

## **Summary of Main Changes**

### ***IPSAS 3 Accounting Policies, Changes in Estimates and Errors***

The main changes proposed are:

#### **Name of Standard**

- to change to “*Accounting Policies, Changes in Accounting Estimates and Errors*”.

#### **Scope**

- to transfer into this Standard the criteria for the selection of accounting policies from the old IPSAS 1 *Presentation of Financial Statements*; and
- to transfer from this Standard to IPSAS 1 the requirements on the presentation of items in the statement of financial performance.

#### **Definitions**

- to define in paragraph 7 new terms: “change in accounting estimate”, “prior period errors”, “prospective application”, “retrospective application” and “retrospective restatement”, “impracticable”, “material” and “notes”.
- to delete in paragraph 7 the terms: “extraordinary items”, “ordinary activities”, “net surplus/deficit”, and “surplus/deficit from ordinary activities”.

#### **Materiality**

- to stipulate in paragraph 10 that:
  - the accounting policies in IPSASs need not be applied when the effect of applying them is immaterial; and
  - financial statements do not comply with IPSASs if they contain material errors.

#### **Net Surplus or Deficit for the Period**

- to transfer this section (paragraphs 10 – 28 of the old IPSAS 3) to IPSAS 1.

#### **Accounting Policies**

- to specify the hierarchy of PSC’s pronouncements, and authoritative and non-mandatory guidance, to be considered when selecting accounting policies to apply in the preparation of financial statements. The new hierarchy is now in bold italic type (paragraphs 15-16).
- to remove allowed alternative treatments for changes in accounting policies (including voluntary changes). An entity is now required (where practicable) to account for changes in accounting policies retrospectively (paragraph 25).

#### **Errors**

- to remove the distinction between fundamental errors and other material errors.

- to remove allowed alternative treatments for the correction of errors. An entity is now required to correct (where practicable) material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery (paragraph 48).

#### **Criteria for exemptions from requirements (Impracticability)**

- to require that when it is impracticable to determine the cumulative effect, at the beginning of the current period, of:
  - applying a new accounting policy to all prior periods, or
  - an error on all prior periods,the entity changes the comparative information as if the new accounting policy had always been applied (paragraphs 29-33); or the error had been corrected (paragraphs 49-53), prospectively from the earliest date practicable.
- to include guidance on the interpretation of “impracticable” in paragraphs 56-59.

#### **Disclosures**

- to require more detailed and additional disclosure of the amounts of adjustments as a consequence of changing accounting policies or correcting prior period errors (paragraphs 34 and 35).
- to require, rather than encourage the disclosure of:
  - an impending change in accounting policy when an entity has yet to adopt a new IPSAS which has been published but not yet come into effect; and
  - known or reasonably estimable information relevant to assessing the possible impact that application of the new IPSAS will have on the entity’s financial statements in the period of initial application.

#### **Amendments to Other Pronouncements**

- to include an authoritative appendix of amendments to other IPSASs that are not part of the IPSASs Improvements project and will be impacted as a result of the proposals in this IPSAS.

(Please note: Staff have relocated the paragraph under the title of IPSAS 3 to this separate page and reflected the decision made on equal authority. It is also consistent with the IASB's approach.)

International Public Sector Accounting Standard 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (IPSAS 8) is set out in paragraphs 1-62 and the Appendix. All the paragraphs have equal authority. IPSAS 8 should be read in the context of its objective, the Basis for Conclusion (if any), and the *Preface to the International Public Sector Accounting Standards*.

IPSAS 3 ~~*Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Estimates and Errors*~~;

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## INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS 3

### ~~Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors~~

This has been deleted to reflect decisions made on equal authority.

~~The standards, which have been set in bold italic type, should be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the "Preface to International Public Sector Accounting Standards". International Public Sector Accounting Standards are not intended to apply to immaterial items.~~

### Objective

1. ~~The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the classification, disclosure and accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and the corrections of errors. This Standard is intended to of certain items in the financial statements so that all entities prepare and present these items on a consistent basis. This enhances the relevance and reliability of an entity's financial statements, and the comparability of those both with the entity's financial statements over time of previous periods and with the financial statements of other entities.~~

Para 2 has been moved from the scope section to the objective section in this IPSAS

2. ~~This Standard deals with, among other things, the disclosure of certain items of net surplus or deficit for the period. These disclosures requirements for accounting policies, except those for changes in accounting policies, are set out in are made in addition to any other disclosures required by other International Public Sector Accounting Standards, including IPSAS 1 *Presentation of Financial Statements*.~~

~~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.~~

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~~The disclosure of extraordinary items in the cash flow statement is required by International Public Sector Accounting Standard IPSAS 2 *Cash Flow Statements*.~~

## Scope

~~3. 1.— *An entity which prepares and presents financial statements under the accrual basis of accounting should apply †This Standard shall be applied in selecting and applying in presenting surplus or deficit from ordinary activities and extraordinary items in the statement of financial performance and accounting policies, and accounting for changes in accounting policies, in accounting for changes in accounting estimates, fundamental and corrections of prior period errors and changes in accounting policies.*~~

~~4. 3.— The tax effects of extraordinary items, fundamental corrections of prior period errors and of retrospective adjustments made to apply 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.~~~~

~~5. 4.— *This Standard applies to all public sector entities other than Government Business Enterprises.*~~

~~6. 5.— *The Preface to International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) explains that International Financial Reporting Standards (IFRSs) are designed to apply to general purpose financial statements of all profit-oriented entities. Government Business Enterprises (GBEs) are defined in paragraph 7 below. They are profit-oriented entities. Accordingly, they are required to comply with IFRSs* 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~~

Standard  
change  
following  
PSC  
decisions

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~~financial statements that conform, in all material respects, to IASs.~~

## Definitions

~~7.~~ ~~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~~ applied by an entity in preparing and presenting financial statements.~~

~~Accrual basis means a basis of accounting under which transactions, ~~and~~ other events and conditions are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions, ~~and other~~ events and conditions 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.~~

~~A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not correction of errors.~~

As directed in Buenos Aires, unnecessary definitions are deleted. They are: assets, borrowing costs, cash equivalents, cash flows

the IASB has defined 'change in accounting estimate'

IPSAS 3 ~~Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Estimates and Errors~~;

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Delete unnecessary definitions:  
Contributions from owners, control, discontinued operations, distributions to owners, expense

~~*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<sup>1</sup> 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 incurrances 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*~~

The notion of extraordinary items was deleted

<sup>1</sup> 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*.

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Delete unnecessary definition: financing activities, foreign entity, foreign operation, government business enterprise

~~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.~~

Fundamental errors have been deleted – replaced with ‘errors’. The IASB did not define ‘errors’

~~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.~~

IASB has defined the term ‘impracticable’

~~Impracticable Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:~~

(a) the effects of the retrospective application or retrospective restatement are not determinable;

(b) the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or

(c) the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:

(i) provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognized, measured or disclosed; and

(ii) would have been available when the financial statements for that prior period were authorized for issue

from other information.

Unnecessary definition: liabilities

~~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.~~

The defn 'Material' is slightly different from IASB's to be consistent with Appdx 4 of IPSAS 1.

Material Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

Consequence of eliminating extraordinary items, dfns such as net surplus/deficit and ordinary activities have been deleted

~~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.~~

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Unnecessary defn:  
operating activities,  
net assets/equity

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

‘Prior period errors’ is a new term introduced and defined by the IASB

~~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.~~

Prior period errors are omissions from, and misstatements in, the entity’s financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

(a) was available when financial statement for those periods were authorized for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

‘Prospective application’ is a new term introduced and defined by the IASB

Prospective application of a change in accounting policy and of recognizing the effect of a change in an accounting estimate, respectively, are:

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

(b) recognizing the effect of the change in the accounting estimate in the current and future periods affected by the change.

The terms ‘retrospective application’ and ‘retrospective restatement’ have now been defined by the IASB.

Retrospective application is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

Retrospective restatement is correcting the recognition, measurement and disclosure of amounts of elements of

Unnecessary defn:  
revenue

~~financial statements as if a prior period error had never occurred.~~

~~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.~~

~~Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.~~

### **Future Economic Benefits or Service Potential**

~~6. — 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.~~

Delete unnecessary definition guidance. They are: future economic benefits or service potential, GBE and net assets/equity

### **Government Business Enterprises**

~~7. — 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. International Public Sector Accounting Standard IPSAS 6 *Consolidated Financial Statements and Accounting for Controlled Entities* provides~~

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~~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.~~

### Materiality

The characteristics of users were introduced by IASB in final Standards, but no in the ED. The wording is slightly different from IASB's.

8. Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. Users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

### Net Assets/Equity

9. ~~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

This section has been moved to IPSAS 1

~~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~~

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~~the financial statements of a foreign entity (see International Public Sector Accounting Standard 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.~~

This section was deleted to reflect the decision made by the IASB in IAS 1 (IPSAS 1)

## **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.~~

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### **~~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~~

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~~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.~~

Paras 37 – 42 (ie the accounting policies section) of IPSAS 1 and paras 48 – 68 of IPSAS 3 have been moved to become paras 9 – 37.

The IASB introduced a new section called 'Accounting Policies' which moved the following to before the old paras 30 – 37 of the existing IPSAS 3 (ie the section on Changes in Accounting Estimates)

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## Accounting Policies

### Selection and Application of Accounting Policies

In paras 9 & 10, Staff have updated the name "PSC" to IPSASB to reflect the external review.

In para 9, implemntn guidance has been replaced with 'Appendices'.

9. *When an International Public Sector Accounting Standard specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Standard and considering any relevant Appendices issued by the IPSASB for the Standard.*

10. International Public Sector Accounting Standards (IPSASs) set out accounting policies that the IPSASB has concluded result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from IPSASs to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

In the updated IAS 8, there is a paragraph that notes that Implementation Guidance does not form part of the Standard. Staff have attached the relevant paragraph below for your attention. The IASB has now elevated Appendices as part of an IFRS, and therefore is now authoritative. Guidance on how to apply an IAS that formed part of an Appendix have now been moved as Implementation Guidance.

10A. Implementation Guidance for Standards issued by the IASB does not form part of those Standards, and therefore does not contain requirements for financial statements.

11. *In the absence of an 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 that ~~Where there is no specifically applies to a transaction, other event or condition~~ requirement, management shouldshall use its judgment in developing and applying an accounting policies*

Paras 11 – 15 originate from IPSAS 1 paras 37 – 42.

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*that results in 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 financial statements:*
  - (i) *represent faithfully the financial position, financial performance and financial position cash flows of the entity;*
  - (ii) *reflect the economic substance of transactions, other events and ~~transactions~~ conditions and not merely the legal form;*
  - (iii) *are neutral, that isie, free from bias;*
  - (iv) *are prudent; and*
  - (v) *are complete in all material respects.*

para 12 is from IPSAS 1 para 38

**12.** *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.*

Para 13 is from IPSAS 1 para 39

**13.** *Once an initial policy has been selected, a change in accounting policy should only be made in accordance with this 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 1238.*

Para 14 is from IPSAS 1 para 40

**14.** *The quality of information provided in financial statements determines the usefulness of the financial statements to users. Paragraph ~~37~~11 requires the development of accounting policies to ensure that the financial statements provide information that meets a number of qualitative characteristics. Appendix ~~24~~ to*

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~~this Standard~~ IPSAS 1 summarizes the qualitative characteristics of financial reporting.

Para 15 is from IPSAS 1 para 42. Para 15 been updated and reflected as black letter (to follow the changes in IAS 8). Previously, this was a commentary para.

~~15. 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~~the judgment, described in paragraph 11, management shall refer to, and considers the applicability of, the following sources in descending order:~~

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

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

In its equivalent IAS para, part 15(b) refers to the defns, recognition, & mesmt criteria in the Framework.

In para 15(b) Staff propose to replace the term publications to IPSASs because publications may mean studies, and research reports and these publications should not be authoritative

Para 16 replicates the former para 15(c), but uses the revised IAS structure. The IAS equivalent refers to a framework. See para 16A.

16. In making the judgment described in paragraph 11, management may also consider the most recent 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 paragraph 15(a) of this paragraph. For example, pronouncements of the International Accounting Standards ~~Committee~~Board

~~3 *Net Surplus or Deficit for the Period, Fundamental Errors and*~~  
~~*Changes in Accounting Policies, Changes in Estimates and Errors;*~~

*(IASCB), including the Framework for the Preparation and Presentation of Financial Statements, International Accounting—Financial Reporting Standards and interpretations issued by the IASCB's International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee(SIC).*

In the revised IAS 8, the IASB used para 16A (see below). It refers to the conceptual framework.

*16A. In making the judgment described in paragraph 10 (the IPSAS equivalent is para 11), management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources in paragraph 11. (the IPSAS equivalent is para 15)*

## Consistency of Accounting Policies

*17. An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an International Public Sector Accounting Standard specifically requires or permits categorization of items for which different policies may be appropriate. If a Standard requires or permits such categorization, an appropriate accounting policy shall be selected and applied consistently to each category.*

## Changes in Accounting Policies

*18. ~~51.~~—An entity shall change its accounting policy should be made only if the change:*

*(a) is required by statute (including a mandatory regulation), or by an International Public Sector Accounting Standard-setting body; or*

*(b) if the change will result in the financial statements providing reliable and more relevant or reliable information about the effects of transactions, other events and conditions on the entity's financial*

Para 51 was moved to before the old para 48.

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*position, financial performance or cash flows ~~of the entity.~~*

19. ~~48.~~—Users of financial statements 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~~ applied within each period and from one period to the next unless a change in accounting policy meets one of the criteria in paragraph 18.

Paras 20 and 21 were added by the PSC. But, para 20 has been updated to reflect that guidance on the selection and application of accounting policies (that were previously in IPSAS 1) has been moved to this IPSAS.

20. ~~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.~~

21. ~~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.~~

22. ~~52.~~—~~The following are not changes in accounting policies:~~

- (a) ~~the adoption~~ application of an accounting policy for ~~events or transactions, other events or conditions~~ that differ in substance from those previously occurring ~~events or transactions; and~~
- (b) ~~the application~~ adoption of a new accounting policy for ~~events or transactions, other events or conditions~~ ~~which~~ that did not occur previously or that were immaterial.

23. ~~53.~~—~~The initial adoption~~ application of a policy to ~~carry~~ assets at revalued assets amounts in accordance with IPSAS 17 Property, Plant and Equipment or other International Public Sector Accounting Standards that deal with the revaluation of assets is a change in accounting policy to be dealt with as a revaluation in accordance with IPSAS 17 or that relevant Standard, rather than. ~~However, where another appropriate accounting standard establishes~~

Unlike its equivalent IAS para, para 23 does not refer to IAS 38 as the PSC has not dealt with intangible assets

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~~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 this Standard.~~

~~24. Paragraphs 25-37 do not apply to the change in accounting policy described in paragraph 23.~~

~~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 International Public Sector Accounting Standard 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. —~~

~~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~~

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Paras 10 and 16 now deal with this issue 'adptn of IPSAS'.

Para 55 has been moved to para 25.

~~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.~~

**OtherApplying Changes in Accounting Policies—Benchmark Treatment**

25. ~~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. Subject to paragraph 29:~~

~~(a) an entity shall account for a change in accounting policy resulting from the initial application of an International Public Sector Accounting Standard in accordance with the specific transitional provisions, if any, in that Standard; and~~

~~(b) when an entity changes an accounting policy upon initial application of an International Public Sector Accounting Standard that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively.~~

~~26. For the purpose of this International Public Sector Accounting Standard, early application of a Standard is not a voluntary change in accounting policy.~~

~~27. In the absence of an International Public Sector Accounting Standard that specifically applies to a transaction, other event or condition, management may, in accordance with paragraph 16, apply an accounting policy from the most recent 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 paragraph 16(a) of this paragraph. For example, pronouncements of the International Accounting Standards ~~Committee~~ Board (IASCB), including the~~

Para 27 has the same issue as para 16. The relevant para used by the IASB in the revised IAS is attached as para 27A below.

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*Framework for the Preparation and Presentation of Financial Statements*, International ~~Accounting—Financial Reporting~~ Standards and interpretations issued by the IASB's ~~International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC)~~. If, following an amendment of such a pronouncement, the entity chooses to change an accounting policy, that change is accounted for and disclosed as a voluntary change in accounting policy.

27A. In the absence of a Standard that specifically applies to a transaction, other event or condition, management may, in accordance with paragraph 12 (*the IPSAS equivalent is para 16*), apply an accounting policy from the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards. If, following an amendment of such a pronouncement, the entity chooses to change an accounting policy, that change is accounted for and disclosed as a voluntary change in accounting policy.

*Retrospective application*

28.

~~22. — 59. — Subject to paragraph 29, when a change in accounting policy should be applied retrospectively in accordance with paragraph 25(a) or (b), the entity shall unless the amount of any resulting adjustment that relates to prior periods is not reasonably determinable.~~

~~28. 60. — Any resulting adjustment should be reported as an adjustment to the opening balance of each affected component of accumulated surpluses or deficits/net assets/equity for the earliest period presented and the other. — Comparative amounts/information should be restated unless it is impracticable to do so disclosed for each prior period as if the new accounting policy had always been applied.~~

~~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~~

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~~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.~~

Limitations on retrospective application

- ~~29. When retrospective application is required by paragraph 25(a) or (b), a change in accounting policy shall be applied retrospectively except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.~~

- ~~30. When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of net assets/equity for that period.~~

- ~~31. 63. When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new ~~The change in~~ accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable should be applied prospectively when the amount of the adjustment to the opening balances required by paragraph 60 cannot be reasonably determined.~~

The IASB inserted 3 new paragraphs between the old paragraphs 63 and 64.

- ~~32. When an entity applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information~~

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for prior periods as far back as is practicable. Retrospective application to a prior period is not practicable unless it is practicable to determine the cumulative effect on the amounts in both the opening and closing statement of financial positions for that period. The amount of the resulting adjustment relating to periods before those presented in the financial statements is made to the opening balance of each affected component of net assets/equity of the earliest prior period presented. Usually the adjustment is made to retained earnings. However, the adjustment may be made to another component of net assets/equity (for example, to comply with an International Public Sector Accounting Standard). Any other information about prior periods, such as historical summaries of financial data, is also adjusted as far back as it practicable.

33. When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the entity, in accordance with paragraph 31, applies the new policy prospectively from the start of the earliest period practicable. It therefore disregards the portion of the cumulative adjustment to assets, liabilities and net assets/equity arising before that date. Changing an accounting policy is permitted even if it is impracticable to apply the policy prospectively for any prior period. Paragraphs 56 - 59 provide guidance when it is impracticable to apply a new accounting policy to one or more prior periods.

#### Disclosure

34. *When initial application of an International Public Sector Accounting Standard has an effect on the current period or any prior period presented, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:*

(a) *the title of the Standard;*

(b) *when applicable, that the change in accounting policy is made in accordance with its transitional provisions;*

(c) *the nature of the change in accounting policy;*

New  
requirement

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In para 35(f)'s equivalent IAS para, IASB requires the disclosure of the amt of adjustment for basic or diluted earnings per share.

- (d) when applicable, a description of the transitional provisions;
- (e) when applicable, the transitional provisions that might have an effect on future periods;
- (f) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;
- (g) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
- (h) if retrospective application required by paragraph 25(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures.

Additional disclosure requirement

35. 64. —When a ~~voluntary~~ change in accounting policy has an ~~material~~ effect on the current period or any prior period ~~presented~~, would have an effect on that period except that it is ~~impracticable to determine the amount of the adjustment, or may~~ might have an ~~material~~ effect ~~on subsequent~~ future periods, an entity ~~should~~ shall disclose ~~the following~~:

In para 36(c)'s equivalent IAS para, IASB requires the disclosure of the amt of adjustment for basic or diluted earnings per share.

- (a) the nature of the change in accounting policy;
- (~~a~~b) the reasons for ~~the change~~ why applying the new accounting policy provides reliable and more relevant information;
- (c) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;

- ~~(bd) the amount of the adjustment for the current period and for each relating to periods before those presented, to the extent practicable;~~
- ~~(ee) if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied. 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.~~

Financial statements of subsequent periods need not repeat these disclosures.

36. When an entity has not applied a new International Public Sector Accounting Standard that has been issued but is not yet effective, the entity shall disclose:

- (a) this fact; and
- (b) known or reasonably estimable information relevant to assessing the possible impact that application of the new Standard will have on the entity's financial statements in the period of initial application.

37. In complying with paragraph 36, an entity considers disclosing:

- (a) the title of the new International Public Sector Accounting Standard;
- (b) the nature of the impending change or changes in accounting policy;
- (c) the date by which application of the Standard is required;
- (d) the date as at which it plans to apply the Standard initially; and

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(e) either:

- (i) a discussion of the impact that initial application of the Standard is expected to have on the entity's financial statements; or
- (ii) if that impact is not known or reasonably estimable, a statement to that effect.

As proposed in the ED, the allowed alternative treatment was deleted.

## ~~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;~~

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~~(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.~~

## Changes in Accounting Estimates

~~38. 30. —~~As a result of the uncertainties inherent in delivering services, conducting trading or other activities, many items in the financial statement ~~items~~ cannot be measured with precision but can only be estimated. ~~The e~~Estimation ~~process~~ involves judgments based on the latest information available, reliable information. For example, Eestimates may be required, ~~for example, of:~~

~~(a) — tax revenue due to government, bad debts arising from uncollected taxes;~~

~~(b) — inventory obsolescence;~~

~~(c) — the fair value of financial assets or financial liabilities;~~

~~(d) — the useful lives of, or expected pattern of consumption of economic benefits or service potential ~~of~~embodied in depreciable assets, or the percentage completion of road construction; and-~~

~~(e) — warranty obligations.~~

~~39. —~~ The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

~~40. 31. —~~An estimate may need have to be revisioned if changes occur regarding in the circumstances on which the estimate was based or as a result of new information; or more experience ~~or~~ subsequent developments. By its nature, the revision of the an estimate does not bring the adjustment within the definitions of an extraordinary item relate to prior periods and is not the correction of or a fundamental an error.

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~~41.~~ ~~32.~~—A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When ~~Sometimes~~ it is difficult to distinguish between a change in an accounting policy ~~and from~~ a change in an accounting estimate. ~~In such cases~~, the change is treated as a change in an accounting estimate, ~~with appropriate disclosure.~~

~~42.~~ ~~33.~~—The effect of a change in an accounting estimate, other than a change to which paragraph 43 applies, ~~should~~ shall be recognized prospectively by including ~~it 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.*

New requirement/  
clarification

~~43.~~ To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets/equity, it shall be recognized by adjusting the carrying amount of the related asset, liability or net assets/equity item in the period of change.

~~44.~~ ~~34.~~—Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events and conditions from the date of the change in estimate. A change in an accounting estimate may affect the current period's surplus or deficit, ~~only~~ or the surplus of deficit of 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's surplus or deficit and is therefore ~~is~~ recognized ~~immediately~~ in the current period. However, a change in the estimated useful life ~~of~~ or the expected pattern of consumption of economic benefits or service potential ~~of~~ embodied in, a depreciable asset affects the depreciation expense ~~in~~ for the current period and ~~in~~ for each period during the asset's 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.

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~~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.~~

### Disclosure

~~45. 37. — An entity shall disclose the nature and amount of a change in an accounting estimate that has an material effect in the current period or which is expected to have an material effect in subsequent future periods, except for the disclosure of the effect on future periods should be disclosed when it is impracticable to estimate that effect.~~

~~46. If the amount of the effect in future periods is not disclosed because estimating it is impracticable to quantify the amount, this fact should be the entity shall disclosed that fact.~~

## **Fundamental Errors**

~~47. 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. Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with IPSASs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorized for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information~~

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IASB removed the notion of fundamental errors and replaced it with errors

presented in the financial statements for that subsequent period (see paragraphs 48-53).

~~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.~~ Para 40 has been moved to after paragraph 54 of the updated IPSAS 3.

## **Benchmark Treatment**

~~48. 41. Subject to paragraph 49, an entity shallThe amount of the correction of a fundamental material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:~~

~~(a) restating the 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 amounts for prior period(s) presented in which the error occurred; or~~

~~(b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.~~

## **Limitations of Retrospective Restatement**

~~49. A prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.~~

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50. When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and net assets/equity for the earliest period for which retrospective restatement is practicable (which may be the current period).
51. When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.
- ~~52. 42.—The correction of a prior period is excluded from surplus or deficit for the period in which the error is discovered. 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 presented about with respect to prior periods, such as including historical summaries of financial data, is also restated as far back as is practicable.~~
- ~~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.~~
53. When it is impracticable to determine the amount of an error (eg a mistake in applying an accounting policy) for all prior periods, the entity, in accordance with paragraph 51, restates the comparative information prospectively from the earliest date practicable. It therefore disregards the portion of the cumulative restatement of assets, liabilities and net assets/equity arising before that date. Paragraphs 56-59 provide guidance on when it is impracticable to correct an error for one or more prior periods.

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~~54. 40. The e~~Corrections 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 is not ~~constitute~~ the correction of an an ~~fundamental~~ error.

## Disclosure of Prior Period Errors

~~55. 44. In applying paragraph 48, A~~an entity ~~should~~shall disclose the following:

- (a) ~~the nature of the fundamental~~prior period error;
- (b) ~~for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected the current period and for each prior period presented;~~for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected the current period and for each prior period presented;
- (c) ~~the amount of the correction at the beginning of the earliest relating to prior periods presented prior to those included in the comparative information; and~~the amount of the correction at the beginning of the earliest relating to prior periods presented prior to those included in the comparative information; and
- (d) ~~if retrospective restatement the fact that comparative information has been restated or that it is impracticable to do so for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.~~if retrospective restatement the fact that comparative information has been restated or that it is impracticable to do so for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

Financial statements of subsequent periods need not repeat these disclosures.

In para 56(b)'s equivalent IAS, IASB requires disclosure of amt of correction for earnings per share.

## 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.~~

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~~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.~~

## **Impracticability in Respect of Retrospective Application and Retrospective Restatement**

New guidance/  
explanation on  
the notion of  
impracticability

56. In some circumstances, it is impracticable to adjust comparative information for one or more periods to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows either retrospective application of a new accounting policy (including, for the purpose of paragraphs 57-59, its prospective application to prior periods) or retrospective restatement to correct a prior period error, and it may be impracticable to recreate the information.

57. It is frequently necessary to make estimates in applying an accounting policy to elements of financial statements recognized or disclosed in respect of transactions, other events or conditions. Estimation is inherently subjective, and estimates may be developed after the reporting date. Developing estimates

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is potentially more difficult when retrospectively applying an accounting policy or making a retrospective restatement to correct a prior period error, because of the longer period of time that might have passed since the affected transaction, other event or condition occurred. However, the objective of estimates related to prior periods remains the same as for estimates made in the current period, namely, for the estimate to reflect the circumstances that existed when the transaction, other event or condition occurred.

58. Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that

(a) provides evidence of circumstances that existed on the date(s) as at which the transaction, other event or condition occurred, and

(b) would have been available when the financial statements for that prior period were authorized for issue

from other information. For some types of estimates (eg an estimate of fair value not based on an observable price or observable inputs), it is impracticable to distinguish these types of information. When retrospective application or retrospective restatement would require making a significant estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy or correct the prior period error retrospectively.

59. Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognized, measured or disclosed in a prior period. For example, when an entity corrects a prior period error in measuring financial assets previously classified as held-to-maturity investments in accordance with International Accounting Standards IAS 39 *Financial Instruments: Recognition and Measurement*, it does not change their basis of measurement for that period if management decided later not to hold them to maturity. In addition, when an entity corrects a

The IASB used examples using issues which the PSC yet to issue an IPSAS. Staff have not changed these examples. The PSC may want to adapt examples for the public sector.

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prior period error in calculating its liability for employees' accumulated sick leave in accordance with International Accounting Standards IAS 19 *Employee Benefits*, it disregards information about an unusually severe influenza season during the next period that became available after the financial statements for the prior period were authorized for issue. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.

## Effective Date

~~60.~~ ~~69.~~—*An entity shall apply ~~this International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after 1 July 2001~~ MM DD YYYY. Earlier application is encouraged. If an entity applies this Standard for a period beginning before MM DD YYYY, it shall disclose that fact.*

61. ~~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.

## Withdrawal of IPSAS 3 (2000)

62. This Standard supersedes *IPSAS 3 Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies* issued in 2000.

The withdrawal para was added per decision in NY meeting.

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This section, Amendments to Other IPSASs, is new. Only the relevant paragraphs in IPSASs that were impacted as a result of proposals in this Standard are shown up in mark-up.

Readers should note that the terms 'should' have been replaced with 'shall'.

## Appendix 1

### Amendments to Other IPSASs

The amendment in this appendix becomes effective for annual periods beginning on or after MM DD YYYY. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

A1. IPSAS 2 *Cash Flow Statements* is amended as follows:

Paragraphs 40 and 41 on extraordinary items are deleted.

The Appendix in IPSAS 2 illustrates a cash flow statement for an entity other than a financial institution, is amended to remove an extraordinary item. The revised Appendix is set below.

### Appendix – Cash Flow Statement (for an Entity other than a Financial Institution)

#### Notes to the Cash Flow Statement

(c) *Reconciliation of Net Cash Flows from Operating Activities to Net Surplus/(Deficit) from Ordinary Activities*

(in thousands of currency units)

	20X2	20X1
<b>Surplus/(deficit) from ordinary activities</b>	X	X
<i>Non-cash movements</i>		
Depreciation	X	X
Amortization	X	X
Increase in provision for doubtful debts	X	X
Increase in payables	X	X
Increase in borrowings	X	X
Increase in provisions relating to employee costs	X	X
(Gains)/losses on sale of property, plant and equipment	(X)	(X)
(Gains)/losses on sale of investments	(X)	(X)
Increase in other current assets	(X)	(X)
Increase in investments due to revaluation	(X)	(X)
Increase in receivables	(X)	(X)
<del>Extraordinary item<sup>1</sup></del>	<del>(X)</del>	—

<sup>1</sup> ~~This extraordinary item falls within the definition of operating activities.~~

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*Net cash flows from operating activities*

X	X
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## Indirect Method Cash Flow Statement (paragraph 27(b))

### PUBLIC SECTOR ENTITY – CONSOLIDATED CASH FLOW STATEMENT FOR YEAR ENDED 31 DECEMBER 20X2

(in thousands of currency units)

	20X2	20X1
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Surplus/(deficit) from ordinary activities	X	X
<i>Non-cash movements</i>		
Depreciation	X	X
Amortization	X	X
Increase in provision for doubtful debts	X	X
Increase in payables	X	X
Increase in borrowings	X	X
Increase in provisions relating to employee costs	X	X
(Gains)/losses on sale of property, plant and equipment	(X)	(X)
(Gains)/losses on sale of investments	(X)	(X)
Increase in other current assets	(X)	(X)
Increase in investments due to revaluation	(X)	(X)
Increase in receivables	(X)	(X)
<i>Extraordinary item<sup>+</sup></i>	<del>(X)</del>	—
<i>Net cash flows from operating activities</i>	X	X

A2. IPSAS 18 *Segment Reporting* is amended as described below.

Paragraph 57 is amended to read as follows:

57. IPSAS ~~3~~<sup>1</sup> requires that when items of revenue or expense ~~are material within net surplus (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,~~ their nature and amount of such items ~~should~~<sup>shall</sup> be disclosed separately. IPSAS ~~13~~ identifies a number of examples of such items, including write-downs of inventories and property, plant, and equipment; provisions for

<sup>1</sup> ~~This extraordinary item falls within the definition of operating activities.~~

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restructurings; disposals of property, plant, and equipment; privatizations and other disposals of long-term investments; discontinued operations; litigation settlements; and reversals of provisions. The encouragement in paragraph 56 is not intended to change the classification of any such items ~~of revenue or expense from ordinary to extraordinary (as defined in IPSAS 3)~~ or to change the measurement of such items. The disclosure encouraged by that paragraph, however, does change the level at which the significance of such items is evaluated for disclosure purposes from the entity level to the segment level.

Paragraphs 69 and 70 are amended to read as follows:

69. Changes in accounting policies adopted by the entity are dealt with in IPSAS 3. IPSAS 3 requires that changes in accounting policy ~~should~~ shall be made ~~only if required by statute, or by an International Public Sector Accounting Standard accounting standard-setting body, or if the change will result in reliable and a more appropriate presentation~~ relevant information about of events or transactions, other events or conditions in the financial statements of the entity.
70. Changes in accounting policies ~~adopted~~ applied at the entity level that affect segment information are dealt with in accordance with IPSAS 3. Unless a new International Public Sector Accounting Standard specifies otherwise, IPSAS 3 requires that:
- (a) ~~a change in accounting policy should~~ shall be applied retrospectively and that prior period information ~~be~~ restated unless it is impracticable to ~~determine either do so (benchmark treatment) or that the cumulative effect or the adjustment resulting from the change be included in determining the entity's net surplus (deficit) for the current period-specific effects of the change (allowed alternative treatment).~~ determine either do so (benchmark treatment) or that the cumulative effect or the adjustment resulting from the change be included in determining the entity's net surplus (deficit) for the current period-specific effects of the change (allowed alternative treatment).

- (b) ~~If retrospective application is not practicable for all the benchmark treatment is followed, prior periods presented, the new accounting policy shall be applied retrospectively from the earliest practicable date—segment information will be restated.; and~~
- (c) ~~If it is impracticable to determine the allowed alternative is followed, the cumulative effect of applying the new accounting policy at the start of the current period, the policy shall be applied prospectively from the earliest date practicable. adjustment that is included in determining the entity's net surplus (deficit) is included as an item of segment revenue or expense if it is an operating item that can be attributed or reasonably allocated to segments. In the latter case, IPSAS 3 may require separate disclosure if its size, nature, or incidence is such that the disclosure is relevant to explain the performance of the entity for the period.~~

The following changes are made to remove references to extraordinary items:

- (a) in paragraph 27, in the definition of segment revenue, subparagraph (a) is deleted;
  - (b) in paragraph 27, in the definition of segment expense, subparagraph (a) is deleted; and
  - (c) in Appendix 1, the second last paragraph is deleted.
- A3. In IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*, paragraph 111 is deleted.
- A4. In International Public Sector Accounting Standards, applicable at MM YYYY, references to the current version of IPSAS 3 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies* are amended to IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*.

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## Appendix Guidance on Implementing IPSAS 3

*This guidance accompanies but is not part of IPSAS 3—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.*

### Example 1 – Fundamental Retrospective Restatement of Errors

- 1.1. During 20X2, the entity discovered that revenue from income taxes was incorrect. Income taxes of CU<sup>2</sup>6,500 that should have been recognized in 20X~~1~~ were incorrectly omitted from 20X1 and recognized as revenue in 20X~~2~~.
- 1.2. The entity's accounting records for 20X~~2~~ show revenue from taxation of CU60,000 (including the CU6,500 taxation which should have been recognized in opening inventory 20X1), and expenses of CU86,500.
- 1.3. In 20~~X~~1, the entity reported:

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

<sup>2</sup> In these examples, monetary amounts are denominated in 'currency units' (CU).

1.4. 20-1 opening accumulated surplus was CU2,000 and closing accumulated surplus was CU34,000.

1.5. The entity had CU5,000 of contributed capital throughout, and no other components of net assets/equity except for accumulated surplus.

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UNDER THE BENCHMARK TREATMENT (EXTRACT)**

	20X-2 (restated)	20X-1 (restated)
	<u>CU</u>	<u>CU</u>
Revenue from taxation	53,500	40,500
User charges	4,000	3,000
Other operating revenue	<u>40,000</u>	<u>30,000</u>
Total revenue	97,500	73,500
Expenses	<u>(86,500)</u>	<u>(60,000)</u>
Net surplus	<u><u>11,000</u></u>	<u><u>13,500</u></u>

**PUBLIC SECTOR ENTITY  
STATEMENT OF CHANGES IN EQUITY (EXTRACT)**

	<u>Contributed capital</u>	<u>Accumulated Surpluses</u>	<u>Total</u>
	<u>CU</u>	<u>CU</u>	<u>CU</u>
<u>Balance at 31 December 20-0</u>	<u>5,000</u>	<u>10,000</u>	<u>15,000</u>
<u>Surplus for the year ended December 31 20-1 as restated</u>	<u>-</u>	<u>13,500</u>	<u>13,500</u>
<u>Balance at 31 December 20-1</u>	<u>5,000</u>	<u>23,500</u>	<u>28,500</u>
<u>Surplus for the year ended 31 December 20-2</u>	<u>-</u>	<u>11,000</u>	<u>11,800</u>
<u>Balance at 31 December 20-2</u>	<u><u>5,000</u></u>	<u><u>34,500</u></u>	<u><u>40,300</u></u>

**PUBLIC SECTOR ENTITY – STATEMENT OF CHANGES IN NET  
ASSETS/EQUITY UNDER THE BENCHMARK TREATMENT**

	20X2	20X1 (restated)
Opening accumulated surpluses as previously reported	17,000	10,000
Correction of fundamental error (Note 1)	<u>6,500</u>	<u>-</u>

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Opening accumulated surpluses	23,500	10,000
Net surplus	<u>11,000</u>	<u>13,500</u>
Closing accumulated surpluses	<u><u>34,500</u></u>	<u><u>23,500</u></u>

### Extracts from Notes to the Financial Statements

1. Revenue from taxation of CU6,500 was incorrectly omitted from the financial statements of 20X1. The financial statements of 20X1 have been restated to correct this error. The effect of the restatement on those financial statements is summarized below. There is no effect in 20-2.

	<u>Effect on 20-1</u>
	<u>CU</u>
<u>Increase revenue</u>	<u>6,500</u>
<u>Increase in surplus</u>	<u><u>6,500</u></u>
<u>Increase in debtors</u>	<u>6,500</u>
<u>Increase in net assets/equity</u>	<u><u>6,500</u></u>

### ~~PUBLIC SECTOR ENTITY— STATEMENT OF FINANCIAL PERFORMANCE UNDER THE ALLOWED ALTERNATIVE TREATMENT (EXTRACT)~~

	20X2	20X1	Pro forma 20X2 (restated)	20X1 (restated)
<del>Revenue from taxation (Note 1)</del>	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	<u>17,500</u>	<u>7,000</u>	<u>11,000</u>	<u>13,500</u>

### ~~PUBLIC SECTOR ENTITY— STATEMENT OF CHANGES IN NET ASSETS/EQUITY UNDER THE ALLOWED ALTERNATIVE TREATMENT~~

Pro forma

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	20X2	20X1	20X2 (restated)	20X1 (restated)
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**

1. ~~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.~~

### **Example 2 - Changes in Accounting Policy with Retrospective Application**

- 2.1. ~~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 them, these costs in order to conform with the benchmark treatment in IPSAS 5. Management judges that the new policy is preferable because it results in a more transparent treatment of finance costs and is consistent with local industry practice, making the entity's financial statements more comparable.~~
- 2.2. The entity capitalized borrowing costs incurred of CU2,600 during 20X-1 and CU5,200 in periods prior to 20X-1. All borrowing costs incurred in previous years with respect to the acquisition of the power station were capitalized.

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2.3. The accounting records for 20X2 show surplus ~~from operating activities~~ before interest of CU30,000; and interest expense of CU3,000 (which relates only to 20~~X~~2).

2.4. In 20X1, the entity reported:

	<u>CU</u>
Surplus <del>from operating activities</del> before interest	18,000
Interest expense	-
<del>Net s</del> Surplus from ordinary activities	<u><u>18,000</u></u>

2.5. 20~~X~~1 opening accumulated surpluses were CU20,000 and closing accumulated surpluses ~~were~~ CU38,000.

**PUBLIC SECTOR ENTITY – STATEMENT OF FINANCIAL PERFORMANCE  
UNDER THE BENCHMARK TREATMENT (EXTRACT)**

	20 <del>X</del> 2 (restated)	20 <del>X</del> 1 (restated)
	<u>CU</u>	<u>CU</u>
Surplus <del>from operating activities</del> before interest	30,000	18,000
Interest expense	<u>(3,000)</u>	<u>(2,600)</u>
<del>Net s</del> Surplus from ordinary activities	<u><u>27,000</u></u>	<u><u>15,400</u></u>

**PUBLIC SECTOR ENTITY – STATEMENT OF CHANGES IN NET  
ASSETS/EQUITY UNDER THE BENCHMARK TREATMENT**

	<u>Contributed capital</u>	<u>20X2 Accumulated Surplus (restated)</u>	<u>Total</u>
	<u>CU</u>	20 <del>X</del> 1 (restated) <u>CU</u>	<u>CU</u>
<del>Opening accumulated surpluses</del> <u>Balance at 31 December 20-0</u> as previously reported	<u>10,000</u>	<del>38,000</del> 20,000	
Change in accounting policy with respect to the capitalization of interest (Note 1)	<u>=</u>	<del>(7,800)</del> (5,200)	<u>(5,200)</u>
<del>Opening accumulated surpluses</del>			

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	<u>Contributed capital</u>	<u>20X2 Accumulated Surplus (restated)</u>	<u>Total</u>
		<u>20X-1 (restated)</u>	
<u>Balance at 31 December 20-0 as restated</u>	<u>10,000</u>	<u>30,200</u>	<u>14,800</u>
<u>Net Surplus for the year ended 31 December 20-1 (restated)</u>	<u>-</u>	<u>27,000</u>	<u>15,400</u>
<u>Balance at 31 December 20-1</u>	<u>10,000</u>	<u>30,200</u>	<u>40,200</u>
<u>Surplus for the year ended 31 December 20-2</u>	<u>-</u>	<u>27,000</u>	<u>27,000</u>
<u>Closing accumulated surpluses at 31 December 20-2</u>	<u>10,000</u>	<u>57,200</u>	<u>67,200</u>

### Extracts from the Notes to the Financial Statements

1. During 20X-2, the entity changed its accounting policy ~~with respect to~~for the treatment of borrowing costs related ~~ing~~ to a hydro-electric power station ~~which is in the course of construction for use~~. ~~Previously, in order to conform with the benchmark treatment in IPSAS 5, the entity now expenses rather than capitalizes~~ such costs. ~~They are now written off as expenses as incurred~~. Management judges that this policy provides reliable and more relevant information because it results in a more transparent treatment of finance costs and is consistent with local industry practice, making the entity's financial statements more comparable. This change in accounting policy has been accounted for retrospectively ~~and~~. ~~The comparative statements for 20X-1 have been restated to conform to the changed policy~~. The effect of the change ~~on 20-1 is tabulated below is an increase in interest expense of 3,000 (20X2) and 2,600 (20X1)~~. Opening accumulated surpluses for 20X-1 have been reduced by CU5,200 which is the amount of the adjustment relating to periods prior to 20X-1.

### ~~PUBLIC SECTOR ENTITY – STATEMENT OF FINANCIAL PERFORMANCE UNDER THE ALLOWED ALTERNATIVE TREATMENT (EXTRACT)~~

		Pro forma	
20X2	20X1	20X2	20X1
		<del>(restated)</del>	<del>(restated)</del>

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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	<u>19,200</u>	<u>18,000</u>	<u>27,000</u>	<u>15,400</u>

**~~PUBLIC SECTOR ENTITY—STATEMENT OF CHANGES IN NET ASSETS/EQUITY UNDER THE ALLOWED ALTERNATIVE TREATMENT~~**

	20X2	20X1	Pro forma 20X2 (restated)	20X1 (restated)
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	<u>38,000</u>	<u>20,000</u>	<u>30,200</u>	<u>14,800</u>
Net surplus	<u>19,200</u>	<u>18,000</u>	<u>27,000</u>	<u>15,400</u>
Closing accumulated surpluses	<u>57,200</u>	<u>38,000</u>	<u>57,200</u>	<u>30,200</u>

**~~Extracts from Notes to the Financial Statements~~**

~~1.—— 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.~~

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### **Example 3 – Prospective Application of a Change in Accounting Policy When Retrospective Application is not Practicable**

- 3.1. During 20-2, the entity changed its accounting policy for depreciating property, plant and equipment, so as to apply much more fully a components approach, whilst at the same time adopting the revaluation model.
- 3.2. In years before 20-2, the entity's asset records were not sufficiently detailed to apply a components approach fully. At the end of year 20-1, management commissioned an engineering survey, which provided information on the components held and their fair values, useful lives, estimated residual values and depreciable amounts at the beginning of 202. However, the survey did not provide a sufficient basis for reliably estimating the cost of those components that had not previously been accounted for separately, and the existing records before the survey did not permit this information to be reconstructed.
- 3.3. Management considered how to account for each of the two aspects of the accounting change. They determined that it was not practicable to account for the change to a fuller components approach retrospectively, or to account for that change prospectively from any earlier date than the start of 20-2. Also, the change from a cost model to a revaluation model is required to be accounted for prospectively. Therefore, management concluded that it should apply the entity's new policy prospectively from the start of 20-2.
- 3.4. Additional information:

	<u>CU</u>
<u>Property, plant and equipment</u>	
<u>Cost</u>	<u>25,000</u>
<u>Depreciation</u>	<u>(14,000)</u>
<u>Net book value</u>	<u><u>11,000</u></u>
<u>Prospective depreciation expense for 20-2 (old basis)</u>	<u>1,500</u>

Some results of the engineering survey

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<u>Valuation</u>	<u>17,000</u>
<u>Estimated residual value</u>	<u>3,000</u>
<u>Average remaining assets life (years)</u>	<u>7</u>
<u>Depreciation expense on existing property, plant and equipment for 20-2 (new basis)</u>	<u>2,000</u>

### Extract from the Notes

1. From the start of 20-2, the entity changed its accounting policy for depreciating property, plant and equipment, so as to apply much more fully a components approach, whilst at the same time adopting the revaluation model. Management takes the view that this policy provides reliable and more relevant information because it deals more accurately with the components of property, plant and equipment and is based on up-to-date values. The policy has been applied prospectively from the start of 20-2 because it was not practicable to estimate the effects of applying the policy either retrospectively or prospectively from any earlier date. Accordingly the adopting of the new policy has no effect on prior periods. The effect on the current year is to increase the carrying amount of property, plant and equipment at the start of the year by CU6,000; create a revaluation reserve at the start of the year of CU6,000; and increase depreciation expense by CU5,000.

### 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)~~

	20X2	20X1
<del>Surplus from ordinary activities</del>	<del>7,900</del>	<del>8,400</del>

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This example was deleted because extraordinary items have been deleted from IPSASs.

Extraordinary item—loss on destruction of overseas broadcasting operation (Note 1)	—	<u>(3,150)</u>
Net surplus for the period	<u>7,900</u>	<u>5,250</u>

### **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.

### 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, Changes in Accounting Estimates and Errors*~~ is drawn primarily from International Accounting Standard IAS 8 ~~*(Revised 2003), Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies, Changes in Accounting Estimates and Errors*~~. 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 7~~6~~).
- IPSAS 3 has a different hierarchy from the IAS 8.
- ~~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).~~ IPSAS 3 does not require disclosures about adjustments to basic or diluted earnings per share. IAS 8 requires disclosure of amount of adjustment or correction for basic or diluted earnings per share.

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## **Summary of Main Changes**

### ***IPSAS 6 Consolidated and Separate Financial Statements***

The main changes proposed are:

#### **Scope**

- to clarify in paragraph 3 that the Standard applies to accounting for controlled entities, jointly controlled entities and associates in the separate financial statements of a controlling entity, a venturer or an investor. Therefore, the title of the Standard is amended to *Consolidated and Separate Financial Statements*.

Previously, IPSAS 6 only applied to accounting for controlled entities. The title for the Standard was *Consolidated Financial Statements and Accounting for Controlled Entities*.

#### **Definitions**

- in paragraph 7:
  - to define two new terms: “cost method” and “separate financial statements”.
  - to remove the following unnecessary definitions: “accounting policies”, “accrual basis”, “assets”, “associates”, “cash”, “contributions from owners”, “distributions to owners”, “equity method”, “expenses”, “government business enterprises”, “investor in a joint venture”, “joint control”, “joint venture”, “liabilities”, “net assets/equity”, “reporting date”, “revenue” and “significant influence”.
  - to remove the term “net surplus/deficit”, which no longer exists. This definition has also been eliminated from IPSAS 1 *Presentation of Financial Statements* and IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- to include in paragraphs 8-11 further illustrations of the term “separate financial statements”. Previously, IPSAS 6 did not contain these illustrations.

#### **Exemptions from Preparing Consolidated Financial Statements**

- to clarify and tighten in paragraph 16 the circumstances in which a controlling entity is exempted from preparing consolidated financial statements. A controlling entity need not present consolidated financial statements if and only if:
  - the controlling entity is itself a wholly-owned controlled entity and users of such financial statements are unlikely to exist or their information needs are met by its controlling entity’s consolidated financial statements; or the controlling entity is a partially-owned controlled entity of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the controlling entity not preparing consolidated financial statements;
  - the controlling entity’s debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
  - the controlling entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and
  - the ultimate or any intermediate controlling entity of the controlling entity produces consolidated financial statements available for public use that comply with International Public Sector Accounting Standards.

Previously, IPSAS 3 specified that a controlling entity that is a wholly owned controlled entity, or is a virtually wholly owned, need not present consolidated financial statements provided users of such financial statements are unlikely to exist or their information needs are met by the controlling entity's consolidated financial statements; or, in the case of one that is virtually wholly owned, the controlling entity obtains the approval of the owners of the minority interest.

### **Exemptions from Consolidation**

- to clarify in paragraph 21 that a controlled entity shall be excluded from consolidation when there is evidence that (a) control is intended to be temporary because the controlled entity is acquired and held exclusively with a view to its disposal within twelve months from acquisition and (b) management is actively seeking a buyer. The proposed IPSAS 6 further specifies that when a controlled entity previously excluded from consolidation is not disposed of within twelve months, it must be consolidated as from the acquisition date unless narrowly specified circumstances apply.

The words “in the near future” used in previous IPSAS 6 were replaced with the words “within twelve months”. In addition, there was no similar requirement to (b) in previous IPSAS 6 for exclusion from consolidation.

- to clarify in paragraph 26 that the requirement to consolidate investments in controlled entities applies to venture capital organization, mutual funds, unit trusts and similar entities. Previously, IPSAS 6 did not contain this clarification.
- to remove the previous exemption from consolidating for an entity which operates under external long-term severe restrictions which prevents the controlling entity from benefiting from its activities (see previous paragraphs 22(b) and 25).

### **Consolidation Procedures**

- to require an entity to consider the existence and effect of potential voting rights currently exercisable or convertible when assessing whether it has the power to govern the financial and operating policies of another entity (see paragraphs 33, 34). Previously, IPSAS 6 did not contain these requirements.
- to clarify in paragraph 49 that an entity shall use uniform accounting policies for reporting like transactions and other events in similar circumstances. Previously, IPSAS 6 provided an exception to this requirement when it was “not practicable to use uniform accounting policies”.
- to require in paragraph 54 that minority interests shall be presented in the consolidated statement of financial position within net assets/equity, separately from the controlling entity's net assets/equity. Previously, though IPSAS 6 precluded presentation of minority interests within liabilities, it did not require presentation within net assets/equity.

### **Separate Financial Statements**

- to require in paragraph 58 investments in controlled entities, jointly controlled entities and associates in separate financial statements to be accounted for at cost or as financial instruments. The equity method contained in previous IPSAS 6 has been removed.
- to require in paragraph 60 that controlled entities, jointly controlled entities and associates that are accounted for as financial instruments in the consolidated financial statements shall be accounted for in the same way in the investor's separate financial statements. Previously, IPSAS 6 did not contain this requirement.

**Disclosure**

- to require additional disclosures in respect of separate financial statements (see paragraphs 63 and 64)

**Amendments to Other IPSASs**

- to include an authoritative appendix of amendments to other IPSASs that are not part of the IPSASs Improvements project and will be impacted as a result of the proposals in this IPSAS.

**Implementation Guidance**

- to include an Implementation Guidance, which illustrates how to consider the impact of potential voting rights on an entity's power to govern the financial and operating policies of another entity when implementing IPSAS 6, IPSAS 7 *Investments in Associates* and IPSAS 8 *Interests in Joint Ventures*.

(Please note: Staff have relocated the paragraph under the title of IPSAS 6 to this separate page and reflected the decision made on equal authority. It is also consistent with the IASB's approach.)

International Public Sector Accounting Standard 6 *Consolidated and Separated Financial Statements* (IPSAS 6) is set out in paragraphs 1-70 and the Appendix. All the paragraphs have equal authority. IPSAS 6 should be read in the context of the Basis for Conclusion (if any), and the *Preface to the International Public Sector Accounting Standards*. IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

# INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS 6

## Consolidated and Separate Financial Statements ~~and Accounting for Controlled~~ Entities

This para has been updated and relocated to the preceding page.

*The standards, which have been set in bold italic type, should be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the “Preface to International Public Sector Accounting Standards”. International Public Sector Accounting Standards are not intended to apply to immaterial items.*

### Scope

1. An entity ~~which~~ that prepares and presents financial statements under the accrual basis of accounting ~~should~~ shall apply this Standard in the preparation and presentation of consolidated financial statements for an economic entity.

~~2.~~ This Standard does not deal with:

(a) ~~methods of accounting for entity combinations and their effects on consolidation, including goodwill arising on a entity combination (guidance on accounting for entity combinations can be found in International Accounting Financial Reporting Standard IAS 22 IFRS 3, Business Combinations);~~

Para 2 was relocated from previous para 7(a).

~~23~~

Scope of IAS 27, equivalent of IPSAS 6, has been expanded by the IASB

*This Standard ~~should~~ shall also be applied in accounting for controlled entities, jointly controlled entities and associates when an entity elects, or is required by local regulations, to present in a controlling entity’s separate financial statements.*

~~3. Consolidated financial statements are encompassed by the term “financial statements” included in the Preface to International Public Sector Accounting Standards. Therefore, consolidated financial statements are prepared in accordance with International Public Sector Accounting Standards.~~

4. ~~This Standard applies to the preparation and presentation of consolidated financial statements, and accounting for controlled entities, by all public sector entities other than Government Business Enterprises.~~

Staff updated para 4 because s para 1 and para 3 already included the same contents as those in para 4. The amendments to para 4 also reflect the usual wording re: applicability of the Standard in other IPSASs.

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5. The Preface to International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) explains that International Financial Reporting Standards (IFRSs) are designed to apply to the general purpose financial statements of all profit-oriented entities. Government Business Enterprises (GBEs) are defined in IPSAS 1 *Presentation of Financial Statements*. They are profit-oriented entities. Accordingly, they are required to comply with IFRSs. 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.

The revision to para 5 is consistent with its latest version IPSAS 21 agreed by PSC.

6. This Standard establishes requirements for the preparation and presentation of consolidated financial statements, and for accounting for controlled entities, jointly controlled entities and associates in the separate financial statements of the controlling entity, the venturer and the investor. Although GBEs are not required to comply with this Standard in their own financial statements, the provisions of this Standard will apply where a public sector entity that is not a GBE has one or more controlled entities, jointly controlled entities and associates that are GBEs. In these circumstances, this Standard ~~should~~ shall be applied in consolidating GBEs into the financial statements of the economic entity, and in accounting for investments in GBEs in the controlling entity's, the venturer's and the investor's separate financial statements.

7. (a) has been relocated to current para 2.

Subpara (b) and (c) were deleted because IPSAS 6 now deals with accounting for jointly controlled entities, associates in venturers' and investors' separate financial statements.

(b) ~~accounting for investments in associates (see International Public Sector Accounting Standard IPSAS 7 *Accounting for Investments in Associates*); and~~

(c) ~~accounting for investments in joint ventures (see International Public Sector Accounting Standard IPSAS 8 *Financial Reporting of Interests in Joint Ventures*).~~

## Definitions

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

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

Staff have deleted unnecessary definitions per decision made in Buenos Aires meeting.

~~*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.*~~

~~*Cash comprises cash on hand and demand deposits.*~~

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

Unnecessary definition deleted per decision made in BA meeting.

~~*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, including an unincorporated entity such as a partnership, that is under the control of another entity (known as the controlling entity).*~~

Staff have incorporated changes made to define "controlled entity" by IASB but are not convinced of whether this change is necessary for public sector, because most public sector entities would be unincorporated.

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

Term "cost method" was added to IAS 27 by IASB. Staff have adapted the definition per the defn in existing IPSAS 7 and illustration in para 7 of existing IPSAS 7.

**The cost method is a method of accounting for an investment whereby the investment is recognized at cost. The investor recognizes revenue from the investment only to the extent that the investor is entitled to receive distributions from accumulated surpluses of the investee arising after the date of acquisition. Entitlements due or received in excess of such surpluses are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.**

~~**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.**~~

Unnecessary definitions deleted per decision made in BA meeting.

~~**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.**~~

~~**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~~

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~~(e) — is controlled by a public sector entity.~~

~~Investor in a joint venture is a party to a joint venture and does not have joint control over that joint venture.~~

Unnecessary definitions deleted per decision made in BA meeting.

~~Joint control is the agreed sharing of control over an activity by a binding arrangement.~~

~~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.~~

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

“Net surplus/deficit” was permanently deleted in IPSAS 1.

~~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.~~

“Net assets/equity”, “reporting date” and “revenue” are unnecessary defns deleted per decision made in BA meeting.

~~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.~~

Term “separate financial statements” was added to IAS 27 by the IASB.

~~Separate financial statements are those presented by a controlling entity, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct net assets/equity interest rather than on the basis of the reported results and net assets/equity of the investees.~~

“Significant influence” is an unnecessary definition deleted per decision in BA meeting

*Significant influence (for the purpose of this Standard) is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies.*

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

### **Consolidated Financial Statements and Separate Financial Statements**

Paras 8-11 were added to IAS 27 by the IASB to illustrate especially the separate financial statements.

8. A controlling entity or its controlled entity may be an investor in an associate or a venturer in a jointly controlled entity. In such cases, consolidated financial statements prepared and presented in accordance with this Standard are also prepared so as to comply with IPSAS 7 *Investments in Associates* and IPSAS 8 *Interests in Joint Ventures*.

9. For an entity described in paragraph 8, separate financial statements are those prepared and presented in addition to the financial statements referred to in paragraph 8. Separate financial statements need not be appended to, or accompany, those statements.

10. The financial statements of an entity that does not have a controlled entity, associate or venturer’s interest in a jointly controlled entity are not separate financial statements.

11. A controlling entity that is exempted in accordance with paragraph 16 from presenting consolidated financial statements may present separate financial statements as its only financial statements.

### **Economic Entity**

912. 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.

~~1013.~~ Other terms sometimes used to refer to an economic entity include “administrative entity”, “financial entity”, “consolidated entity” and “group”.

~~1114.~~ 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

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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**

~~12. 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.~~

Paras 12-14 were deleted because their relevant definitions were deleted from IPSAS 6.

### **Government Business Enterprises**

~~13. 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. This Standard 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**

~~14. "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.~~

## **Presentation of Consolidated Financial Statements**

~~15. *A controlling entity, other than a controlling entity **mentioned described** in paragraph 16, ~~should~~ **shall** present consolidated financial statements in which it consolidates its controlled entities in accordance with this Standard.*~~

The wording of para 15 is slightly different from that in IAS 27. IAS 27 refers to investments.

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16. ~~A controlling entity that is a wholly owned controlled entity, or is virtually wholly owned, need not present consolidated financial statements provided if and only if:~~

Pls note the wording of subpara (a) is slightly different from that in IAS 27 to reflect the wording in existing IPSAS 6.

~~(a) the controlling entity is itself a wholly-owned controlled entity and users of such financial statements are unlikely to exist or their information needs are met by the its controlling entity's consolidated financial statements; or is a , in the case of one that is virtually wholly partially-owned controlled entity of, the controlling another entity obtains the approval of the and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the controlling entity not presenting consolidated financial statements; of the minority interest. Such a controlling entity should disclose the reasons why consolidated financial statements have not been presented together with the bases on which controlled entities are accounted for in its separate financial statements. The name and the principal address of its controlling entity that publishes consolidated financial statements should also be disclosed.~~

Staff have incorporated subparas (b)-(d) added by IASB. While equity instruments are broadly defined in IPSAS 15, it is not common for equity instruments held by non GBE public sector entities to be traded in a public market.

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

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

~~(d) the ultimate or any intermediate controlling entity of the controlling entity produces consolidated financial statements available for public use that comply with International Public Sector Accounting Standards.~~

~~17. Users of the financial statements of a controlling entity are usually concerned with, and need to be informed about, the financial affairs of the economic entity as a whole. This need may be served by consolidated financial statements, which present financial information about the economic entity as a single entity without regard for the legal boundaries of the separate legal entities.~~

The equivalent to previous para 17 and the first half of previous para 18 were removed by the IASB in IAS 27. Staff retained the second half of previous para 18 as it has public sector specific implications.

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ting for Controlled Entities~~

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~~18~~17. ~~A controlling entity that is itself wholly owned by another entity may not always present consolidated financial statements since such statements may not be required by its controlling entity and the needs of other users may be best served by the consolidated financial statements of its controlling entity. However, i~~n the public sector many controlling entities that are either wholly owned or ~~virtually wholly~~ partially owned, represent key sectors or activities of a government and the purpose of this Standard is not to exempt such entities from preparing consolidated financial statements. In this situation, the information needs of certain users may not be served by the consolidated financial statements at a whole-of-government level alone. In many jurisdictions, governments have recognized this and have legislated the financial reporting requirements of such entities.

The equivalent previous para 19 in IAS 27 was removed by IASB.

~~19. — In some countries, a controlling entity is also exempted from presenting consolidated financial statements if it is virtually wholly owned by another entity and the controlling entity obtains the approval of the owners of the minority interest. Virtually wholly owned is often taken to mean that the controlling entity owns 90% or more of the voting power.~~

~~20~~18. In some instances, an economic entity will include a number of intermediate controlling entities. For example, whilst a department of health may be the ultimate controlling entity, there may be intermediate controlling entities at the local or regional health authority level. Accountability and reporting requirements in each jurisdiction may specify which entities are required to (or exempted from the requirement to) prepare consolidated financial statements. Where there is no specific reporting requirement for an intermediate controlling entity to prepare consolidated financial statements for which users are likely to exist, intermediate controlling entities are to prepare and publish consolidated financial statements.

Equivalent current para 19 was added to IAS 27 by the IASB.

19. A controlling entity that elects in accordance with paragraph 16 not to present consolidated financial statements, and presents only separate financial statements, complies with paragraphs 58-64.

## Scope of Consolidated Financial Statements

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**2120.** ~~*A controlling entity which issues consolidated financial statements should shall consolidate include all controlled entities of the controlling entity, foreign and domestic, other than except those referred to in paragraph 2221.*~~

The amendments made to above para 20 by IASB upon issue of IFRS 5 were NOT incorporated per decision in NY meeting. Para 20 in IAS 27 was changed to “*Consolidated financial statements shall include all subsidiaries of the parent\**”. Footnote to that para is read as follows:

\*If on acquisition a subsidiary meets the criteria to be classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, it shall be accounted for in accordance with that Standard.

Pls note IASB also DELETED the equivalent to following current paras 21 and para 22 upon issue of IFRS 5. Staff retained them per decision in NY meeting.

**2221.** ~~*A controlled entity should shall be excluded from consolidation when :*~~

~~*(a) there is evidence that (a) control is intended to be temporary because the controlled entity is acquired and held exclusively with a view to its subsequent disposal within twelve months from acquisition and (b) management is actively seeking a buyer. in the near future; or*~~

~~*(b) it operates under severe external long-term restrictions which prevent the controlling entity from benefiting from its activities.*~~

**2322.** Such controlled entities ~~should shall~~ be classified and accounted for as ~~if they are investments~~ financial instruments. International Accounting Standard IAS 39, *Financial Instruments: Recognition and Measurement* provides guidance on classification and accounting for ~~investments~~ financial instruments.

The equivalent of current para 22 in both previous and improved IAS 27 is in black letter

**2423.** An example of temporary control is where a controlled entity is acquired with a firm plan to dispose of it ~~in the short term~~ within twelve months. This may occur where an economic entity is acquired and an entity within it is to be disposed of because its activities are dissimilar to those of the acquirer. Temporary control also occurs where the controlling entity intends to cede control over a controlled entity to another entity — for example a national government may transfer its interest in a controlled entity to a local government. For this exemption to apply, the controlling entity must be demonstrably committed to a formal plan to dispose of, or no longer control, the entity that is subject to temporary control. ~~For the exemption to apply~~

The amendment to current para 23 is consequential change in the criteria for exemption from consolidation in current para 21.

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~~at more than one successive reporting date, the controlling entity must demonstrate an ongoing intent to dispose of, or no longer control, the entity that is subject to temporary control.~~  
 An entity is demonstrably committed to dispose of, or no longer control, another entity when it has a formal plan to do so and there is no realistic possibility of withdrawal from that plan.

Pls note: Equivalent current paras 24, 25 were added to IAS 27 in December 2003 by IASB when the Improvements project was finalized. However, the IASB deleted these two paragraphs upon issuing IFRS 5. Staff retained them per discussion in NY meeting.

24. When a controlled entity previously excluded from consolidation in accordance with paragraph 21 is not disposed of within twelve months, it shall be consolidated as from the acquisition date (IFRS 3 Business Combination provides guidance on the acquisition date). Financial statements for the periods since acquisition shall be restated.

25. Exceptionally, an entity may have found a buyer for a controlled entity excluded from consolidation in accordance with paragraph 21, but may not have completed the sale within twelve months of acquisition because of the need for approval by regulators or others. The entity is not required to consolidate such a controlled entity if the sale is in process at the reporting date and there is no reason to believe that it will not be completed shortly after the reporting date.

26. A controlled entity is not excluded from consolidation simply because the investor is a venture capital organization, mutual fund, unit trust or similar entity.

Para 26 was a new para added by IASB.

~~38~~27. Sometimes a controlled entity is not excluded from consolidation ~~when because~~ its activities are dissimilar to those of the other entities within the economic entity, for example, the consolidation of GBEs with entities in the budget sector. ~~Exclusion on these grounds is not justified because better~~ Relevant information ~~would be~~ is provided by consolidating such controlled entities and disclosing additional information in the consolidated financial statements about the different activities of controlled entities. For example, ~~disaggregated the~~ disclosures required by IPSAS 18 Segment Reporting ~~can~~ help to explain the significance of different activities within the economic entity.

Current para 27 was relocated from previous para 38 with changes.

The example in previous para 25 was relocated to current para 42 with changes.

~~25. An entity may be subject to severe restrictions that prevent the other entity from benefiting from its activities. For example, a foreign government may sequester the operating assets of a foreign controlled entity. Under these circumstances, control is unlikely to exist and the consolidation procedures in this Standard would no longer apply.~~

## Establishing Control of Another Entity for Financial Reporting Purposes

~~26~~28. Whether an entity controls another entity for financial reporting purposes is a matter of judgment based on the definition of control in this Standard and the particular circumstances of each case. That is, consideration needs to be given to the nature of the relationship between the two entities. In particular, the two elements of the definition of control in this Standard need to be considered. These are the power element (the power to govern the financial and operating policies of another entity) and the benefit element (which represents the ability of the controlling entity to benefit from the activities of the other entity).

~~27~~29. For the purposes of establishing control, the controlling entity needs to benefit from the activities of the other entity. For example, an entity may benefit from the activities of another entity in terms of a distribution of its surpluses (such as a dividend) and is exposed to the risk of a potential loss. In other cases, an entity may not obtain any financial benefits from the other entity but may benefit from its ability to direct the other entity to work with it to achieve its objectives. It may also be possible for an entity to derive both financial and non-financial benefits from the activities of another entity. For example, a GBE may provide a controlling entity with a dividend and also enable it to achieve some of its social policy objectives.

### Control for Financial Reporting Purposes

~~28~~30. For the purposes of financial reporting, control stems from an entity's power to govern the financial and operating policies of another entity and does not necessarily require an entity to hold a majority shareholding or other equity interest in the other entity. The power to control must be presently exercisable. That is, the entity must already have had this power conferred upon it by legislation or some formal agreement. The power to control is not presently exercisable if it requires changing legislation or renegotiating agreements in order to be effective.

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This should be distinguished from the fact that the existence of the power to control another entity is not dependent upon the probability or likelihood of that power being exercised.

2931. Similarly, the existence of control does not require an entity to have responsibility for the management of (or involvement in) the day-to-day operations of the other entity. In many cases, an entity may only exercise its power to control another entity where there is a breach or revocation of an agreement between the controlled entity and its controlling entity.

3032. For example, a government department may have an ownership interest in a rail authority, which operates as a GBE. The rail authority is allowed to operate autonomously and does not rely on the government for funding but has raised capital through significant borrowings that are guaranteed by the government. The rail authority has not returned a dividend to government for several years. The government has the power to appoint and remove a majority of the members of the governing body of the rail authority. The government has never exercised the power to remove members of the governing body and would be reluctant to do so because of sensitivity in the electorate regarding the previous government's involvement in the operation of the rail network. In this case, the power to control is presently exercisable but under the existing relationship between the controlled entity and controlling entity, an event has not occurred to warrant the controlling entity exercising its powers over the controlled entity. Accordingly, control exists because the power to control is sufficient even though the controlling entity may choose not to exercise that power.

33. An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the entity voting power or reduce another party's voting power over the financial and operating policies of another entity (potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by another entity, are considered when assessing whether an entity has the power to govern the financial and operating policies of another entity. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.

Equivalent paras 33-34 were added to IAS 27 by the IASB to illustrate the effect of potential voting rights when assessing whether an entity has the power to govern the financial and operating policies of another entity.

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34. In assessing whether potential voting rights contribute to control, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential voting rights, except the intention of management and the financial ability to exercise or convert.

~~34~~35. The existence of separate legislative powers does not, of itself, preclude an entity from being controlled by another entity. For example, the Office of the Government Statistician usually has statutory powers to operate independently of the government. That is, the Office of the Government Statistician may have the power to obtain information and report on its findings without recourse to government or any other body. The existence of control does not require an entity to have responsibility over the day-to-day operations of another entity or the manner in which professional functions are performed by the entity.

~~35~~36. The power of one entity to govern decision-making in relation to the financial and operating policies of another entity is insufficient, in itself, to ensure the existence of control as defined in this Standard. The controlling entity needs to be able to govern decision-making so as to be able to benefit from its activities, for example by enabling the other entity to operate with it as part of an economic entity in pursuing its objectives. This will have the effect of excluding from the definitions of a “controlling entity” and “controlled entity” relationships which do not extend beyond, for instance, that of a liquidator and the entity being liquidated, and would normally exclude a lender and borrower relationship. Similarly, a trustee whose relationship with a trust does not extend beyond the normal responsibilities of a trustee would not be considered to control the trust for the purposes of this Standard.

### **Regulatory and Purchase Power**

~~36~~37. Governments and their agencies have the power to regulate the behavior of many entities by use of their sovereign or legislative powers. Regulatory and purchase powers do not constitute control for the purposes of financial reporting. To ensure that the financial statements of public sector entities include only those resources that they control and can benefit from, the meaning of control for the purposes of this Standard does not extend to:

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- a) the power of the legislature to establish the regulatory framework within which entities operate and to impose conditions or sanctions on their operations. Such power does not constitute control by a public sector entity of the assets deployed by these entities. For example, a pollution control authority may have the power to close down the operations of entities that are not complying with environmental regulations. However, this power does not constitute control because the pollution control authority only has the power to regulate; or
- b) entities that are economically dependent on a public sector entity. That is, where an entity retains discretion as to whether it will take funding from, or do business with, a public sector entity, that entity has the ultimate power to govern its own financial or operating policies, and accordingly is not controlled by the public sector entity. For example, a government department may be able to influence the financial and operating policies of an entity which is dependent on it for funding (such as a charity) or a profit-orientated entity that is economically dependent on business from it. Accordingly, the government department has some power as a purchaser but not to govern the entity's financial and operating policies.

### **Determining Whether Control Exists for Financial Reporting Purposes**

- | [3438](#). Public sector entities may create other entities to achieve some of their objectives. In some cases it may be clear that an entity is controlled, and hence should be consolidated. In other cases it may not be clear. Paragraphs [3539](#) and [3640](#) provide guidance to help determine whether or not control exists for financial reporting purposes.
- | [3539](#). In examining the relationship between two entities, control is presumed to exist when at least one of the following power conditions and one of the following benefit conditions exists, unless there is clear evidence of control being held by another entity.

#### *Power conditions*

- (a) The entity has, directly or indirectly through controlled entities, ownership of a majority voting interest in the other entity.

Amendments to subpara (b) and (d) are consequential changes resulting from improved IAS 27.

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- (b) The entity has the power, either granted by or exercised within existing legislation, to appoint or remove a majority of the members of the board of directors or equivalent governing body and control of the other entity is by that board or by that body.
- (c) The entity has the power to cast, or regulate the casting of, a majority of the votes that are likely to be cast at a general meeting of the other entity.
- (d) The entity has the power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the other entity is by that board or by that body.

*Benefit conditions*

- (a) The entity has the power to dissolve the other entity and obtain a significant level of the residual economic benefits or bear significant obligations. For example the benefit condition may be met if an entity had responsibility for the residual liabilities of another entity.
- (b) The entity has the power to extract distributions of assets from the other entity, and/or may be liable for certain obligations of the other entity.

3640. When one or more of the circumstances listed in paragraph 3539 does not exist, the following factors are likely, either individually or collectively, to be indicative of the existence of control.

*Power indicators*

- (a) The entity has the ability to veto operating and capital budgets of the other entity.
- (b) The entity has the ability to veto, overrule, or modify governing body decisions of the other entity.
- (c) The entity has the ability to approve the hiring, reassignment and removal of key personnel of the other entity.
- (d) The mandate of the other entity is established and limited by legislation.

- (e) The entity holds a “golden share”<sup>1</sup> (or equivalent) in the other entity that confers rights to govern the financial and operating policies of that other entity.

*Benefit indicators*

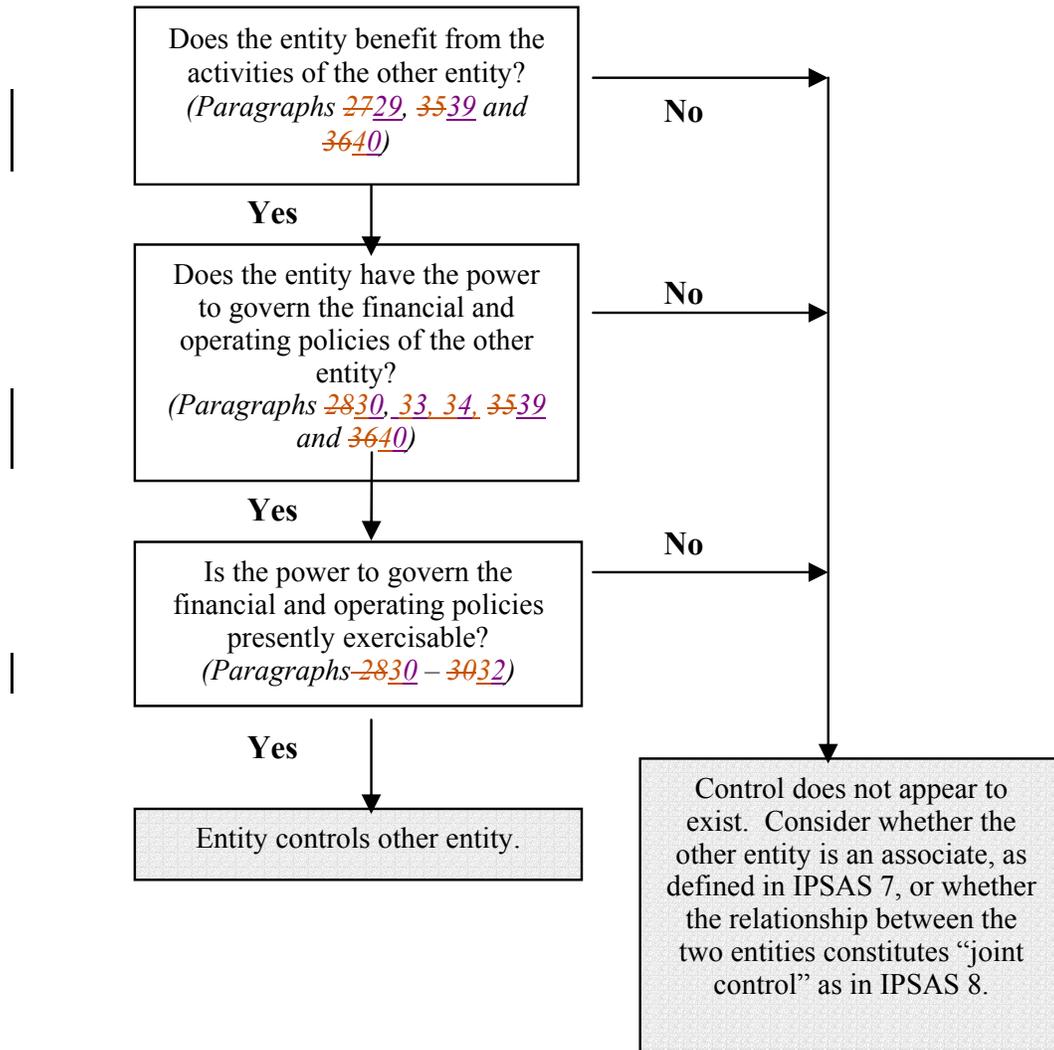
- (a) The entity holds direct or indirect title to the net assets/equity of the other entity with an ongoing right to access these.
- (b) The entity has a right to a significant level of the net assets/equity of the other entity in the event of a liquidation or in a distribution other than a liquidation.
- (c) The entity is able to direct the other entity to co-operate with it in achieving its objectives.
- (d) The entity is exposed to the residual liabilities of the other entity.

3741. The following diagram indicates the basic steps involved in establishing control of another entity. It should be read in conjunction with paragraphs 2628 to 3640.

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<sup>1</sup> “Golden share” refers to a class of share that entitles the holder to specified powers or rights generally exceeding those normally associated with the holder’s ownership interest or representation on the governing body.

### Establishing Control of another Entity for Financial Reporting Purposes



38.

relocated to current paragraph 27.

42.

The equivalent para 42 was added to IAS 27 by IASB. Staff used "another government" to replace "a government" used by IASB and added another public sector example relocated from previous para 25.

A controlling entity loses control when it loses the power to govern the financial and operating policies of a controlled entity so as to benefit from its activities. The loss of control can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when a controlled entity becomes subject to the control of another government, a court, administrator or regulator. It could also occur as a result of a contractual agreement or, for example, a foreign government may sequester the operating assets of a foreign controlled entity so that the controlling entity loses the power to govern the operating policies of the controlled entity. In this case, control is unlikely to exist.

## Consolidation Procedures

3943.

In preparing consolidated financial statements, an entity combines the financial statements of the controlling entity and its controlled entities ~~are combined on a line-by-line basis~~ by adding together like items of assets, liabilities, net assets/equity, revenue and expenses. In order that the consolidated financial statements present financial information about the economic entity as that of a single entity, the following steps are then taken:

- (a) the carrying amount of the controlling entity's investment in each controlled entity and the controlling entity's portion of net assets/equity of each controlled entity are eliminated (IAS 22/IFRS 3 provides guidance on the treatment of any resultant goodwill);
- (b) minority interests in the ~~net~~ surplus or deficit of consolidated controlled entities for the reporting period are identified ~~and adjusted against the net surplus or deficit of the economic entity in order to arrive at the net surplus or deficit attributable to the owners of the controlling entity;~~ and
- (c) minority interests in the net assets/equity of consolidated controlled entities are identified ~~and presented in the consolidated statement of financial position~~ separately from ~~liabilities and~~ the controlling entity's net assets/equity in them. Minority interests in the net assets/equity consist of:

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- (i) the amount of those minority interests at the date of the original combination (~~IAS 22~~IFRS 3 provides guidance on calculating this amount); and
- (ii) the minority's share of ~~movements~~ changes in net assets/equity since the date of combination.

Equivalent current para 44 was added to IAS 27 by the IASB.

44. When potential voting rights exist, the proportions of surplus or deficit and changes in net assets/equity allocated to the controlling entity and minority interests are determined on the basis of present ownership interests and do not reflect the possible exercise or conversion of potential voting rights.

~~40.~~ ~~Guidance on accounting for taxes payable by either the controlling entity or its controlled entities on distribution to the controlling entity of the surpluses retained in controlled entities can be found in International Accounting Standard IAS 12, *Income Taxes*.~~

~~4145.~~ ~~**Balances, and transactions, revenues and expenses between entities within the economic entity and resulting unrealized gains should shall be eliminated in full. Unrealized losses resulting from transactions within the economic entity should also be eliminated unless cost cannot be recovered.**~~

Pls note the wording of this para is slightly different from that in IAS 27 to reflect the wording in existing IPSAS 6.

4246. Balances and transactions between entities within the economic entity, including revenues from sales, and transfers, and revenues recognized consequent to an appropriation or other budgetary authority, expenses and dividends, are eliminated in full. Unrealized ~~s~~Surpluses and deficits resulting from transactions within the economic entity that are ~~included~~ recognized ~~in the carrying amount of~~ assets, such as inventory and fixed assets, are eliminated in full. Unrealized ~~d~~Deficits within the economic entity may indicate an impairment that requires recognition in the consolidated financial statements. ~~resulting from transactions within the economic entity that are deducted in arriving at the carrying amount of assets are also eliminated unless cost cannot be recovered.~~ Guidance on accounting for timing temporary differences that arise from the elimination of unrealized surpluses and deficits resulting from transactions within the economic entity, can be found in IAS 12 *Income Taxes*.

~~4347.~~ ~~**When The financial statements of the controlling entity and its controlled entities used in the consolidation preparation of the consolidated financial statements shall be prepared as of**~~

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~~the same reporting date. When the reporting dates of the controlling entity and a controlled entity are drawn up to different reporting dates, the controlled entity prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the controlling entity unless it is impracticable to do so. adjustments should be made for the effects of significant transactions or other events that occur between those dates and the date of the controlling entity's financial statements. In any case the difference between reporting dates should be no more than three months.~~

4448. ~~When in accordance with paragraph 47, the financial statements of the controlling entity and its a controlled entityies used in the preparation of the consolidated financial statements are usually drawn up to the same date. When prepared as of the a reporting dates are different from that of the controlling entity, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the controlling entity's financial statements. the controlled entity often prepares, for consolidation purposes, statements as at the same date as the economic entity. When it is impracticable to do this, financial statements drawn up to different In any case, the difference between the reporting dates of the controlled entity and that of the controlling entity may shall be used provided the difference is no greater more than three months. The consistency principle dictates that tThe length of the reporting periods and any difference in the reporting dates should shall be the same from period to period.~~

Both previous para 44 and its equivalent para in previous IAS 27 were in plain text. However, it has been changed to black letter by the IASB in improved IAS 27.

4549. ~~Consolidated financial statements should shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If it is not practicable to use uniform accounting policies (other than the bases of accounting) in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.~~

4650. If a member of the economic entity uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements

~~when they are used~~ in preparing the consolidated financial statements.

4751. The ~~net surplus or deficit revenue and expenses~~ of a controlled entity ~~is are~~ included in the consolidated financial statements ~~as~~ from the acquisition date on which control becomes effective (IFRS 3 provides guidance on the meaning of the acquisition date). The ~~surplus or deficit from operating activities revenue and expenses~~ of a controlled entity ~~disposed of is are~~ included in the consolidated financial statements of financial performance until the date ~~of disposal, which is the date~~ on which the controlling entity ceases to ~~have~~ control ~~of~~ the controlled entity. The difference between the proceeds from the disposal of the controlled entity and ~~its the~~ carrying amount ~~of its assets less liabilities~~ as of the date of disposal, including the cumulative amount of any exchange differences that relate to the controlled entity recognized in net assets/equity in accordance with IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*, is recognized in the consolidated statement of financial performance as the ~~net surplus gain or deficit loss~~ on the disposal of the controlled entity. ~~In order to ensure the comparability of the financial statements from one accounting period to the next, supplementary information is often provided about the effect of the acquisition and disposal of controlled entities on the financial position at the reporting date and the results for the reporting period and on the corresponding amounts for the preceding period.~~

4852. From the date an entity ceases to ~~fall within the definition of be~~ a controlled entity, ~~and provided that it~~ does not become an associate as defined in IPSAS 7, or a jointly controlled entity as defined in IPSAS 8, it ~~should shall~~ be accounted for as ~~an investment a financial instrument~~. IAS 39 provides guidance on accounting for ~~investments financial instruments~~.

The equivalent of current para 52 in both previous and improved IAS 27 is in black letter.

4953. The carrying amount of the investment at the date that ~~it the~~ entity ceases to be a controlled entity ~~is shall be~~ regarded as the cost thereafter on initial measurement of a financial instrument.

The equivalent to above para (ie previous para 49) in previous IAS 27 was in plain text. IASB has changed it to black letter in improved IAS 27. Consistent with current para 52, Staff retained it in plain.

5054. *Minority interests—~~should shall~~ be presented in the consolidated statement of financial position within net*

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*assets/equity, separately from liabilities and the controlling entity's net assets/equity. Minority interests in the net surplus or deficit of the economic entity should shall also be separately presented disclosed.*

Equivalent current para 55 was added to IAS 27 by the IASB.

55. The surplus or deficit is attributed to the controlling entity and minority interests. Because both are net assets/equity, the amount attributed to minority interests is not revenue or expense.

~~54~~56. ~~The~~ Losses applicable to the minority in a consolidated controlled entity may exceed the minority interest in ~~the net assets/equity of~~ the controlled entity's net assets/equity. The excess, and any further losses applicable to the minority, are ~~charged~~ allocated against the majority interest except to the extent that the minority has a binding obligation ~~to~~, and is able to, ~~make good~~ an additional investment to cover the losses. If the controlled entity subsequently reports surpluses, ~~the majority interest is allocated all~~ such surpluses are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.

~~52~~57. If a controlled entity has outstanding cumulative ~~preferred preference~~ shares ~~which that~~ are held ~~outside the economic entity by minority interests and classified as net assets/equity~~, the controlling entity computes its share of surpluses or and losses/deficits after adjusting for the ~~controlled entity's preferred~~ dividends on such shares, whether or not dividends have been declared.

## **Accounting for Controlled Entities, Jointly Controlled Entities and Associates in a Controlling Entity's Separate Financial Statements**

Consequential changes made to the following equivalent para 58 in IAS 27 upon the issue of IFRS 5 have NOT been incorporated per decision in NY meeting. The equivalent para 37 in IAS 27 is read as follows:

37. *When separate financial statements are prepared, investments in subsidiaries, jointly controlled entities and associates that are not classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 shall be accounted for either:*

- (a) *at cost, or*
- (b) *in accordance with IAS 39.*

*The same accounting shall be applied for each category of investments. Investments in subsidiaries, jointly controlled entities and associates that are classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IFRS 5 shall be accounted for in accordance with that IFRS.*

~~5358.~~ *When separate financial statements are prepared, investments in controlled entities, jointly controlled entities and associates that are included in the consolidated financial statements should shall be accounted for either:*

- (a) *at cost, accounted for using the equity method as described in IPSAS 7 or*
- (b) *accounted for as an investment financial instruments.*

*The same accounting shall be applied for each category of investments.*

~~59.~~ This Standard does not mandate which entities produce separate financial statements available for public use. Paragraphs 58 and 60-64 apply when an entity prepares separate financial statements that comply with International Public Sector Accounting Standards. The entity also produces consolidated financial statements available for public use as required by paragraph 15, unless the exemption provided in paragraph 16 is applicable.

~~5460.~~ *Controlled entities, jointly controlled entities and associates that are excluded from consolidation should be accounted for as investments financial instruments in the controlling entity's separate consolidated financial statements shall be accounted for in the same way in the investor's separate financial statements.*

“Controlled entities” in the first sentence has been removed upon the issue of IFRS 5. Staff retained it per decision in NY meeting.

~~5561.~~ Guidance on accounting for ~~investments~~ financial instruments can be found in IAS 39 international and/or national accounting standards.

~~56.~~ In many countries separate financial statements are presented by a controlling entity in order to meet legal or other requirements.

The equivalent previous para 56 was removed from IAS 27 by IASB.

## Disclosure

~~5762.~~ *In addition to those disclosures required by paragraph 16, the following disclosures should shall be made in consolidated financial statements:*

- (a) *the fact that a controlled entity is not consolidated in accordance with paragraph 21 in consolidated financial*

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~~statements, a list of significant controlled entities including the name, the jurisdiction in which it operates (when it is different from that of the controlling entity), proportion of ownership interest and, where that interest is in the form of shares, the proportion of voting power held (only where this is different from the proportionate ownership interest);~~

~~(b) summarized financial information of controlled entities, either individually or in groups, that are not consolidated, including the amounts of total assets, total liabilities, revenues and surplus or deficit;~~

Please note that the above subpara (a) and (b) have been removed from improved IAS 27 as a result of the issue of IFRS 5. Staff retained them per decision in NY meeting.

~~(bc) in consolidated financial statements, where applicable:~~

~~(i) the reasons for not consolidating a controlled entity;~~

~~(ii) the name of any controlled entity in which the controlling entity holds an ownership interest and/or voting rights of 50% or less, together with an explanation of how control exists;~~

~~(iii) the name of any entity in which the reasons why an the ownership interest of more than 50% of the voting or potential voting power of an investee is held but which is does not constitute a controlled entity, together with an explanation of why control does not exist; and~~

~~(iv) the effect of the acquisition and disposal of controlled entities on the financial position at the reporting date, the results for the reporting period and on the corresponding amounts for the preceding period; and~~

~~(e) in the controlling entity's separate financial statements, a description of the method used to account for controlled entities.~~

~~(e) the reporting date of the financial statements of a controlled entity when such financial statements are used to prepare consolidated financial statements and are as of a reporting date or for a period that is different~~

Staff are of the view that subpara (c) (prev (iii)) was intended to apply to the situation where entity holds "less than 50% of voting rights but control exists". The amendments were also consistent with the requirements in IAS 27.

The wording in subparas (c) and (d) is slightly different from that in IAS 27 to reflect the wording in existing IPSAS 6.

from that of the controlling entity, and the reason for using a different reporting date or period; and

(f) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of controlled entities to transfer funds to the controlling entity in the form of cash dividends or to repay loans or advances.

63. When separate financial statements are prepared for a controlling entity that, in accordance with paragraph 16, elects not to prepare consolidated financial statements, those separate financial statements shall disclose:

(a) the fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name of the entity whose consolidated financial statements that comply with International Public Sector Accounting Standards have been produced for public use and the jurisdiction in which the entity operates (when it is different from that of the controlling entity); and the address where those consolidated financial statements are obtainable;

(b) a list of significant controlled entities, jointly controlled entities and associates, including the name, the jurisdiction in which the entity operates (when it is different from that of the controlling entity), proportion of ownership interest and, where that interest is in the form of shares, the proportion of voting power held (only where this is different from the proportionate ownership interest); and

(c) a description of the method used to account for the entities listed under (b).

64. When a controlling entity (other than a controlling entity covered by paragraph 63), venturer with an interest in a jointly controlled entity or an investor in an associate prepares separate financial statements, those separate financial statements shall disclose:

(a) the fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by law, legislation or other authority;

(b) a list of significant controlled entities, jointly controlled entities and associates, including the name, the

Equivalent paras 63 and 64 were added to IAS 27 by the IASB to require disclosures regarding separate financial statements. The wording in the two paras is slightly different from that in IAS 27 to reflect the wording in existing IPSAS 6.

Staff added "legislation or other authority" to subpara (a) to reflect the public sector context.

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jurisdiction in which the entity operates (when it is different from that of the controlling entity), proportion of ownership interest and, where that interest is in the form of shares, the proportion of voting power held (only where this is different from the proportionate ownership interest); and

(c) a description of the method used to account for the entities listed under (b);

and shall identify the financial statements prepared in accordance with paragraph 15 of this Standard, IPSAS 7 and IPSAS 8 to which they relate.

## Transitional Provisions

~~58~~65. *Entities are not required to comply with the requirement in paragraph ~~41~~45 concerning the elimination of balances and transactions between entities within the economic entity for reporting periods beginning on a date within three years following the date of first adoption of this Standard.*

~~59~~66. Controlling entities that adopt this Standard may have many controlled entities with significant number of transactions between these entities. Accordingly, it may be difficult to identify some transactions and balances that need to be eliminated for the purpose of preparing the consolidated financial statements of the economic entity. For this reason, paragraph ~~58~~65 provides relief from the requirement to eliminate balances and transactions between entities within the economic entity in full.

~~60~~67. *Where entities apply the transitional provision in paragraph ~~58~~65, they ~~should~~ shall disclose the fact that not all balances and transactions occurring between entities within the economic entity have been eliminated.*

## Effective Date

~~61~~68. An entity shall apply ~~T~~his International Public Sector Accounting Standard ~~becomes effective~~ for annual financial statements covering periods beginning on or after ~~1 July 2001~~ MM DD YYYY. Earlier application is encouraged. If an entity applies this Standard for a period beginning before MM DD YYYY, it shall disclose that fact.

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6269. 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.

## Withdrawal of IPSAS 6 (2000)

70. This Standard supersedes IPSAS 6 *Consolidated Financial Statements and Accounting for Controlled Entities* issued in 2000.

The withdrawal para is added per decision in NY meeting.

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## Appendix – Amendments to Other IPSASs

“Amendments to Other IPSASs” is a new authoritative section. Only the relevant paragraphs in other IPSASs that are not part of IPSASs Improvements project are included and shown in marked-up.

*The amendments in this appendix shall be applied for annual financial statements covering periods beginning on or after MM DD YYYY. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.*

A1. In International Public Sector Accounting Standards applicable at MM YYYY, references to the current version of IPSAS 6 *Consolidated Financial Statements and Accounting for Controlled Entities* are amended to IPSAS 6 *Consolidated and Separate Financial Statements*.

A2. The following is added to paragraph 4(f) of IPSAS 15 *Financial Instruments: Disclosure and Presentation*:

***However, entities shall apply this Standard to an interest in a controlled entity, associate or joint venture that according to IPSAS 6, IPSAS 7 or IPSAS 8 is accounted for as a financial instrument. In these cases, entities shall apply the disclosure requirements in IPSAS 6, IPSAS 7 and IPSAS 8 in addition to those in this Standard.***

## Implementation Guidance - Consideration of Potential Voting Rights

### Guidance on implementing IPSAS 6 Consolidated and Separate Financial Statements, IPSAS 7 Investments in Associates and IPSAS 8 Interests in Joint Ventures.

This guidance accompanies IPSAS 6, IPSAS 7 and IPSAS 8, but is not part of them.

#### Introduction

IG1 was added by Staff.

IG1. Most public sector entities do not issue financial instruments with potential voting rights. However, they may be issued by GBEs. Therefore, a government or other public sector entity may hold potential voting rights of GBEs.

Pls note that paragraph numbers referred to in this IG are those in proposed IPSASs, rather than existing IPSASs. IPSAS 7, 8 are scheduled to be discussed at the March 2005 meeting.

IG2. Paragraphs 33, 34 and 44 of IPSAS 6 Consolidated and Separate Financial Statements and paragraphs 22 and 23 of IPSAS 7 Investments in Associates require an entity to consider the existence and effect of all potential voting rights that are currently exercisable or convertible. They also require all facts and circumstances that affect potential voting rights to be examined, except the intention of management and the financial ability to exercise or convert potential voting rights. Because the definition of joint control in paragraph 6 of IPSAS 8 Interests in Joint Ventures depends upon the definition of control, and because that Standard is linked to IPSAS 7 for application of the equity method, this guidance is also relevant to IPSAS 8.

#### Guidance

The wording of IG3 is slightly different from that in IAS 27, because the definitions of control and joint control are slightly different from those in IAS 27 and IAS 31.

IG3. Paragraph 7 of IPSAS 6 defines control as the power to govern the financial and operating policies of an entity so as to benefit from its activities. Paragraph 7 of IPSAS 7 defines significant influence as the power to participate in the financial and operating policy decisions of the investee but not to control those policies. Paragraph 6 of IPSAS 8 defines joint control as the agreed sharing of control over an activity by a binding agreement. In these contexts, power refers to the ability to do or effect something. Consequently, an entity has control, joint control or significant influence when it currently has the ability to exercise that power, regardless of whether control, joint control or significant influence is actively demonstrated or is

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passive in nature. Potential voting rights held by an entity that are currently exercisable or convertible provide this ability. The ability to exercise power does not exist when potential voting rights lack economic substance (eg the exercise price is set in a manner that precludes exercise or conversion in any feasible scenario). Consequently, potential voting rights are considered when, in substance, they provide the ability to exercise power.

IG4. Control and significant influence also arise in the circumstances described in paragraphs 39 and 40 of IPSAS 6 and paragraphs 20 and 21 of IPSAS 7 respectively, which include consideration of the relative ownership of voting rights. IPSAS 8 depends on IPSAS 6 and IPSAS 7 and references to IPSAS 6 and IPSAS 7 from this point onwards should be read as being relevant to IPSAS 8. Nevertheless it should be borne in mind that joint control involves sharing of control by a binding agreement and this aspect is likely to be the critical determinant. Potential voting rights such as share call options and convertible debt are capable of changing an entity's voting power over another entity—if the potential voting rights are exercised or converted, then the relative ownership of the ordinary shares carrying voting rights changes. Consequently, the existence of control (the definition of which permits only one entity to have control of another entity) and significant influence are determined only after assessing all the factors described in paragraphs 39 and 40 of IPSAS 6 and paragraphs 20 and 21 of IPSAS 7 respectively, and considering the existence and effect of potential voting rights. In addition, the entity examines all facts and circumstances that affect potential voting rights except the intention of management and the financial ability to exercise or convert. The intention of management does not affect the existence of power and the financial ability of an entity to exercise or convert is difficult to assess.

The wording of IG4 is slightly different from that in IAS 27 because the defn of joint control in IPSAS 8 is slightly different from that in IAS 31.

Pls note that para numbers referred to in this IG are those in proposed IPSASs, rather than IPSASs. IPSAS 7 and IPSAS 8 are scheduled to be discussed at the March meeting.

IG5. An entity may initially conclude that it controls or significantly influences another entity after considering the potential voting rights that it can currently exercise or convert. However, the entity may not control or significantly influence the other entity when potential voting rights held by other parties are also currently exercisable or convertible. Consequently, an entity considers all potential voting rights held by it and by other parties that are currently exercisable or convertible when determining whether it controls or significantly influences another entity. For example, all share call options are considered, whether held by the entity or another party.

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Furthermore, the definition of control in paragraph 7 of IPSAS 6 permits only one entity to have control of another entity. Therefore, when two or more entities each hold significant voting rights, both actual and potential, the factors in paragraphs 39 and 40 of IPSAS 6 are reassessed to determine which entity has control.

IG6. controlling entity and minority interests in preparing consolidated financial statements in accordance with IPSAS 6, and the proportion allocated to an investor that accounts for its investment using the equity method in accordance with IPSAS 7, are determined solely on the basis of present ownership interests. The proportion allocated is determined taking into account the eventual exercise of potential voting rights and other derivatives that, in substance, give access at present to the economic benefits associated with an ownership interest.

IG7. In some circumstances an entity has, in substance, a present ownership as a result of a transaction that gives it access to the economic benefits or service potential associated with an ownership interest. In such circumstances, the proportion allocated is determined taking into account the eventual exercise of those potential voting rights and other derivatives that give the entity access to the economic benefits at present.

IG8. IAS 39 *Financial Instruments: Recognition and Measurement* provides guidance on accounting for financial instruments. However, it does not apply to interests in controlled entities, associates and jointly controlled entities that are consolidated, accounted for using the equity method or proportionately consolidated in accordance with IPSAS 6, IPSAS 7 and IPSAS 8 respectively. When instruments containing potential voting rights in substance currently give access to the economic benefits or service potential associated with an ownership interest, and the investment is accounted for in one of the above ways, the instruments are not subject to the requirements of IAS 39. In all other cases, guidance on accounting for instruments containing potential voting rights can be found in IAS 39.

The wording of IG 8 is slightly different from that in IAS 27 as the PSC does not have an IPSAS on recognition and measurement of financial instruments.

## Illustrative Examples

IAS 27 includes 5 examples in the Implementation Guidance. These examples are mainly designed for application in a private sector context. However, they may arise when a public sector entity owns interests in GBEs. The 5 IASB examples are included and identified as category A. Staff also introduced 5 additional examples reflecting a public sector context identified as category B.

IG9. The ten examples below each illustrate one aspect of a potential voting right. In applying IPSAS 6, IPSAS 7 or IPSAS 8, an entity considers all aspects. The existence of control, significant influence and joint control can be determined only after assessing the other factors described in IPSAS 6, IPSAS 7 and IPSAS 8. For the purpose of these examples, however, those other factors are presumed not to affect the determination, even though they may affect it when assessed.

### Example 1A: Options are out of the money

Entities A and B own 80 per cent and 20 per cent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity C. Entity A sells one-half of its interest to Entity D and buys call options from Entity D that are exercisable at any time at a premium to the market price when issued, and if exercised would give Entity A its original 80 per cent ownership interest and voting rights.

Though the options are out of the money, they are currently exercisable and give Entity A the power to continue to set the operating and financial policies of Entity C, because Entity A could exercise its options now. The existence of the potential voting rights, as well as the other factors described in paragraphs 39 and 40 of IPSAS 6, are considered and it is determined that Entity A controls Entity C.

### Example 1B: Right to Purchase at Premium to Fair Value

The municipalities of Dunelm and Eboracum own 80 per cent and 20 per cent respectively of Dunelm-Eboracum General Hospital, a public sector entity established by charter. The hospital is managed by a board of ten trustees, appointed by the municipalities in proportion to their ownership interest of the hospital. The charter permits either municipality to sell part or its entire ownership interest in the hospital to another municipality within the region. Dunelm sells one-half of its interest to the municipality of Formio, however the sale contract

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gives Dunelm the right to repurchase Formio's interest in the hospital at an amount equal to 115 per cent of the fair value of the ownership interest determined by an independent valuer. This right is exercisable at any time and, if exercised would give Dunelm its original 80 per cent ownership interest and the right to appoint trustees accordingly.

Although the right to reacquire the ownership interest sold to Formio would involve paying a premium over the fair value, the right is currently exercisable and gives Dunelm the power to continue to set the operating and financial policies of the Dunelm-Eboracum General Hospital, because Dunelm could exercise its right to reacquire Formio's interest now. The existence of the potential right to appoint trustees, as well as the other factors described in paragraphs 39 and 40 of IPSAS 6, are considered and it is determined that the municipality of Dunelm controls the Dunelm-Eboracum General Hospital.

*Example 2A: Possibility of exercise or conversion*

Entities A, B and C own 40 per cent, 30 per cent and 30 per cent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity D. Entity A also owns call options that are exercisable at any time at the fair value of the underlying shares and if exercised would give it an additional 20 per cent of the voting rights in Entity D and reduce Entity B's and Entity C's interests to 20 per cent each. If the options are exercised, Entity A will have control over more than one-half of the voting power. The existence of the potential voting rights, as well as the other factors described in paragraphs 39 and 40 of IPSAS 6 and paragraphs 20 and 21 of IPSAS 7, are considered and it is determined that Entity A controls Entity D.

*Example 2B: Possibility of exercise of rights*

The federal government of Arandis, in agreement with the state governments of Brixia and Mutina, establishes the University of Pola-Iluro. The University of Pola-Iluro is near the cities of Pola, Brixia and Iluro, Mutina, which are located next to each other on the border between the two states. The federal legislation that establishes the University of Pola-Iluro provides that the federal minister of education has the right to appoint four of the ten governors that manage the university. The state ministers of education of Brixia and Mutina are given the right

Pls note that paragraph numbers referred to in this IG are those in proposed IPSASs, rather than existing IPSASs. IPSAS 7 is scheduled to be discussed at the March 2005 meeting.

to appoint three governors each. The legislation also provides that the federal government has ownership of 40 per cent of the university's net assets, with the state governments having 30 per cent each. The federal legislation gives the federal minister of education the right to acquire an additional 20 percent of the ownership in the university's net assets, with the right to appoint an additional two governors. This right is exercisable at any time, at the discretion of the federal minister. It requires the federal government to pay each state government the fair value of the net assets of the university acquired. If the federal government exercises its right, it would own 60 per cent of the net assets of the university, and have the right to appoint six of the ten governors. This would reduce the state governments' ownership to 20 per cent each, with the right to appoint only two governors each.

Pls note that para numbers referred to in this IG are those in proposed IPSASs, rather than existing IPSASs. IPSAS 7 is scheduled to be discussed at the March 2005 meeting.

The existence of the potential right to appoint the majority of the university's governors, as well as the other factors described in paragraphs 39 and 40 of IPSAS 6 and paragraphs 20 and 21 of IPSAS 7, are considered and it is determined that the federal government of Arandis controls the University of Pola-Illuro.

*Example 3A: Other rights that have the potential to increase an entity's voting power or reduce another entity's voting power*

Entities A, B and C own 25 per cent, 35 per cent and 40 per cent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity D. Entities B and C also have share warrants that are exercisable at any time at a fixed price and provide potential voting rights. Entity A has a call option to purchase these share warrants at any time for a nominal amount. If the call option is exercised, Entity A would have the potential to increase its ownership interest, and thereby its voting rights, in Entity D to 51 per cent (and dilute Entity B's interest to 23 per cent and Entity C's interest to 26 per cent).

Although the share warrants are not owned by Entity A, they are considered in assessing control because they are currently exercisable by Entities B and C. Normally, if an action (eg purchase or exercise of another right) is required before an entity has ownership of a potential voting right, the potential voting right is not regarded as held by the entity. However, the share warrants are, in substance, held by Entity A, because the terms of the call option are designed to ensure Entity A's position. The combination of the call option and share warrants

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gives Entity A the power to set the operating and financial policies of Entity D, because Entity A could currently exercise the option and share warrants. The other factors described in paragraphs 39 and 40 of IPSAS 6 and paragraphs 20 and 21 of IPSAS 7 are also considered, and it is determined that Entity A, not Entity B or C, controls Entity D.

*Example 3B: Other rights that have the potential to increase an entity's voting power or reduce another entity's voting power*

The cities of Deva, Oxonia and Isca own 25 per cent, 35 per cent and 40 per cent respectively of the Deva-Oxonia-Isca Electricity Generating Authority, a public sector entity established by charter. The charter gives the cities voting rights in the management of the Authority and the right to receive the electricity generated by the Authority. The voting rights and electricity access are in proportion to their ownership in the Authority. The charter gives Oxonia and Isca rights to increase their ownership (and therefore voting rights) in the Authority each by 10 per cent at any time at a commercial price agreed by the three cities. The charter also gives Deva the right to acquire 15 per cent interest of the Authority from Oxonia and 20 per cent from Isca at any time for a nominal consideration. If Deva exercised the right, Deva would increase its ownership interest, and thereby its voting rights, in Deva-Oxonia-Isca Electric Generating Authority to 60 per cent. This would dilute Oxonia's ownership to 20 per cent and Isca's to 20 per cent.

Although the charter gives Oxonia and Isca the right to increase their proportion of ownership, the overarching right of Deva to acquire a majority interest in the Authority for a nominal consideration set out in the charter is, in substance, designed to ensure Deva's position. The right held by Deva gives Deva the capacity to set the operating and financial policies of the Deva-Oxonia-Isca Electricity Generating Authority, because Deva could exercise the right to increase its ownership and therefore voting rights at any time. The other factors described in paragraphs 39 and 40 of IPSAS 6 and paragraphs 20 and 21 of IPSAS 7 are also considered, and it is determined that Deva, not Oxonia or Isca, controls the Deva-Oxonia-Isca Electricity Generating Authority.

Pls note that paragraph numbers referred to in this IG are those in proposed IPSASs, rather than existing IPSASs. IPSAS 7 is scheduled to be discussed at the March 2005 meeting.

Example 4A: Management intention

Entities A, B and C each own 33 $\frac{1}{3}$  per cent of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity D. Entities A, B and C each have the right to appoint two directors to the board of Entity D. Entity A also owns call options that are exercisable at a fixed price at any time and if exercised would give it all the voting rights in Entity D. The management of Entity A does not intend to exercise the call options, even if Entities B and C do not vote in the same manner as Entity A. The existence of the potential voting rights, as well as the other factors described in paragraphs 39 and 40 of IPSAS 6 and paragraphs 20 and 21 of IPSAS 7, are considered and it is determined that Entity A controls Entity D. The intention of Entity A's management does not influence the assessment.

Pls note that paragraph numbers referred to in this IG are those in proposed IPSASs, rather than existing IPSASs. IPSAS 7 is scheduled to be discussed at March 2005 meeting.

Example 4B: Management Intention

The cities of Tolosa, Lutetia and Massilia each own 33 1/3 per cent of TLM Water Commission, a public sector entity established by charter to reticulate drinking water to the cities of Tolosa, Lutetia and Massilia and a number of outlying towns and villages. The charter gives each city an equal vote in the governance of the Commission, and the right to appoint two Commissioners each. The Commissioners manage the Commission on behalf of the cities. The charter also gives the city of Tolosa the right to acquire the ownership of Lutetia and Massilia at a fixed price, exercisable at any time by the Mayor of Tolosa. If exercised Tolosa would have sole governance of the Commission with the right to appoint all the Commissioners. The Mayor of Tolosa does not intend to exercise the right to acquire full ownership of Commission, even if the Commissioners appointed by Lutetia and Massilia vote against those appointed by Tolosa. The existence of the potential voting rights, as well as the other factors described in paragraphs 39 and 40 of IPSAS 6 and paragraphs 20 and 21 of IPSAS 7, are considered and it is determined that Tolosa controls TLM Water Commission. The intention of the Mayor of Tolosa does not influence the assessment.

Example 5A: Financial ability

Entities A and B own 55 per cent and 45 per cent respectively of the ordinary shares that carry voting rights at a general

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meeting of shareholders of Entity C. Entity B also holds debt instruments that are convertible into ordinary shares of Entity C. The debt can be converted at a substantial price, in comparison with Entity B's net assets, at any time and if converted would require Entity B to borrow additional funds to make the payment. If the debt were to be converted, Entity B would hold 70 per cent of the voting rights and Entity A's interest would reduce to 30 per cent.

Although the debt instruments are convertible at a substantial price, they are currently convertible and the conversion feature gives Entity B the power to set the operating and financial policies of Entity C. The existence of the potential voting rights, as well as the other factors described in paragraphs 39 and 40 of IPSAS 6, are considered and it is determined that Entity B, not Entity A, controls Entity C. The financial ability of Entity B to pay the conversion price does not influence the assessment.

*Example 5B: Financial ability*

The cities of Melina and Newton own 55 per cent and 45 per cent respectively of the interests that carry voting rights of MN Broadcasting Authority, a public sector entity established by charter to provide broadcasting and television services for the regions. The charter gives the city of Newton the option to buy additional 25 per cent interest of the Authority from the city of Melina at a substantial price, in comparison with the city of Newton's net assets, at any time. If exercised it would require the city of Newton to borrow additional funding to make the payment. If the option were to be exercised, the city of Newton would hold 70 per cent of the voting rights and the city of Melina's interest would reduce to 30 per cent.

Although the option is exercisable at a substantial price, it is currently exercisable and the exercise feature gives the city of Newton the power to set the operating and financial policies of MN Broadcasting Authority. The existence of potential voting rights, as well as the other factors described in paragraphs 39 and 40 of IPSAS 6, are considered and it is determined that the city of Newton, not the city of Melina, controls MN Broadcasting Authority. The financial ability of the city of Newton to pay the exercise price does not influence the assessment.

## Comparison with IAS 27

International Public Sector Accounting Standard IPSAS 6 *Consolidated and Separate Financial Statements and Accounting for Controlled Entities* is drawn primarily from International Accounting Standard IAS 27, *Consolidated and Separate Financial Statements and Accounting for Investments in Subsidiaries*. The main differences between IPSAS 6 and IAS 27 are as follows:

- At the time of issuing this Standard, the PSC has not considered the applicability of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, to public sector entities, therefore IPSAS 6 does not reflect amendments made to IAS 27 consequent upon the issue of IFRS 5.
- Commentary additional to that in IAS 27 has been included in IPSAS 6 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 6 contains specific guidance on whether control exists in a public sector context (paragraphs 28-41).
- IPSAS 6 uses different terminology, in certain instances, from IAS 27. The most significant examples are the use of the terms “entity”, “revenue”, “statement of financial performance”, “statement of financial position”, “net assets/equity”, “economic entity”, “controlling entity” and “controlled entity” in IPSAS 6. The equivalent terms in IAS 27 are “enterprise”, “income”, “income statement”, “balance sheet”, “equity”, “group”, “parent” and “subsidiary”.
- ~~IPSAS 6 contains a different set of definitions of technical terms from IAS 27 (paragraph 8).~~
- IPSAS 6 includes a transitional provision that permits entities to not eliminate all balances and transactions between entities within the economic entity for reporting periods beginning on a date within three years following the date of first adoption of this Standard. IAS 27 does not contain transitional provisions.
- IAS 27 includes authoritative references to IAS 39 *Financial Instruments: Recognition and Measurement*. The references to IAS 39 in IPSAS 6 are only guidance.

This difference does not exist given the elimination of unnecessary defns.

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- IPSAS 6 contains five additional illustrative examples that reflect the public sector context in the Implementation Guidance.