non-exchange transaction. Present obligations may be imposed by stipulations in laws or regulations or binding arrangements establishing the basis of transfers.</p> <p>A present obligation arising from a non-exchange transaction that meets the definition of a liability is recognized when, and only when:</p> <p>(a) probable that an outflow of resources embodying future economic benefits or service potential will be required to settle the obligation, and</p> <p>(b) reliable estimate can be made of the amount of the obligation.</p>
Practical Implications	<p>➤ recognition of tax revenue which is declared a considerable time after the taxation period (e.g. corporate tax)</p> <p>➤ no guidance on accounting for transfers from transferor perspective</p> <p>➤ problems with the accounting for transfers used by the recipient for the acquisition of fixed assets; but: eliminated through consolidation</p> <p>➤ recognition of revenues from gifts and donations => measurement of gifts and donations when they are received or when they are used</p>



IPSAS 23: Revenue from Non-Exchange Transactions

Revenue from non-exchange transactions: e.g. tax revenue, fines



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IPSAS 24: Presentation of Budget Information in Financial Statements

Objective	<ul style="list-style-type: none"> ➤ requires a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of entities which are required to, or elect to, make publicly available their approved budget(s) ➤ requires disclosure of an explanation of the reasons for material differences between the budget and actual amounts
Content	<ul style="list-style-type: none"> ➤ Comparison either as separate additional financial statement or as additional budget columns in the financial statements ➤ comparison of budget and actual amounts as additional budget columns in the primary financial statements only where financial statements and budget are prepared on comparable basis ➤ When the budget and financial statements are not prepared on a comparable basis, IPSAS 24 provides for a separate statement of comparison of budget and actual amounts. ➤ In this case, the actual amounts presented on a comparable basis to the budget must be reconciled to the amounts presented in the financial statements. Differences must be explained.
Practical Implications	<ul style="list-style-type: none"> ➤ IPSAS 24 links budgeting and financial reporting ➤ budgetary and accounting bases often differ in practice

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IPSAS 24: Presentation of Budget Information in Financial Statements

A. Statement of Comparison of Budget and Actual Amounts For Government XX for The Year Ended December 31, 20XX Budget On Cash Basis (Classification Of Payments By Functions)

Note: The budget and the accounting basis is different. This Statement of Comparison of Budget and Actual Amounts is prepared on the budget basis.

(in currency units)	Budgeted Amounts		Actual Amounts on Comparable Basis	*Difference: Final Budget and Actual
	Original	Final		
RECEIPTS				
Taxation	X	X	X	X
Aid Agreements				
International agencies	X	X	X	X
Other Grants and Aid	X	X	X	X
Proceeds: Borrowing	X	X	X	X

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IPSAS 24: Presentation of Budget Information in Financial Statements

B. Additional Column Approach For Government YY for the Year Ended December 31, 20XX Both Annual Budget And Financial Statements Adopt Accrual Basis (Illustrated only for Statement of Financial Performance. Similar presentation would be adopted for other financial statements.)

Actual 20XX-1	(in currency units)	Actual 20XX	Final Budget 20XX	Original Budget 20XX	*Difference: Original Budget and Actual
Revenue					
X	Taxes	X	X	X	X
X	Fees, fines, penalties and licenses	X	X	X	X
X	Revenue from exchange transactions	X	X	X	X
X	Transfers from other governments	X	X	X	X
X	Other revenue	X	X	X	X
X	Total revenue	X	X	X	X

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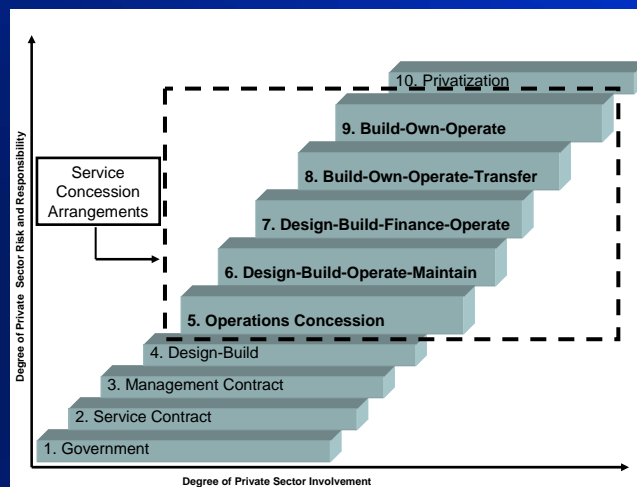
ED 43: Service Concession Arrangements: Grantor

Objective	<ul style="list-style-type: none"> ➤ prescribes the accounting treatment for service concession arrangements by the grantor, a public sector entity ➤ requires the grantor to recognize assets used in service concession arrangements as service concession assets when specified conditions for recognition are met and to recognize certain liabilities and expenses associated with the service concession arrangement
Content	<ul style="list-style-type: none"> ➤ Mirror of IFRIC 12 which sets out the accounting requirements of the operator in a service concession arrangement

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ED 43: Service Concession Arrangements: Grantor



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ED 43: Service Concession Arrangements: Grantor

Content	<ul style="list-style-type: none">➤ <i>Recognition and Measurement of a Service Concession Asset</i> the grantor shall recognize a service concession asset if:<ul style="list-style-type: none">(a) The grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and(b) The grantor controls - through ownership, beneficial entitlement or otherwise - any significant residual interest in the asset at the end of the term of the arrangement<p>=> initial measurement of the original SC asset at its fair value => after recognition: IPSAS 17 or IPSAS 31 applies for measurement</p>➤ When the operator compensates the grantor for the right to use the service concession asset, either by provision of the service concession asset or by making payments to the grantor, the liability recognized by the grantor is a performance obligation.
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ED 43: Service Concession Arrangements: Grantor

Content	<ul style="list-style-type: none">➤ <i>Recognition and Measurement of Liabilities</i> When the grantor recognizes a service concession asset, the grantor shall also recognize a liability. The liability recognized may be any combination of a financial liability and a performance obligation. The liability recognized shall be initially measured at the same amount as the service concession asset.<ul style="list-style-type: none">a) Grantor compensates the operator for the service concession asset by making payments => liability recognized is a financial liability => IPSAS 28/29/30 appliesb) Grantor compensates the operator by granting the operator the right to collect fees from users of the service concession asset or by granting the operator access to another revenue-generating asset for its use => liability recognized is a performance obligation => IPSAS 19 applies
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ED 43: Service Concession Arrangements: Grantor

Content	<ul style="list-style-type: none"> ➤ <i>Recognition and Measurement of Revenues and Expenses</i> The grantor shall account for revenue from a service concession arrangement in accordance with IPSAS 9 The finance charge and service components of a service concession arrangement shall be accounted for as expenses in accordance with IPSAS 1, Presentation of Financial Statements.
Practical Implications	<ul style="list-style-type: none"> ➤ in the light of the growing importance of public-private-partnerships important guidance for the public sector ➤ differentiation of contracts might cause problems (lease vs. SCA) ➤ IPSASB seeks comments on ED 43

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4. Current State of Public Sector Specific IPSAs

Specific Aspect of Governmental Accounting	State
Services for the public as specific task	
task fulfillment by involving different entities/levels of administration => control, transfers to subordinated levels	(✓)
use of assets without direct link to cash inflows	✓
shortage of financial resources leads to alternative ways of (re-) investment (Service Concession Arrangements)	✓
spectrum of tasks contains specific issues such as social security (social benefits => donations, services in-kind etc.)	☒
Taxes /transfers as source of financing – long term fiscal sustainability	✓
Use of taxpayer's money leads to high importance of the budget => compliance with budget as main target	✓
Interventional and Control Task	
Non-market related activities, such as governmental interventions due to financial crisis (e.g. concessionary loans)	✓

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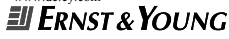
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