



**INTERNATIONAL FEDERATION  
OF ACCOUNTANTS**

545 Fifth Avenue, 14th Floor      Tel: (212) 286-9344  
New York, New York 10017      Fax: (212) 286-9570  
Internet: <http://www.ifac.org>

**Agenda Item**  
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**DATE:**            October 9, 2008  
**MEMO TO:**      Members of the IPSASB  
**FROM:**            Tim Beauchamp  
**SUBJECT:**        Conceptual Framework Phase 2

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**OBJECTIVE OF THIS SESSION**

To discuss the issues set out in the Discussion Paper – Phase 2.

**AGENDA MATERIAL**

2.1      Discussion Paper – Phase 2

**ACTION REQUIRED**

Review the Discussion Paper – Phase 2 with a view to provide staff with directions for development of the Consultation Paper. Specifically:

- Provide your views on whether you agree with the elements that have been proposed.
- Consider the general improvements made to the existing definitions.
- Provide your views on the improvements suggested arising from the IASB/FASB convergence project.
- Determine if the proposed wording changes to the definitions are appropriate and complete.

**BACKGROUND**

At its March 2008 and June 2008 meetings, the IPSAB was presented with discussion papers dealing with Conceptual Framework (Framework) Phase 2 issues. This Phase of the Framework deals with Elements of Financial Statements. The IPSASB provided the following directions for the development of this draft:

- Take the approach of first reviewing the existing definitions and consider general improvements that could be made;
- Consider the proposed changes resulting from the IASB/FASB convergence project;

- Keep the definitions at a high level;
- Identify public sector specific examples to be used to illustrate the effects of any changes proposed, and
- Explore the rights and obligations associated with promises.

This paper proposes the elements that are to be defined, provides working definitions of those elements, illustrates the effects of any changes being proposed using selected examples and further explains the approach used by the IASB/FASB for better understanding the components of contractual arrangements and promises for identifying assets and liabilities. The paper poses a number of questions throughout the paper for your consideration

The definitions used in this paper reflect proposals of the IASB/FASB project as at August 2008.

## **Discussion Paper on Elements of Financial Statements**

### **FOREWORD**

1. At its meeting in Paris in July 2006, the International Public Sector Accounting Board's (IPSASB) met with representatives of a number of National Standards Setters and similar organizations (NSSs) from Argentina, Australia, Canada, France, Israel, Malaysia, Italy, the Netherlands, New Zealand, Spain, South Africa, Switzerland, the United Kingdom and the United States of America to discuss working collaboratively on the development of a public sector conceptual framework. Also participating in the discussion were members and/or staff of the Public Sector Committee of the Fédération des Experts Comptables Européens (FEE), the International Accounting Standards Board (IASB), the Task Force on Harmonization of Public Sector Accounting (TFHPSA) and Eurostat.
2. Many of the International Public Sector Accounting Standards (IPSASs) currently on issue are based on International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) to the extent that the requirements of the IASs/IFRSs are relevant to the public sector. The current IPSASs therefore draw on concepts and definitions in the IASB Framework with modifications where necessary to address public sector circumstances. The IASB is proposing changes to the concepts and definitions in its Framework as part of a joint project with the Financial Accounting Standards Board (FASB) of the United States of America.
3. While most, if not all, of the components of the IASB Framework are likely to be relevant for the IPSASB's Framework, the objective of this project is not simply to interpret the IASB Framework for application to the public sector. Rather the objective is to:

*develop the IPSASB's own Framework using the work of the IASB and other standards setters as appropriate.*
4. The IPSASB is of the view that it is now timely to develop a framework for general purpose financial reporting (GPFR) by public sector entities and make explicit the concepts that underpin GPFR in the public sector.
5. Preliminary work on certain components (for example, scope of reporting, objectives and qualitative characteristics – Phase 1) was commenced by IPSASB in early 2007. This paper represents Phase 2 of the IPSASB's Conceptual Framework project. This part of the project addresses:
  - (a) Definition and recognition of the elements of financial statements – this Consultation Paper will identify and define the elements that are reported in general purpose financial statements (GPFS). These will include assets, liabilities, revenues, expenses and notions of net assets/equity. They may also include other notions such as gains and losses which are included in the IASB Framework and the Frameworks of many national standards setters.
  - (b) The consequences of conclusions/recommendations on the scope of financial reporting for the elements of general purpose financial reports (in

addition to those reflected in the financial statements) and other matters that might be addressed in general purpose financial reports. Consideration will be given to defining elements of financial reporting, other than financial statements, as IPSASB determines the scope of financial reporting issues it intends to address.

6. This part of the Phase 2 project is limited to item (a), and for the purposes of this paper, identifying and defining the elements of general purpose financial statements.
7. Elements of financial statements must be designed to separate various types of transactions from one another in order to make measurements of financial position and changes in financial position. For example, defining liabilities ensures that items such as proceeds from financing do not enter into the determination of revenue from operating activities. In addition, it is important to distinguish liabilities from transactions with owners because liabilities represent a present “claim” on the resources of the entity whereas ownership interests represent a residual interest. Further, transactions with lenders and owners need to be excluded from operating activities.

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## **Summary of Preliminary Views Presented**

### **Preliminary View 1**

Elements of financial statements are not individual items but broad classes of items that share common economic characteristics.

There are two types of elements: those that describe financial position at a point in time; and those that describe changes in financial position over a period of time.

### **Preliminary View 2**

Elements of financial position are assets and liabilities.

### **Preliminary View 3**

Elements of changes in financial position are revenues (including gains) and expenses (including losses).

### **Preliminary View 4**

An asset of an entity is a present economic resource to which the entity has a right or other access.

### **Preliminary View 5**

A liability of an entity is a present economic obligation of the entity that is enforceable.

### **Preliminary View 6**

Revenues, including gains, are increases in economic resources during the reporting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in net assets/equity, other than those relating to contributions from owners.

### **Preliminary View 7**

Expenses, including losses, are decreases in economic resources 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.

## **Elements Build on Objectives**

1. The objectives of financial *reporting* by public sector entities are to provide information about the reporting entity useful to users of general purpose financial reports (GPFs) for:
  - (a) accountability purposes; and
  - (b) for making resource allocation, political and social decisions.
2. The scope of financial reporting encompasses the provision of financial and non-financial information about:
  - (a) economic resources of the reporting entity at the reporting date and claims to those resources;
  - (b) the effect of transactions, other events, and activities that change economic resources of the reporting entity and claims to those resources during the reporting period, including cash inflows and outflows and financial performance;
  - (c) the reporting entity's compliance with relevant legislation or regulation and legally adopted or approved budgets used to justify the raising of monies from taxpayers and ratepayers;
  - (d) the reporting entity's achievement of its service delivery objectives; and
  - (e) prospective financial and other information about the reporting entity's future service delivery activities and objectives, and the resources necessary to support those activities.
3. It also encompasses explanatory material about: (a) the major factors underlying the financial performance of the entity, the achievement of its service objectives and other objectives and the factors which are likely to influence its performance in the future; and (b) the assumptions underlying and major uncertainties affecting in the information contained in GPFs.

General purpose financial statements (GPFs) are not designed and should not be expected to fulfil the scope of the objectives listed above.

4. Financial statements<sup>1</sup> meet these objectives by providing information about an entity's:
  - (a) Assets;
  - (b) Liabilities;
  - (c) Net assets/equity;
  - (d) Revenue;
  - (e) Expenses;
  - (f) Other changes in net assets/equity; and
  - (g) Cash flows.

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<sup>1</sup> IPSAS 1, Presentation of Financial Statements, paragraph 17.

5. Net assets/equity change over time as a result of, for example, “capital” invested by investors in exchange for stock and contributed surplus and distributions to owners such as dividends. Net assets/equity can also change over time as a result of “operating” activities. The levying of taxes on the general public, the consumption of assets and the provision of goods and services affect both assets and liabilities. Further, net assets can change from remeasurements of various items portrayed in the financial statements.

#### Elements of GPFSS

6. The IPSASB does not currently define what a financial statement element is. Defining the term is essential for deciding on those basic things that, as a minimum, need to be presented in GPFSS.
7. Elements are one of the parts of a compound or complex whole. The term element applies to any such part and often connotes irreducible simplicity stressing its distinguishable characteristic whose presence actively helps to produce a result. Elemental refers being the basic or ultimate part of something or dealing with the rudiments of something.<sup>2</sup>
8. Certain objectives are, or can only be met with GPFSS and their notes and supporting commentary and schedules. GPFSS should enable users of GPFSS to identify:
  - (a) the *economic resources*, and their classes, that are available for providing services at the *reporting date*, and the *increase or decrease in those resources during the reporting period*;
  - (b) the nature and sources of any *increase in the economic resource* base available for providing services in the future, and the extent to which any decline in that base arose because of *consumption of service potential* in the delivery of services, or for other reasons; and
  - (c) the nature and amount of *claims to the resources at the period end*, the *increase or decrease in those claims during the reporting period* and their sources.

#### *Elements represent broad classes of things*

9. Financial statements are representations of the effects of numerous transactions and events and necessarily involve a high degree of summarization and classification. Elements of GPFSS are designed to provide useful categories of information necessary for measuring net financial position and those necessary for measuring changes in net financial position. Elements are important because they are the beginnings of grouping similar items together for the purposes of making those measurements.
10. Elements are not the individual items themselves (such as cash), but broad classes of items that share the same characteristics (such as assets). While making sub-

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<sup>2</sup> Webster's Ninth New Collegiate Dictionary

classifications of individual items within each element adds usefulness, display and sub-classification are separate matters.

11. International Financial Reporting Standards (IFRSs), Framework paragraph 48 shares this view:

*The presentation of the elements in the balance sheet and the income statement involves a process of sub-classification. For example, assets and liabilities may be classified by their nature or function in the business of the entity in order to display information in the manner most useful to users.*

12. Matters of display are without specific limits and go beyond the characteristics of elements as of broad classes of items. That suggests a discipline of limiting the number of elements of financial statements to only those most basic distinctions that are essential for the intended purpose measuring financial position and changes in it. Finer distinctions of individual items (e.g., cash, receivables, property, equipment, copyrights) that fit in the same broad class (assets) do not require different elements. Aggregations or combinations of elements are also a matter of display (for example, combining *income* and certain *expenses* to show gross margin).

*Elements are based on economic things*

13. GPFs are designed to report on measuring the financial position, performance and cash flows of an entity. For example, the measurement of financial position requires information about those economic resources available to an entity and those current or future economic resources of that entity to which others have a claim. Elements of GPFs are those things that make such measurements possible. Information about elements is a consequence of the need for information to make such measurements and not what financial statements are intended to report.<sup>3</sup>
14. Governments<sup>4</sup> are inherently different from businesses in both their objectives and financing. In general, governments establish tax and other revenue rates, provide public services and redistribute wealth for a variety of social and economic purposes. The delivery of a service does not, however, normally give rise to revenue, and the payment of taxes does not necessarily entitle a taxpayer to any particular public service or benefit. Because governments are granted the power to tax, their revenues are not substantially dependent on the profitable sale of goods and services in the marketplace similar to a business. While there may be these and other differences that exist between a government and a business enterprise, governments, like business enterprises, are *economic resource* processors.
15. *Governments collect economic resources* in forms of raising taxes, charging user fees, receiving economic resources from grants and transfers, borrowing and

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<sup>3</sup> IASB Agenda Paper 9, What is an element?, October 19, 2006.

<sup>4</sup> The term government is used to mean a public sector entity other than a government business enterprise.

incurring other liabilities. In turn, *governments transform and use these economic resources* to provide program services such as judicial, educational or national defense; to produce goods and services for consumption by others, such as to produce hydro-electricity or transportation services; and to redistribute wealth in terms of various social benefits such as national pension schemes and welfare payments. Although governments are not necessarily focused on generating profits and their capital assets may be used for service provision rather profit-generation, without economic resources, a government cannot continue to produce goods and services at existing levels and qualities.

*Types of elements*

16. Most standard setters agree that elements of financial statements are generally categorized into two broad types. The first type, which refer to objective (a) are those things that exist *at a point in time* (financial position) and the second type, which refer to objective (b) and (c) are those things that explain changes in them *over a period of time* (changes in financial position).
17. Deciding which and how elements should be defined is a function of the measurement focus of the financial statements. For example, a measurement focus on financial resources would adopt a modified accrual basis of accounting and require that financial assets and liabilities be defined. Alternatively, a measurement focus on net economic resources would require a full accrual basis of accounting and elements would include other assets and liabilities. This paper is developed using a full accrual basis of accounting. Elements considered are those necessary to meet the defined objectives in paragraph 8.
18. An element is not simply a heading of classifications of items in the financial statements. The term *element* is used to mean or describe broad classes of economic things and changes in them that are very basic, fundamental or elemental. They represent those things that help determine an outcome or result of a process. They are not the outcome itself, but those necessary to make that determination.
19. The classification of items on the Statement of Cash Flows under the headings of operating, financing and investing or sources and uses are not considered elements. While they may explain changes in and reconcile opening and closing balances of a particular item (cash) or items (cash equivalents) they are not necessary for understanding the overall financial position and changes in it. That is not to say the information is not important, only that these are sub-classifications of particular items that are already sub-classifications of elements. Therefore, this paper proposes that the various classifications related to the cash or near cash position have not been considered elements. This view reflects the position taken by the other standard setters included in this paper.
20. Notes are not considered to be elements of financial statements. As noted in IPSAS 1, Presentation of Financial of Financial Statements, they are designed to provide clarification or further explanation of individual items within the financial statement themselves, items that may meet the definitions of assets or liabilities

but cannot be measured or to provide other relevant information useful for understanding the financial statements.

**Preliminary View 1**

Elements of financial statements are not individual items but broad classes of items that share common economic characteristics.

There are two types of elements: those that describe financial position at a point in time; and those that describe changes in financial position over a period of time.

**Which Elements to Define**

**Elements of financial position**

21. Based on the objectives of GPFs the term *assets* represent those economic resources available at the reporting date that can be used to provide future goods and services, be exchanged, used to settle liabilities or otherwise invested. The term *liabilities*, on the other hand, represent those external claims on existing or future assets of any organizations. These claims are have priority over other interests and represent present claims against current and future resources. These elements are common to all sectors, private or public.
22. However, a review of other standard setters indicates that there may be other elements other than assets and liabilities that describe *at a point in time* things:

Elements of financial position	IPSASB*	IASB	CanPSAB	Can ASB	USFASAB	USGASB	USFASB	UKASB	AusASB	NZASB	GerASB	JpnASB	SAfcASB
Assets	X	X	X	X	X	X	X	X	X	X	X	X	X
Deferred Outflow						X							
Liabilities	X	X	X	X	X	X	X	X	X	X	X	X	X
Deferred Inflow						X							
Equity/ Net Assets	X	X		X	X	X	X	X	X	X	X	X	X
Contributions from Owners	X						X	X		X			
Distributions to Owners	X						X	X		X			
Capital Maintenance Adjustment									X	X			
Comprehensive Income							X					X	

*Deferred outflows and inflows as elements*

23. The GASB has recently released Concepts Statement No. 4, *Elements of Financial Statements*, (June 2007), which has introduced deferred outflows and inflows as elements of financial statements.
24. GASB (4.37) provides the measure of financial position:

*Net position is an element of the statement of financial position and is measured by the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources.*

25. More recently, the GASB has released Statement No. 53, *Accounting for Financial Reporting for Derivative Instruments*, which paragraph 20 notes:

*Under hedge accounting, the changes in fair values of hedging derivative instruments are reported as either deferred inflows or deferred outflows in the statement of net assets.*

26. GASB's (53.20) applies to fair value and cash flow hedges. Further, GASB (53.108):

*The Board considered an alternative approach that would measure the ineffective portion of the changes in fair value of the hedging derivative instrument. In this method, the effective portion of the changes in fair value of the hedging instrument would be reported as a deferral. Any ineffective portion of the hedging derivative instrument's changes in fair value would be immediately reported within the revenue classification. The Board ultimately rejected this approach due to increased cost and complexity for both preparers and users.*

27. The GASB approach:

- (a) avoids changes in the measurement of the hedged instrument by including changes in the hedging item as deferred items;
- (b) tolerates a degree of ineffectiveness which it incorporates into the deferred item; and
- (c) avoids recognizing changes in the fair value of derivatives in profit or loss where they are used as hedging instruments in anticipation of an offset upon termination of the contract.

28. IAS 39, *Financial Instruments: Recognition and Measurement*, paragraph 89 relating to fair value hedges takes an alternative point of view:

*If a fair value hedge meets the conditions in paragraph 88 during the period, it shall be accounted for as follows:*

- (a) *the gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) ... shall be recognized in profit or loss; and*
- (b) *the gain or loss on the hedged items attributable to the hedged risk shall ... be recognized in profit or loss.*

29. In the IASB case, for a fair value hedging relationship, both the hedged item and the hedging instrument are remeasured and recognized in profit or loss. The requirement to recognize to recognize both value changes means that any ineffectiveness is accounted for in profit or loss.

30. However, in the case of cash flow hedges<sup>5</sup>, IAS (39.95) notes:

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<sup>5</sup> This includes forecasted transactions. See IAS 39.97.

- (a) *the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognized directly in equity through the statement of changes in equity; and*
  - (b) *the ineffective portion of the gain or loss on the hedging instrument shall be recognized in profit or loss.*
31. There is a difference between the GASB and the IASB approach as it relates to the measurement of financial position at the reporting date and the surplus/deficit during the reporting period.
32. GASB (4.32 and .34) indicates that deferred outflows and inflows are consumptions and acquisitions of net assets that are *applicable to future periods*. GASB (53.107) believes that deferred items, provides a better measure of *interperiod equity* than recognizing them in the flow of resources (performance) statement. IASB argues that while certain items are excluded from annual results (cash flow hedges recognized directly in equity) the measurement of financial position is better reflected as it does not introduce deferrals into its measurement.
33. Basically, the GASB has chosen to introduce the elements of deferred inflows and outflows into the measurement of net financial position. The IASB, on the other hand, has chosen a somewhat “purer” view of net financial position.
34. Most standard setters today have adopted an asset and liability view for the purposes of determining surplus/deficit. Certain exceptions have been made at the standards level for things such as subsequent measurements. Nevertheless, the IPSASB definitions of revenue and expense are based on changes in assets and liabilities (an asset and liability view). The IASB/FASB convergence project also shares this view in that it has chosen to define assets and liabilities first. The IPSASB’s proposed objectives of financial reports also share this view.
35. Introducing elements such as deferred inflows and outflows may be perceived as opening a door to allow other types of deferrals into the measurements of financial position. Further, including deferrals into the element definitions introduces judgment into the thinking at standards level thereby possibly removing the rigour of assessing new standards against asset and liability definitions. GASB acknowledges this concern in 4.61 by noting that recognition of deferrals is limited to instances identified by the Board and subjected to due process.
36. Excluding deferrals from the concepts will promote the correct structure for working through accounting issues where no guidance can be found in the primary source of generally accepted accounting principles. This promotes asking such basic questions as “is there an asset?” or “is there a liability?”

*Net assets/equity as an element*

37. Where assets are greater or less than liabilities a residual net assets/equity figure will result. Under a full accrual accounting model, a positive figure represents a measure of the net resources that may be applied for the provision of goods and services in the future. A negative figure, or net liabilities, represents a measure of the net resources required in the future.

38. In the private sector, net assets/equity is used to describe the owners' residual interest in the enterprise. For a sole proprietor, partnership or business corporation the net assets represent an amount of the owners' residual interest on the assets of the organization. However, unlike a sole proprietor or partnership, the determination of corporation's shareholders' wealth and any increases or decreases thereto, is separate and distinct from the net assets/equity of the corporation. The shareholder does not have income simply because the entity has income. While income of the corporation may enhance the market value of shares, the entity's income represents nothing more than potential shareholders' income. Shareholders' income can only result from management's plans to make distributions to the shareholders (dividends) or through actions of the shareholder by selling the shares and foregoing ownership. Only at the end of the day do shareholders have any interest in the net assets of the corporation.
39. A review of the Appendix B indicates that almost all of the standard setters have defined net assets/equity as representing a residual or residual interest. Residual interest<sup>6</sup> is generally defined as the difference between assets and liabilities. However, PSAB notes that the difference between assets and liabilities is not an element but simply a residual of a calculation.
40. As net assets/equity comprises different classifications of items residual interest is the amount one is entitled to after everyone else. But within the total amount of residual interest, there can be a number of different levels of residual interests. Defining net assets/equity as an element becomes a search for the appropriate level of residual.
41. The traditional accounting equation is  $ASSETS - LIABILITIES = EQUITY$ . Accounting has focused on defining what a liability is rather than trying to define both liabilities and equity. Attempts to define to both liabilities and net assets/equity, can lead to mezzanine items that appear to be neither liabilities nor equities. From this perspective, the measurement of net/assets equity is dependent upon, or the result, or outcome of the difference between assets and liabilities and not independent of those things.
42. Ownership interest would indicate a claim to net assets that has no priority over any other claim if the entity was to liquidate and has no upper or lower limit on the amount except to the extent of the remaining assets available – the lowest level of interest. However, under current GAAP there are several levels of residual interest that can be included in “net assets/equity” – common shareholders, preferred shareholders<sup>7</sup> and other equity financial instruments<sup>8</sup>. Further, minority interests do not seem to meet the definition of the lowest level of interest and from this perspective would not be equity/net asset items.
43. Because the “net assets/equity” section can be subdivided into owners' equity, capital maintenance adjustments, and any other sub-classifications does not make

<sup>6</sup> Adapted from FASB, Financial Instruments with Characteristics of Equity, Preliminary Views, November 2007. Also see IASB Discussion Paper, Financial Instruments with Characteristics of Equity.

<sup>7</sup> See IPSAS 6, Consolidated and Separate Financial Statements, paragraph 57.

<sup>8</sup> See IAS 32, Financial Instruments: Presentation.

- net assets/equity anything more than a residual resulting from the difference between assets and liabilities. That is not to say that these items are important components of net assets/equity and may need individual definitions. However, this is not unlike the need for individual definitions for various types of assets such as financial or tangible capital assets.
44. For the purpose of defining net assets/equity as an element the following reasons have been identified by others:
- (a) it is simply a calculation;
  - (b) it could be used to determine whether there has been a return on capital or a return of capital;
  - (c) it is used for the purposes of articulation; and
  - (d) it represents the component of net assets attributable to the owners/shareholders which have separate economic characteristics.
45. Of the reasons set out above, two represent reasons attributable to why “equity” items need to be defined separately. For example, identifying the net assets attributable to owners/shareholders is for the purpose of determining whether there has been a return on capital or of capital. While this is an important distinction, it does make net assets/equity an element.
46. FASB CON 6.213 notes:
- Equity in a business enterprise is the ownership interest, and its amount is the cumulative result of investments by owners, comprehensive income, and distributions to owners. That characteristic, coupled with the characteristics that liabilities have priority claim over ownership interest as claims against the enterprise’s assets, make equity not determinable independently of assets and liabilities. Although equity can be described in various ways, and different recognition and measurement procedures can affect its amount, equity always equals net assets (assets minus liabilities). That is why it is a residual interest.*
47. Because net assets/equity is a residual and a function of the difference between assets and liabilities, it is not an element of financial position but the representation of financial position.

*Contributions from and distributions to owners*

48. In the private sector, a concept of capital maintenance or cost recovery is needed to make distinctions between whether the organization has improved, maintained or deteriorated its “ownership” interests. From this perspective, only those inflows in excess of the amounts needed to maintain the previous ownership position are considered a return *on* equity or, in other words, income. This determination is made by separating revenues, gains, expenses and losses from those financing transactions associated with investors and those transactions with owners.
49. IPSAS 1.96 and 97 note the importance of the need to separate transactions with owners from ongoing operations:

*Many public sector entities will not have share capital. The nature of the government's interest in the net assets/equity of the entity is likely to be a combination of contributed capital and accumulated surpluses/deficits.*

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

50. However, the FASB CON 6 .214 notes the difficulties with separating invested from earned “equity.”

*A traditional classification for corporate equity is capital stock, other contributed capital, and retained or undistributed profit, with the first two categories described as invested or contributed capital and the third described as earned capital or capital from operations. That distinction holds reasonably well in the absence of distribution to owners or stock dividends; and cash dividends or dividends in kind that are “from profits” may not cause significant classification problems. However, transactions and events such as stock dividends (proportional distributions of an enterprise's own stock accompanied by a transfer of retained or undistributed profit to capital stock and other contributed capital) and reacquisitions and reissues of ownership interests (commonly called treasury stock transactions in corporations) mixes the sources and makes tracing of sources impossible except by using arbitrary allocations.*

51. Here too, while there may be a need to define the classifications contributions from and distributions to owners separately, they are not elements of financial statements.

#### *Capital maintenance adjustments*

52. Capital maintenance adjustments can be defined as those adjustments made under certain accounting models (financial capital and physical capital) to the entity's net assets/equity to take into account the effects measurement changes affecting assets and liabilities. Capital maintenance adjustments result from revaluations or restatements of assets and liabilities.<sup>9</sup> Some standards setters have identified capital maintenance within the overall descriptions of elements.

53. AASB, Framework, 2004, paragraph 81:

*The revaluation or restatement of assets and liabilities gives rise to increases or decreases in equity. While these increases or decreases meet the definition of income and expenses, they are not included in the income statement under certain concepts of capital maintenance. Instead these items are included in equity as capital maintenance adjustments or revaluation reserves.*

<sup>9</sup> IASB Framework paragraph 81.

54. Here too, it is acknowledged that the increases and decreases resulting from revaluations meet the definitions of established element definitions. From this perspective, capital maintenance adjustments and the presentation of them is a matter of display rather than something that is an element.

*Comprehensive income*

55. Theoretically, one can argue that there is little conceptual basis for excluding changes in the fair values of financial instruments from net income.<sup>10</sup> The definition of comprehensive income was developed to address those gains and losses that are to be displayed outside of the income statement.

56. FASB CON 6.215 notes:

*Comprehensive income is "the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources." It adds that "it includes all changes in equity during a period except those resulting from investments by owners and distributions to owners." Comprehensive income comprises four basic components—revenues, expenses, gains, and losses.*

57. Comprehensive Income and Equity, Background Information and Basis for Conclusions, Accounting Standards Board of Canada, notes:

*Since there is little or no conceptual basis underlying the use of comprehensive income, it is not possible to reason by analogy to principles in considering when this presentation may be used. Therefore it may be used only when specifically permitted by primary sources of GAAP.*

58. The above notes that items included in comprehensive income are certain items comprising other elements. Due to the nature of certain gains and losses, they have been excluded from the financial performance statement and reflected directly in equity. However, this is a matter of presentation and display that is beyond the element definitions of financial statements. Those items that are included in comprehensive income are limited to those items where a specific standard would require or encourage such a display.

***Preliminary View 2***

Elements of financial position are assets and liabilities.

*Does the Board agree that net assets/equity is not an element?*

*Does the Board agree that contributions from and distributions to owners is not an element?*

*Does the Board agree that capital maintenance adjustments are not elements?*

*Does the Board agree that comprehensive income is not an element?*

<sup>10</sup> Comprehensive Income and Equity, Background Information and Basis for Conclusions, Accounting Standards Board of Canada, paragraph 8.

**Elements of Changes in Financial Position**

Elements and other definitions	IPSASB*	IASB	Can PSAB	Can ASB	USFASAB	USGASB	USFASB	UKASB	Aus ASB	NZASB	Ger ASB	Jpn ASB	SAfc ASB
Revenues	X	X	X	X	X	X	X		X	X	X	X	X
Gains							X	X					
Expenses	X	X	X	X	X	X	X		X	X	X	X	X
Losses							X	X					
Surplus/deficit												X	

\* defined terms but not identified directly as elements.

# revenues, expenses, gains and losses defined for not-for-profits only.

*Revenues/gains and expenses/losses*

59. All of the standard setters provide a definition of revenue and expense with the exception of the UK ASB. The UK ASB define gains and losses to include revenue and expense. Nevertheless, most of the standard setters do not separate revenues from gains or expenses from losses in their element definitions. Most agree that gains and losses are included in the definition of revenue and expense.

60. The existing definitions of revenue and expense in IPSAS 1 do not distinguish between revenue and gains; and expenses and losses:

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

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

61. The IASB Framework paragraph 76 notes that gains represent increases in economic benefits and as such are no different in nature from revenue. Paragraph 79 notes that losses represent decreases in economic benefits and as such are no different in nature from expenses. Hence gains and losses are not regarded as a separate element in this Framework.

62. Of those that offer gains and losses as separate elements they have typically defined them as:

FASB CON 6: Gains are increases in equity ... except those that result from revenues or investment by owners.  
Losses are decreases in equity ... except those that result from expenses or distributions to owners.

UK ASB: Gains are increase in ownership interest not resulting from contributions to owners.

Losses are decreases in ownership interest not resulting from distributions to owners.

German ASB: Gains are extraordinary items ... not arising from ordinary activities ...  
Losses are extraordinary items ... not arising from ordinary activities...

63. FASB's Concepts Statement 6 acknowledges that revenues, expenses, gains, and losses were defined largely for reasons of display:

*Distinctions between revenues and gains and expenses and losses in a particular entity depend to a significant extent on the nature of the entity, its operations, and its other activities. Items that are revenues for one kind of entity may be gains for another, and items that are losses for one kind of entity may be expenses for another.*

*Since a primary purpose of distinguishing gains and losses from revenues and expenses is to make displays of information about an enterprise's sources of comprehensive income as useful as possible, fine distinctions between revenues and gains and between expenses and losses are principally matters of display or reporting...*

64. The IASB supports this view:

*The IASB's framework notes that income and expenses may be presented in the income statement in different ways so as to provide information that is relevant for economic decision-making. For example, it is common practice to distinguish between those items of income and expenses that arise in the course of the ordinary activities of the entity and those that do not. ...*

*Distinguishing between items of income and expense and combining them in different ways also permits several measures of entity performance to be displayed. ... For example, the income statement could display gross margin and profit and loss.*

65. Using element definitions to make distinctions of display, which are without specific limits, goes beyond the "broad classes" notion as used in both the IASB's Framework and FASB's Concepts Statement 6.
66. Further, there can be difficulties in identifying the differences between a peripheral item (gain or loss) and one that exists as a result of normal operating activities. The FASB notes that the distinctions between revenue and gains and expenses and losses in a particular entity depend to a significant extent on the nature of the entity, its operations, and its other activities. Items that are revenue for one kind of entity may be gains for another.
67. Judgment will be needed to be applied as to whether an item is revenue or a gain, and the resulting "operating" surplus/deficit may be subjected to different interpretations of what is peripheral and what is not. For example, expenditures incurred resulting from a hurricane or a forest fire may be treated as a loss in one country and an expense in another that is susceptible to hurricanes or fires. Since

a primary purpose of distinguishing gains and losses from revenue and expenses is to make displays that convey information about performance, these distinctions are principally matters of display and hence do not merit being defined as elements.

68. Those that define gains and losses separately, all refer to gains and losses as either increases or decreases in net assets/equity.

***Preliminary View 3***

Elements of changes in financial position are revenues (including gains) and expenses (including losses).

*Does the Board agree that revenues should gains and that expenses should include losses?*

**Rights and Obligations that can Lead to Assets and Liabilities**

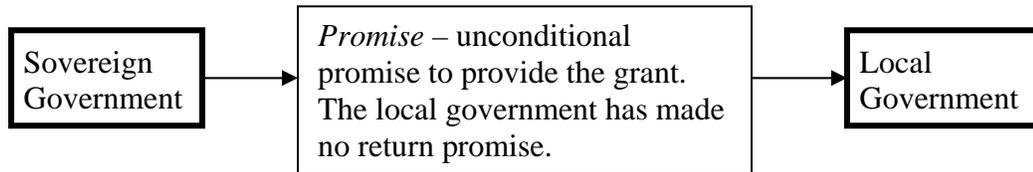
69. Given the nature of governments and the powers and responsibilities, it is sometimes difficult to determine when a government should report an asset and when a government should report a liability. For example, governments are responsible for many types of “assets” such as land and natural resources inherited by them through conquest war, or changes in political boundaries. In addition, many governments have statutory responsibilities for the payment of various types of social benefits. From this perspective it can difficult to determine when, or if, the transferring government has an asset or a liability. Similar arguments can be made for many other types of government programs such as those related to public insurance, pension schemes and health care programs.
70. The IASB/FASB is considering an approach to assist in understanding various components of contractual arrangements for determining when an asset or liability might exist. The approach offered by the IASB/FASB project is useful for understanding the various types of promises inherent in a contract and for identifying assets and liabilities associated with those promises. It suggests looking at transaction to determine whether there are unconditional and conditional components to the arrangement. It is important to note that recognizing some of these resources and obligations depends on the recognition criteria and measurement basis being applied.
71. While this addresses mainly contractual arrangements and other types of similar promises in an exchange transaction environment, it can be equally applied in the public sector environment where non-exchange transactions and service provision obligations are prevalent.

**Contractual arrangements**

72. Consider a simple unconditional grant from one government to another. A sovereign government decides to prove an unconditional grant to a specific local government. It has indicated that it will provide 1,000 CU to that local government to be used for any purpose that the local government chooses.

**Contractual obligation**

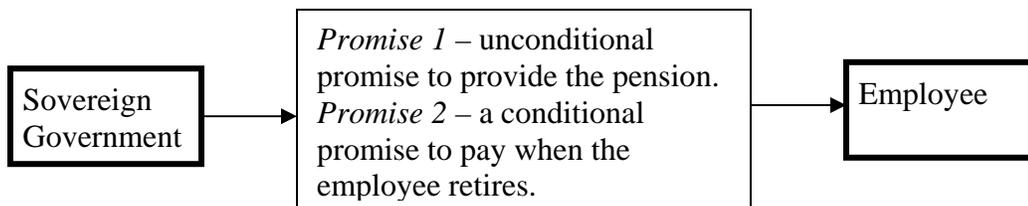
**Contractual right**



- 73. In this example, the sovereign government has made an unconditional promise to provide the funding to the local government. From the local government’s perspective, it has made no promise other than to accept the funding.
- 74. Consider a national pension scheme where a sovereign government has decided to offer its employees with a pension (or other similar benefits) after retirement. The benefits are embedded in a contractual arrangement with those employees.

**Contractual obligation**

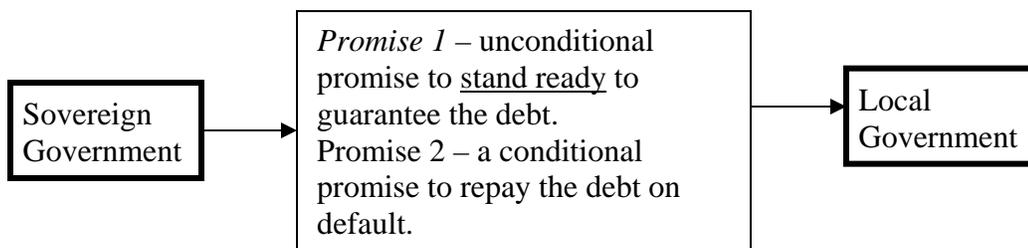
**Contractual right**



- 75. While the situation may in reality be much more complicated, the example provides a useful illustration as to how this approach can be applied.
- 76. In another example, consider a loan guarantee made between a sovereign government and a local government. The local government has issued 1,000 CU of debentures. The sovereign government has issued a guarantee on that debt providing the local government with an advantage in terms of issuing the debt.

**Contractual obligation**

**Contractual right**



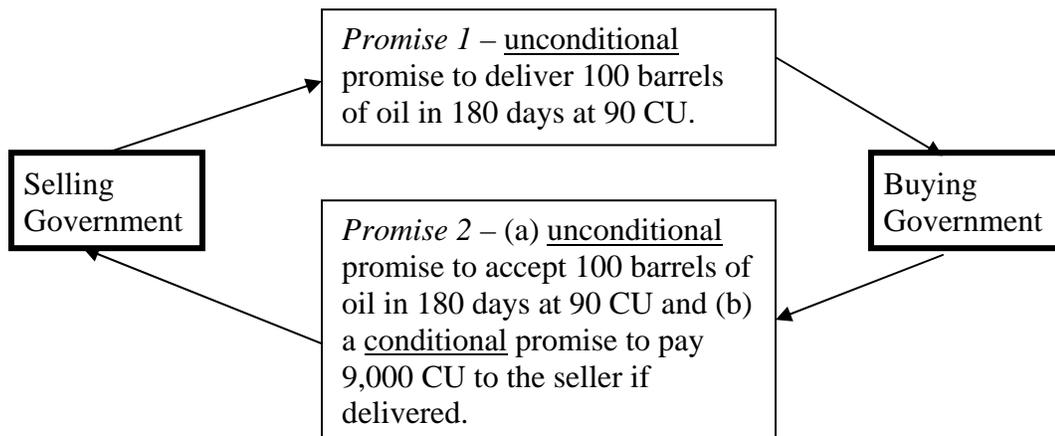
- 77. In this situation, the sovereign government has made an unconditional promise to “stand ready” to pay the debt if the local government defaults and has an economic obligation created because it has agreed to stand ready to pay. The local

government has a stand ready asset because the sovereign government has agreed to stand ready to pay if the local government defaults and has an economic advantage as a result.

78. Now consider a *fixed price contract* between two sovereign governments for the supply and purchase of oil. The contract calls for 100 barrels of oil to be delivered in 180 days at a fixed price of 90 CU (currency units) to be paid 30 days after delivery. A contract is entered into and the seller (promise 1) promises to deliver the oil to the buyer and the buyer (promise 2) agrees to pay 9,000 CU to the seller 30 days after delivery.

**Contractual obligation**

**Contractual right**



79. The contract has two aspects to it – one is that price is fixed and is not conditional on anything else – it is unconditional. This means if the price of oil rises above the agreed-upon price of 90 CU per barrel (say 95 CU), the selling government’s part of Promise 1 indicates that it has an obligation – that being the difference between what it could of have got in 180 days had it not entered into the fixed price contract. From the buying government’s perspective it has a resource because the contracted price for the oil is less than the going market rate.
80. The conditional aspect of the contract refers to the actual delivery and acceptance of the oil by the seller and buyer. The buyer’s obligation to pay is conditional on the seller delivering the oil. When the oil is delivered, the conditional promise by the buyer to pay 9,000 CU to the seller (Promise 2b) becomes unconditional. After 30 days that unconditional promise is mature.
81. What the examples show is that contracts can include assets and liabilities relating to those unconditional promises contained within them. This is a useful approach for either the private sector or public sector for the purposes of identifying these assets and liabilities.

**Other types of promises**

82. Rights and obligations can also arise from other promises made by a government beyond those in written or oral contracts. For example, an announcement of government transfer program where the government has identified and indicated

- an amount to be paid to individual local governments can be a promise made in the same sense as a contractual arrangement.
83. In some, but not all countries there are legal doctrines that address these kinds of promises. For example, promissory estoppel<sup>11</sup> is a legal principle that a promise or assurance made without consideration may nonetheless be enforced to prevent injustice:
- (a) if the promisor should have reasonably expected the promisee to rely on the promise; and
  - (b) if the promisee did actually rely on the promise to his or her detriment.<sup>12</sup>
84. The IASB, IPSASB, the FASB, the Canadian AcSB and PSAB, GASB and others have explicitly referred to these types of rights and obligations as those countries have legal doctrines that refer to estoppel in terms of *constructive obligations*. Others go further and refer to obligations that arise from *equitable obligations*.
85. *Constructive obligations* are generally described as being “created, inferred or construed from the facts in a particular situation rather than contracted by agreement with another entity or imposed by the government.” The IASB does not use the same wording, but the intent appears the same “obligations also arise, however, from normal business practice, custom.”<sup>13</sup> Similar wording can be found in the South Africa, Framework for the Preparation and Presentation of Financial Statements, paragraph 80. The UK ASB Statement of Principles 4.27 acknowledges that these obligations are to be considered. The GASB, Concepts Statement 4, also acknowledges these obligations in paragraphs 19 and 57.
86. A government may have acknowledged, through a published policy or past practice that it will accept certain responsibilities and those affected by that policy or practice have a valid expectation that the government will in fact discharge those responsibilities. An example of a constructive right and obligation could be where a government has chosen in the past to provide pension or other benefits to its employees but there is no formal contract. The employees can be relying on the government to continue such a program.
87. *Equitable obligations* are generally described in accounting as emanating from “ethical or moral constraints rather than from rules of common or statute law, that is, from a duty to another entity to do that which an ordinary conscience and sense of justice would seem fair, just and right – to do what one ought to do rather what one is legally obligated to do.”<sup>14</sup>
88. The IASB does not use the same wording, but the intent appears the same “obligations also arise, however, from a desire to maintain good business relations

<sup>11</sup> It is acknowledged that this legal doctrine may not be prevalent in all jurisdictions.

<sup>12</sup> Black’s Law Dictionary, Eight Edition, 2004, Thompson West, St. Paul Minnesota, USA.

<sup>13</sup> IASB Framework, paragraph 60.

<sup>14</sup> FASB, CON 6, paragraph 40.

or act in an equitable manner.”<sup>15</sup> Australia also has a doctrine of equitable estoppel which can give rise to these types of rights and obligations.<sup>16</sup>

### **Sovereign powers**

89. Sovereign governments are given powers under their Acts or other legislative frameworks. Those frameworks provide governments with vast responsibilities and powers. Those responsibilities can include creating a legislative framework within which the general society is to function, the provision of health, welfare and education to its citizens and others, the protection of the sovereignty of the nation from invasion by establishing military forces, the protection to property and persons through national or local police, issuing licenses for various things such as for driving, and issuing fines for penalties for not obeying the law. They also have decision making capabilities related to the money supply.
90. The responsibility to provide these services is not a promise in the same sense. In this case, while there may be an ongoing obligation of the government, the government retains the right to change the level and quality of services to be provided. In other words, there has been no unconditional promise to provide those services.

### **Legislation or regulatory obligations**

91. Unlike contracts or other binding agreements, legislation is different because an entity does not explicitly agree to perform for another party. Legislation created by governments and regulators on behalf of citizens and generally applies to broad populations.
92. By operating in a jurisdiction that has legislative requirements, an entity is subject to the law. That means an entity can be affected if they violate the legislative requirements or if another event occurs that triggers those requirements. At that point, a government or other party could demand that the entity to comply with that legislation. For example, environmental legislative standards can, when an entity exceeds those standards, create an economic obligation for that entity. The entity might agree to comply with the standard and honour the specified economic obligation. Alternatively, if the entity disagrees, it could challenge the economic obligation by seeking a judgement from the courts.
93. An entity does not have an obligation to comply with the law by itself. In the case of existing legislation, the entity might appear to have an obligation to perform now or over a period of time, but provided the entity is in compliance there can be no obligation. Thus, no party can force the entity to abide by the legislation until the entity *violates*, or another event occurs that triggers, the legislative requirements. Until an entity's actions trigger the requirements of the legislation, the entity has the ability to decide what actions it takes to avoid violating the statute or not.
94. For redistributions of wealth and other government transfers, simply having in the legislation in place is not always sufficient. There must be something else

<sup>15</sup> IASB Framework, paragraph 60.

<sup>16</sup> A complete review of legal doctrines was not undertaken – only a small sampling.

accompanying the legislation. For example, a government's legislation may indicate that it is responsible for health and welfare. This does not automatically result in a government having an obligation. Something needs to trigger the requirements of legislation, before another party can then demand that the entity perform.

## Asset and Liability Definitions – General Considerations and Improvements

95. The elements proposed are: assets, liabilities, revenue (including gains) and expenses (including losses). This proposes some general improvements that can be made to those definitions regardless of the work being done in the IASB/FASB convergence project.

### IPSASB's focus on resources and obligations

96. IPSASB's current focus in the definitions of assets and liabilities are:

*Assets are resources ...*

*Liabilities are present obligations ...*

97. Some standard setters have focused on the inbound or outbound flow of economic resources as being the asset or liability.
98. Those that focus on the *resource* as the asset indicate that it is the resource itself that *results in* future economic benefits or service potential. The IPSASB, IASB, Canada (both private and public sectors), FASAB, GASB, AASB, German ASB, Japan ASB and South African ASB all agree.
99. The asset definition in FASB Concepts Statement No. 6 (CON 6) focuses on *probable future economic benefits* obtained or controlled by an entity. The NZ ARSB notes in paragraph 7.7 that the asset is the *service potential or future economic benefits*. If this view is taken:

*Assets are the future economic benefits or service potential...*

100. The IASB/FASB papers identified a particularly useful illustrative example regarding whether the asset is the resource or the *probable future economic benefit*. Consider a fruit bearing tree. While an entity may control the fruit tree (an economic resource in and of itself because the tree can be sold), the entity cannot control the number of fruit it produces which ultimately determines the future economic benefit from selling the fruit. From this perspective, the economic resource is the tree, not the future benefits associated with the fruit.
101. The UK ASB, on the other hand, focuses on the *rights or other access to future economic benefits* controlled by an entity as being the asset. If this view is taken:
- Assets are the rights or other access to ...*
102. The *right or other access to the future economic benefit*, in the tree example above, is also not the asset. While an entity has the right or other access to the tree, the fruit and the benefit from selling the fruit, the asset is the tree itself. Resources represent the sources of economic benefits. Economic benefits cannot

- exist without the resource. Having the right or other access to the benefits is more reflective of identifying how the resources are identified with a particular entity.
103. The IASB/FASB project places the emphasis on the resource and not the future economic benefits or the rights or other access to the benefits associated with the asset.
104. The existing IPSASB definition has the correct focus. The asset is the “stock” or resource, not the “flow” of economic benefits.
105. Those that focus on the *obligation* being the liability indicate that it is the obligation that *results* in the sacrifice of economic benefits. The IPSASB, IASB, Canada (both private and public sectors) FASAB, GASB, UK ASB, AASB, German ASB, Japan ASB, South Africa ASB agree.
106. The liability definitions in FASB Concepts Statement No. 6 (CON 6) and the NZ ARSB paragraph 7.10 both focus on the *future sacrifices of economic benefits or service potential* [NZ only recognizing service potential]. If this view is taken:
- Liabilities are sacrifices of economic benefit or service potential...*
107. Even though the definition in FASB CON 6, paragraph 35 focuses on the probable sacrifices of economic benefits as the liability, it notes specifically that they arise from present obligations.<sup>17</sup> The NZ ARSB also defines a liability in terms of the future sacrifice of economic benefits that the entity is presently obligated to make.
108. The IASB/FASB Conceptual Framework – Elements 2: Liability Definition, March 2006 paper, provides some thoughts on focusing on the “outflow” rather than obligation. It is noted that certain FASB Board members’ suggestions to a 1977 FASB exposure draft resulted in de-emphasising the obligation and placing greater emphasis on the outflow of resources. This change was made based on a view that discharging a business need has the same effect on an organization’s assets as discharging an enforceable claim. From that perspective it was not the obligation but the need to reflect resources flowing out of the entity which takes precedence.
109. This view could result in liabilities being recorded that are not obligations to other entities. While FASB’s CON 6 language, when taken as a whole, would not permit liabilities that are not enforceable, the language and focus of the liability definition remains. The IASB and IPSASB both take the view that the liability is the *obligation* that results in an outflow of resources. There must be an obligation first. It is only those types of obligations that result in an outflow of resources that are included in financial statements.
110. The IASB/FASB project places the emphasis on the obligation as the liability and not on the outflow of resources.

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<sup>17</sup> Obligations in the definition are broader than legal obligations. It is used with usual meaning to refer to duties imposed legally or socially; to that which one is bound by contract, promise or moral responsibility, and so forth, It includes equitable and constructive obligations as well as legal obligations.

111. The existing IPSASB definition has the correct focus. The liability is the “stock” or obligation, not the “flow” or sacrifice of benefits.

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.

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.

*Removing “past events” from the definitions*

112. Some have placed undue emphasis on identifying the past event that gave rise to an asset or liability. Although its identification might be helpful, it can be a distraction and lead to debates about which event is the triggering event instead of focusing on whether the asset or liability presently exists at the financial statement date.
113. While an observed transaction or other event might provide a signal that an asset or liability exists, it is not a fundamental characteristic of either element and the failure to observe a past event does not negate that an asset or liability exists. The main purpose of including this aspect into the definition was to exclude future assets or liabilities from meeting the definitions.
114. The difficulty with keeping the phrase *as a result of past events*:
- (a) This does not reflect that there may have been past transactions or events that resulted in assets or liabilities which no longer exist.
  - (b) It has resulted in unwarranted debates about what the past event was (how the arose should not be at question).
  - (c) The inability to identify a past event may lead to non-recognition of an asset or liability.
115. To improve the definitions, the IASB/FASB deliberations considered inserting the word “*existing*” in front of resource/obligation. They concluded that this may exclude items such as prepaid rent because prepaid rent gives the entity the right to a future, not a present, use of the item rented.
116. Using the term “*future*” resource/obligation was not appropriate as it could introduce the possibility of accruing future assets such as tax revenues and future liabilities such as ongoing program commitments. While a government may have the power to tax, until it exercises its authority to do so, it cannot have an asset. At the same time, while a government may have an obligation to provide education or purchase a new fire truck in the future, until it provides that service or acquires that fire truck it does not have present liability for them.
117. In addition, the current IPSASB definitions, while the intent is the same, do not parallel each other. For example the liability definition refers to a “present” obligation and the asset definition does not. Assets only refer to past events, which, for all intents and purposes was intended to mean it presently exists.

118. Inserting the word “*present*” before resource in the asset definition would require that the resource must be available as at the reporting date emphasizing that it cannot be an resource that will arise until the future or one that existed in the past but is no longer available at the reporting date.
119. Further, the phrase “past event” in the definition of a liability becomes redundant as it refers to a present obligation meaning that as at the financial statement date a third party has a claim on the resources of the entity. Inserting the word “present” before resource can accomplish the same thing and result in parallel approach to the liabilities definition.

Assets are present 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.

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.

120. This does not preclude including additional guidance relating to what is meant by “*present*.” Supporting text could include:

Financial reports are prepared as of a particular date. Users of financial reports are interested in assets and liabilities that exist at that point in time. Therefore, the definition of an asset and a liability requires that they presently exist at the financial statement date.

This means that the asset must be accessible at the financial statement date. Often an entity obtains assets by purchasing or producing them, but other transactions or events may give rise to assets. The means of acquiring an asset does not affect whether something meets the definition of an asset (that is, the history of how the asset arose, or of how the entity obtained the asset, does not matter), although it might provide evidence to help in the assessment as to whether the entity has an asset and what is the nature of the asset.

Expected future transactions or other events are not assets today. An intention to purchase inventory does not meet the definition of an asset. Equipment that an entity plans or budgets to acquire next year does not make that equipment an asset today.

This means that a liability must have already arisen at the financial statement date. Often an entity incurs liabilities when it receives purchased assets or services, but other transactions or events may give rise to liabilities. The means of incurring a liability does not affect whether something meets the definition of a liability (that is, the history of how the liability arose, or of how the entity incurred the liability, does not matter), although it might provide evidence to help in the assessment as to whether the entity has a liability and what is the nature of the liability.

Expectations alone of future transactions or other events do not result in liabilities today. An intention to, or budgeting for the, purchase of an asset is not a present resource or obligation today. The intention to fund, or budgeting for the funding of, a future expenditure does not result in a present resource or obligation of the entity. For example, services to be rendered by employees next year do not result in liabilities today as nothing is owed in regards to expected future services.

*Does the Board agree with focusing on the “present” and removing past events from the definitions?*

*Removing “expected to flow”*

121. The concept of expected to flow (inbound or outbound) is included in many element definitions, albeit using different phraseology, to alleviate concerns that the definition would require that the inflow or outflow of future economic benefits or service potential be certain in order to qualify as an asset. This appears to be a recognition question not a definitional one.
122. Both of the existing IASB and IPSASB definitions of an asset and liability make reference to the phrase benefits “are expected to flow”. This phrase reflects a concern that without including it in the definitions, many would not record assets or liabilities *unless it was certain* that the economic benefits would flow (either inward or outward).
123. “Probable” was included in the existing FASB definition in response to constituents’ concerns on earlier proposals that the definition would require that an item be certain in order to qualify as an asset or liability. Since few things in life are certain, the FASB observed that few items that are commonly thought to be assets or liabilities would qualify in accordance with the definition. Similar concerns have resulted in the inclusion of *expected* in the IASB definition.
124. Both the IASB and FASB definitions have been misinterpreted as implying that there must be a high expectation of future economic benefits for the definition to be met. Some think that unless there is a high likelihood of economic benefits flowing in or out of the entity, the asset or liability definition is not met. To avoid this continued misinterpretation, the IASB/FASB proposed working definition of an asset and a liability exclude reference to the expected inflow or outflow of benefit from the definitions. They argue that it is preferable that this “expectation” be built into the recognition criteria rather than being built directly into the definitions themselves.<sup>18</sup> Staff is of the view that the definitions of assets and liabilities should remain “pure” and the issue of recognition is separate.
125. This was the most favoured improvement by the IASB/FASB in the proposed working definitions when they consulted on the definition from December 2006 to March 2007.

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<sup>18</sup> IASB/FASB Conceptual Framework, Elements & Recognition – Asset & Liability Definitions, August 20, 2008, pre-ballot draft

~~Assets are present 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.~~

~~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.-~~

126. While removing “expected to” from the definitions is a useful change as it appears to refer more to recognition than the definitions of assets and liabilities, it does create an additional problem – it reintroduces the notion of certainty – which is what the previous definitions were trying to avoid.
127. Further the phrases from which future economic benefits or service potential are expected to flow to the entity and the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential have another effect on the definitions of assets and liabilities. Including these phrases into the definitions are designed to put limits on the extent to which assets and liabilities would be recognized in the financial statements. In other words, it would only be those assets where there is an expectation of an inflow or those liabilities where there was an expectation of an outflow that would be recognized.
128. The view of the IASB/FASB was that keeping these phrases in the definitions made it less clear what an asset and liability is and questioned whether the inclusion of these phrases were addressing issues of recognition and narrowing the definitions of assets and liabilities. As well, it was viewed that the phrases tended to overburden and confuse both the definitions of asset and liability. There is an argument that suggests that definitions of assets and liabilities should stand on their own and not, in the definitions themselves, and determining whether benefits will flow into or out is a recognition issue, not a definitional one.
129. If agreed, assets and liabilities could be defined as:

~~Assets are present 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.~~

~~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.~~

*Does the Board agree with removing “expected to” from the definitions?*

*Does the Board agree with removing the references to the inflows and outflows of resources from the definitions?*

## Proposed Changes to Assets and Liabilities Resulting from the IASB/FASB Convergence Project

130. The amended definitions above do not seem to provide sufficient guidance in the definitions as to what resources and obligations are assets and liabilities and why they are assets and liabilities of the entity. Two improvements being considered by in the IASB/FASB project are:
- (a) referring to assets and liabilities as *economic* things; and
  - (b) how the asset and liability is *linked to* a particular entity.

### Economic resources and obligations

131. For the private sector economic benefit is generally defined as future cash inflows or reduced cash outflows. In the public sector many standard setters have included “service potential” recognizing that asset may or may not generate cash inflows. Generally service potential has been described as the service capacity or output of a capital asset.
132. The IPSASB, among public sector standard setters, have included the following phrases (or something similar) in the definitions:
- Assets are resources ... from which future economic benefits or service potential are expected to flow to the entity.*
- Liabilities are present obligations ... the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.*
133. The term “economic” is generally defined as relating to, or based on, the production, distribution and consumption of goods and services. It is unclear as to whether the word “economic” describes only the word “benefits”, or if also describes service potential.
134. The stated objective of financial statements is to provide information about:
- (a) the *economic* resources, and their classes, that are available for providing services at the reporting date; and
  - (b) the nature and amount of *claims to the resources at the period end*
135. It can be presumed in (b) that the reference to “the resources” is referring to the “economic” resources in (a). Inserting the word *economic* before resource and obligation provides a useful link to the objectives of financial statements that the IPSASB has identified.
136. This change has been part of the IASB/FASB discussion and the word “economic” has been inserted in front of the words resource and obligation. This addition appears to help with the understanding the definitions of assets and liabilities from the perspective of identifying the types of resources and obligations to be included in the financial statement.

137. For the purposes of the public sector, and without presuming that all the following meet the definitions of assets and liabilities and be recognized, economic resources and obligations can include, but not limited to:
- (a) *Cash deposits* – Cash can be used for a variety of different purposes such as investing, purchasing other economic resources, settling liabilities or paying for costs incurred.
  - (b) *Inventories of supplies* – These can include such military supplies, gravel for road repair, water mains and fuel for vehicles and equipment.
  - (c) *Investments in others* – Resources could include portfolio investments and investments that represent ownership interests in an outside organization.
  - (d) *Tangible capital assets* – Property, plant and equipment can be used to provide community services such as water treatment and distribution. Others such as those related to space programs, military equipment (ships, aircraft and other equipment), coast guard, ports and waterways, roads, transportation systems, libraries, hospitals, school buildings etc.. Governments, in their sovereign rights, “own” vast amounts of natural resources. Natural resources can include land, seashores, parks, mountains, renewable and non-renewable resources buried beneath the surface or on its land, waterfalls used to generate electricity.
  - (e) *Intangible capital assets* – Various types of sovereign rights are held by a government such as sovereign rights tax, the right to establish law, licensing rights to such things the use of the airways. In addition, there can be other intangible assets that relate to purchased or developed intangible items such as copyrights, patents, franchises, software and the workforce.
  - (f) *Those arising from legislation or regulation* – Resources could include income, property, excise and various sale taxes receivable as well as fines and penalties and awards of the court. Obligations could include income, property, excise and various sales taxes payable, environmental obligations, fines penalties and awards of the court.
  - (g) *Those arising from contracts and agreements* – Resources could include items such as accounts receivable, investments, government transfers, loan guarantees, stand ready<sup>19</sup> assets, derivative contracts and bilateral,<sup>20</sup> unitary<sup>21</sup> and other forms of contracts. On the other hand, obligations can include items such as accounts payable, bank loans, long-term borrowing, employee future benefits, government transfers, loan guarantees, stand ready<sup>22</sup> obligations, derivative contracts and bilateral,<sup>23</sup> unitary<sup>24</sup> and other forms of contracts.

<sup>19</sup> A stand ready asset would include those items like a guarantee on a debt payable where the reporting government is the recipient of that guarantee.

<sup>20</sup> Bilateral contracts are typically purchase and sale agreements.

<sup>21</sup> Unitary contracts are one sided and include things such as rewards for finding lost property or forbearance of an act.

<sup>22</sup> A stand ready asset would include those items like a guarantee on a debt payable where the reporting government is the recipient of that guarantee.

- (h) *Those arising from promises* – Resources and obligations can arise from the past practices, custom, policy directives, or from moral or economic compulsions. For example, a government may have a moral obligation to provide relief from victims of a natural disaster or to assume responsibility for an environmental issue created a private sector organization that no longer exists.

Assets are present economic 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.~~

Liabilities are present economic 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.~~

138. As a starting point, supporting text to explain what is meant by *economic resource* could be:

*Economic resources* are resources that have economic value. Economic resources are those things that are capable of producing net cash inflows (accounts receivable), reducing net cash outflows (betterments) or for the provision of goods and services commonly referred to as service potential.

Something has *economic value* when it is capable of being used<sup>25</sup> to meet the objectives of an entity in carrying out its activities such as production and exchange or providing services. Thus, something that only has sentimental value is incapable of having value to others and does not have economic value. On the other hand, something that is available to anyone such as air does not have economic value.

139. As a starting point, supporting text to explain what is meant by *economic obligation* could be:

*Economic obligations* are obligations that require an entity to give up or sacrifice economic value. Economic obligations are those things that result in a future net cash outflow (accounts payable), reduction of other financial assets (transferring an investment) or reduction in service potential (transferring a tangible capital asset).

Something that has *negative economic value* to an entity results from an entity having to provide economic resources to others. Many economic obligations result in an entity to paying cash to one or more identified other entities. Economic resources might also be provided in a number of other ways, including by transferring assets other than cash, granting a right to use an asset, or rendering services.

<sup>23</sup> Bilateral contracts are typically purchase and sale agreements.

<sup>24</sup> Unitary contracts are one sided and include things such as rewards for finding lost property or forbearance of an act.

<sup>25</sup> Common definitions of utility include kept for the production of a useful product, something useful or designed for use, and serving primarily for use rather than beauty.

*Does the Board agree that assets and liabilities should be defined in terms of economic things?*

**Linking the asset to the entity**

140. Building on the working definition of an asset, it is linked to or identified with the entity when the entity has *control* over the economic resource.

*Assets are present economic resources controlled by an entity...*

141. The IPSASB, IASB, PSAB, Canadian ASB, FASAB, GASB, UK ASB, AASB, NZ ASRB, German ASB, Japanese ASB and SA ASB definitions include the phrase *controlled by the entity*.

142. Control is used as a mechanism for identifying which assets belong to the entity – it is those assets that are controlled. So if the asset is not controlled it cannot be that entity's. Control, which is usually thought of in a consolidation sense, refers to the ability to direct, manage, or have power over something so as to obtain or access benefits, or to increase, maintain or protect those benefits. Control may be exercised directly or it may be exercised indirectly through one or more intermediaries.

143. While widely accepted among standard setters, there are issues with the use of the word control as the link to the entity. For example, a public sector entity has direct control of its resources, such as its own land, buildings, plant and machinery etc., and shares representing its investment in a government business, for example. It is clear that these assets belong to that entity.

144. Consider a government's investment in one of its business enterprises. The government does not directly control the assets of the business enterprise. The assets of the business enterprise are not the government's assets, even though accountants might describe those assets as being *controlled* by the government. Those assets are assets of the business enterprise as a legal entity and also are viewed as the assets of the consolidated entity.

145. There is question as to whether linking the asset to an entity by virtue of its control is appropriate. One approach is to leave the link to the entity as part of the recognition criteria. If this alternative is chosen the definition becomes:

*Assets are present economic resources ~~controlled~~ by an entity.*

*Does the Board agree that using the "control" in the definition is troublesome?*

146. If this approach is taken it defines assets generally but does not answer the question of which the assets belong on the entity's financial statements. This could lead to identifying all possible assets then applying some supporting guidance to determine when it is that entity's asset. The problem with this approach is that there can many assets that entity does know of or may cause confusion due to knowing of an asset but it is not of the entity. For example, a government may have provided a grant to a private hospital for the purchase of some medical equipment but that equipment does not belong to the government as

- they belong to the private hospital. Providing a link in the definition may be more efficient and easier to understand.
147. If the Board agrees that the use of control is troublesome, the following offers alternatives for linking the asset to the entity by inserting the phrase:
- (a) of an entity;
  - (b) to which an entity has a right;
  - (c) to which an entity has access;
  - (d) to which an entity has a right or other privileged access;
  - (e) to which an entity has an enforceable right.
148. Linking the asset to entity would also require that both aspects i.e., the economic resource and the link to the entity need to be present to determine that the asset belongs to that entity.
149. To link the asset to the entity, one approach is to introduce the phrase “of an entity.” This would indicate that at a minimum, the resource needs to belong to the entity.

*Assets are present economic resources of an entity.*

150. While this links the asset to the entity it forces the reader into further research to better understand what is meant by “of an entity.” In other words, when reading just the definition, it answers the question of what is an asset but it fails to respond to how or why it is an asset “of an entity.”
151. The supporting text could describe how the asset is of the entity. It avoids having the reader to struggle with various terms, such as control, in the definition itself. The major disadvantage of this approach is that readers could apply their own meaning of “of an entity” and not refer to the additional guidance. This view was not supported by the IASB/FASB board members as it was felt to be too brief.
152. The UK ASB’s definition of an asset provides a useful approach to replacing the word “control.” Their definition referred to the asset as being “the rights or other access to future economic benefits.”
153. As a starting point, rights appear to express the association of the entity to the economic resource better than control. For example an entity has rights to the shares representing its investment in the government business enterprise. The entity’s access to the economic resource is by way of its rights to the shares representing its investment. The entity does not have rights or other privileged access to the underlying assets of the government business enterprise.
154. Similarly, an entity might enter into a contract whereby it agrees to purchase a building at a future date. In this example, the purchaser has the rights to any price appreciation on the building, but does not have rights to the building itself, or to the management of the building, until the date of ownership change – the entity does not *control* the building, but it does have rights to any price appreciation.
155. An entity might also have rights to something, aspects of which are outside its control. For example, a public/private partnership may not be controlled by a

government nevertheless it rights to or other privileged access to the economic resource.

156. The benefit of this approach seems to link the asset to the entity in terms of the entity's ability or right to the economic resource.

*Assets are present economic resources ~~of an~~ to which an entity has a right.*

157. However, focusing on “rights” alone could limit or restrict assets to those that are legally enforceable. The capacity of an entity to have a right to the asset normally stems from legal rights and may be evidenced by ownership through title or other mechanisms. For example, a central government agency may be responsible for the acquisition of military equipment and hold title to it. However, the department of national defense is the organization that has access to the service potential embodied in the asset. From this perspective, the asset should be of the department of national defense.

158. Similarly, considering a leased asset, the owner of the asset has the title or right to it. However, the asset is enjoyed by the lessee (depending on the terms of the agreement) and would be an asset of lessee. Focusing solely on rights appears too restrictive.

159. Another approach is to link the asset to the entity in terms of “access.”

*Assets are present economic resources to which an entity has access.*

160. This addresses the concern with leased capital assets but it could result in a definition of an asset that is too broad. For example, an entity has *access* to fiber optic cable but that cable is not an asset of the entity. Further, the general public has access to many public sector assets, such as a museum, but those assets do not belong to them.

161. While the word “rights” appears to suit many of the public sector situations, it is incomplete. Yet including simply “access” to address those situations such as capital leases is too broad. The IASB/FASB agreed that the word access needed to be further qualified. For example, a library or museum provides public access to the resource but those items are not assets of the general public.

162. Acknowledging this issue, the IASB/FASB introduced the phrase “or other privileged” to access to narrow its meaning. Including this into the definition indicates that linking the asset to an entity can be legally enforceable but also to include those assets where the entity has privileged access to such as a leased capital asset. Including or other privileged access also excludes those items that are generally accessible from the definition. For example, while the general public may have access to a road, their access is no different from the access enjoyed by others. However, a government has privileged access because it can choose to close the road for purposes of repair and maintenance, alter the direction of the road or completely remove the road from service.

*Assets are present economic resources to which an entity has a right or other privileged access.*

163. As noted in the IASB/FASB material, difficulties with this alternative include whether “rights or other privileged access” is a clearer term than “control,” noting, in particular, that *privileged access* is an unfamiliar term that does not translate well into many languages other than English. To alleviate the concern the word *privileged* can be deleted and dealt with in the supporting text.

*Assets are present economic resources to which an entity has a right or other privileged access.*

164. The two best alternatives to the existing definition appear to be:

*Assets are present economic resources of an entity.*

*Assets of an entity are present economic resources to which the entity has a right or other access.*

165. In both cases supporting text can be added to clarify the terms and phrases in each of the definitions. Nevertheless, the position taken by the IASB/FASB project is that the link between the asset and the entity should be part of the definition.

166. The IASB/FASB have taken a singular approach to the definitions. In that case the definitions become:

*An asset is a present economic resource of an entity.*

*An asset of an entity is a present economic resource to which the entity has a right or other access.*

***Preliminary View 4***

An asset of an entity is a present economic resource to which the entity has a right or other access.

*Does the Board think that these alternatives may be better than linking the asset to the entity with the word control?*

*Assessing a working definition of an asset*

The following examples have been provided for illustration and discussion purposes only. They are not meant to be definitive as individual circumstances and facts may be different. The examples have been based on:

*Assets of an entity are present economic resources to which the entity has a right or other access.*

Asset	Working definition	IPSASB definition
<p><b>Taxes receivable</b> A monetary charge imposed on individuals, transactions, property and organizations to yield public revenue.<sup>26</sup> Taxes levied for various reasons such as excise, income, property or sales tax.</p>	<p><i>Present economic resource:</i> Taxes receivable generate future cash, could be sold for cash or pledged as security for a loan. Economic resource exists today resulting from levying of taxes, sale of goods services, earning income etc.</p> <p><i>Right of access:</i> Established by government right to impose.</p> <p><i>Expected to flow:</i> Recognition criteria.</p>	<p><i>Resource:</i> Taxes receivable generate future cash, can be sold for cash or pledged as security for a loan.</p> <p><i>Controlled by the entity:</i> Established by government right to impose.</p> <p><i>Past events:</i> Economic resource exists today resulting from levying of taxes, sale of goods services, earning income etc.</p> <p><i>Expected to flow:</i> No different.</p>
<p><b>Transfers receivable</b> Amounts due as a result of meeting eligibility criteria, for example a shared cost agreement, related to a transfer from another entity.</p>	<p><i>Present economic resource:</i> Unconditional contractual promise of the promissor to pay once eligibility criteria have been met. Generates a cash flow, can be sold or pledged as security. Economic resource exists today.</p> <p><i>Right of access:</i> Established by government right to impose.</p> <p><i>Expected to flow:</i> Recognition criteria.</p>	<p><i>Resource:</i> Unconditional contractual promise of promissor to pay once eligibility criteria have been met. Generates a cash flow, can be sold or pledged as security.</p> <p><i>Controlled by the entity:</i> Established by government right to impose.</p> <p><i>Past events:</i> Economic resource exists today resulting from levying of taxes, sale of goods services, earning income etc.</p> <p><i>Expected to flow:</i> No different.</p>

<sup>26</sup> Black's Law Dictionary, Eighth Edition

Asset	Working definition	IPSASB definition
<p><b>Fines, license fees etc. receivable</b></p> <p>No goods or services exchanged. A monetary charge imposed on individuals, transactions, property and organizations to yield public revenue.<sup>27</sup> Amounts charged for various reasons such as traffic violations, hunting and fishing permits, building permits etc.</p>	<p><i>Present economic resource:</i></p> <p>These receivables generate future cash, can be sold for cash or pledged as security for a loan.</p> <p>Economic resource exists today.</p> <p><i>Right of access:</i></p> <p>Established by sovereign right to impose.</p> <p><i>Expected to flow:</i></p> <p>Recognition criteria.</p>	<p><i>Resource:</i></p> <p>These receivables generate future cash, can be sold for cash or pledged as security for a loan.</p> <p><i>Controlled by the entity:</i></p> <p>Established by sovereign right to impose.</p> <p><i>Past events:</i> Economic resource exists today resulting from levying of taxes, sale of goods services, earning income etc.</p> <p><i>Expected to flow:</i> No different.</p>
<p><b>Unconditional transfer paid in advance of recipient using the resources</b></p> <p>Transfers paid to another entity to be used in the future.</p>	<p><i>Present economic resource:</i></p> <p>The transferring government has no economic resource it can use to generate cash, produce or provide services, can be sold or pledged as security for a loan.</p> <p>No economic resource exists.</p> <p><i>Right of access:</i> Transferring government has no right of access.</p> <p><i>Expected to flow:</i></p> <p>Recognition criteria.</p>	<p><i>Resource:</i></p> <p>The transferring government has no economic resource it can use to generate cash, produce or provide services, can be sold or pledged as security for a loan.</p> <p><i>Controlled by the entity:</i></p> <p>Control over the resource has been relinquished.</p> <p><i>Past events:</i> Transfer has been paid. No economic resource exists.</p> <p><i>Expected to flow:</i> No different than IASB.</p>

<sup>27</sup> Black's Law Dictionary, Eighth Edition

Asset	Working definition	IPSASB definition
<p><b>Conditional transfer paid in advance of recipient using the resources with no repayment clause for failure to perform</b></p> <p>Transfers paid to another entity for the provision of services or the acquisition of another asset.</p>	<p><i>Present economic resource:</i> The transferring government has no economic resource it can use to generate cash, produce or provide services, use for security for a loan or sell. No economic resource exists.</p> <p><i>Right of access:</i> Transferring government has no right of access.</p> <p><i>Expected to flow:</i> Recognition criteria.</p>	<p><i>Resource:</i> The transferring government has no economic resource it can use to generate cash, produce or provide services, use for security for a loan or sell.</p> <p><i>Controlled by the entity:</i> Control over the resource has been relinquished.</p> <p><i>Past events:</i> Transfer has been paid. No economic resource exists.</p> <p><i>Expected to flow:</i> No different than IASB.</p>
<p><b>Conditional transfer paid in advance of recipient using the resources with a repayment clause for failure to perform in accordance with terms</b></p>	<p><i>Present economic resource:</i> The transferring government has no economic resource it can use to generate cash, produce or provide services, use for security for a loan or sell. Repayment is conditional and triggered by failure to perform. No economic resource exists until failure to perform is determined.</p> <p><i>Right of access:</i> Transferring government has no right of access. Transfer has been paid.</p> <p><i>Expected to flow:</i> Recognition criteria.</p>	<p><i>Resource:</i> The transferring government has no economic resource it can use to generate cash, produce or provide services, use for security for a loan or sell. Repayment is conditional and triggered by failure to perform. No economic resource exists until failure to perform is determined.</p> <p><i>Controlled by the entity:</i> Control over the resource has been relinquished.</p> <p><i>Past events:</i> Transfer has been paid. No economic resource exists until failure to perform is determined.</p> <p><i>Expected to flow:</i> No different.</p>

Asset	Working definition	IPSASB definition
<p><b>Loan guarantee held</b> A sovereign government has agreed to guarantee the debt of a local government.</p>	<p><i>Present economic resource:</i> Unconditional promise by another party to provide guarantee coverage by standing ready to pay cash for amounts not paid by the borrowing party, which compensates for cash shortfalls that would otherwise occur or potentially from receiving cash inflows from the sale of, or negotiated release from, the guarantee.</p> <p><i>Right of access:</i> Established by contractual right identifying the entity as the beneficiary.</p> <p><i>Expected to flow:</i> Recognition criteria.</p>	<p><i>Resource:</i> The local government has a resource it has used to reduce the cost of borrowing and enjoys an economic benefit. The guarantee of the sovereign government is an unconditional obligation to stand ready to pay on default and repayment is conditional and triggered by failure to repay the debt.</p> <p><i>Controlled by the entity:</i> Local government has unconditional right to the guarantee.</p> <p><i>Past events:</i> Contract has agreed to.</p> <p><i>Expected to flow:</i> No different.</p>

Asset	Working definition	IPSASB definition
<p><b>Cash held in trust</b> Government has agreed to act as a trustee and manage a cash resource on behalf of a third party for the benefit of another third party.</p>	<p><i>Present economic resource:</i> Cash itself that provides the ability to obtain other economic resources that can result in cash inflows or can result in additional cash through investment, e.g., earn interest.</p> <p><i>Right to access:</i> No. Though the trustee has physical access to the cash, the trustee has promised to safeguard and manage the cash for another. The trustee does not have a right to the cash.</p>	<p><i>Resource:</i> Cash itself that provides the ability to obtain other economic resources that can result in cash inflows or can result in additional cash through investment, e.g., earn interest.</p> <p><i>Controlled by the entity:</i> Control of cash is established by valid outstanding trust agreement.</p> <p><i>Past events:</i> The cash must have come from somewhere.</p>
	<p><i>Expected to flow:</i> No right to economic resource though the economic resource exists.</p>	<p><i>Expected to flow:</i> No. Benefits that arise from the trustee’s ability to exchange cash for virtually any good or service that is available, now or in the future, do not flow to the trustee. (Instead, the trustee might receive a cash payment for managing the cash for its owner).</p>

**Linking liabilities to the entity**

167. One approach is to remove the reference “of the entity.” This would result in:

*Liabilities are present economic obligations.*

168. As with the asset definition, this approach defines liabilities generally but does not answer the question of which liabilities belong on the entity’s financial statements. Without providing a link to the entity, as was illustrated in the asset definition, the entity would first need to determine all obligations then applying some supporting guidance to determine when it is the entity’s liabilities. Linking the obligation to the entity within the definition, similar to the asset definition, is useful as there can be many obligations that the entity is not aware of and providing the link makes the definition more efficient and easier to understand.

169. The IPSASB, IASB, PSAB, Canadian ASB, FASAB, GASB, UK ASB, AASB, NZ ASRB and SA ASB definitions include the phrases of the entity, of a government, of the federal government, of a particular entity, that the entity and that the reporting entity controls. All of these phrases are attempts at lining the

liability to a particular entity. The only standard setter that does not provide such a link is the German ASB.

170. The benefit of linking the liability to the entity in the definition itself would require that both aspects i.e., the economic obligation and the link to the entity need to be present to determine which liabilities belong to the entity. For an entity to report a liability there must be a present economic obligation and it must be that entity's obligation. For example, an account payable is a present promise to pay cash and it is that entity's obligation.
171. Building on the working definition of a liability, it is linked to or identified with the entity when the liability is of the entity.

*Liabilities are present economic obligations of the entity.*

172. While an improvement over the definition that defines liabilities generally, it still forces the reader into the supporting guidance to determine what is meant by "of the entity."
173. The IASB/FASB project has taken a view that obligations must be enforceable against the entity by someone or something outside of the entity. In other words it is only those obligations that another party could force the entity to fulfil, otherwise satisfy or settle by. For example, if a government announces a certain program to reduce waiting times at hospitals over a long period of time, there may be nothing that can be enforced upon the government to perform as at the financial statement date.
174. Obligations are usually documented, including that it is the entity that is required to bear the economic obligation. For example, in a construction contract to build a new water treatment facility, the contract will usually specify the names of the parties to the contract and other terms. However, the identity of the other party need not be known to obligate the entity before the time of settlement. For example, while a government may have an environmental liability, the identity of a contractor, who is to be hired to carry out the work, may not be known.
175. Most economic obligations arise from deliberate actions of the entity, such as exchange transactions with other parties to acquire the funds, goods, and services needed for the entity to operate. For example, borrowing cash requires an entity to repay the amount borrowed; acquiring assets on credit obligates an entity to pay for them; using employees' knowledge, skills, time, and efforts obligates an entity to pay for their use, often including non-payroll benefits. Guaranteeing debt of others would require a government to stand ready to pay cash to the borrower of repay the debt directly.
176. Alternatively, it might be clear that environmental damage has occurred and must be cleaned up. In some cases, for example, there may be no legal or equivalent compulsion to clean-up certain abandoned mines sites. An entity that chooses to introduce such a program because it feels compelled to do so, would not qualify as a liability because no external party can force the entity to clean up those sites. The entity doing the clean up maintains discretion as to whether or not to do it, in this or a subsequent period. This would not be the case, if there was legal compulsion to act.

177. A promise to oneself cannot be an economic obligation of the entity. For example, in the absence of external requirements, an entity is not obligated to repair the roof of its office building or maintain its water treatment facility. Although, completing any repair or maintenance may be economically worthwhile, the entity can choose defer repairs and maintenance.
178. Equity investors acting in their capacity as owners are not *others*. Claims to residual interests in the entity that are capable of settlement with the entity only as a result of actions by the entity are not present economic obligations of the entity.

*Liabilities of an entity are present economic obligations that are enforceable.*

179. Enforceable obligations include those that are established by contract or otherwise imposed, as they can be enforced by a court of law. In some cases, constructive obligations – those that are created, inferred, or construed from the facts in a particular situation – may also be enforceable by the operation of legal doctrines, such as promissory estoppel. Such doctrines can be considered part of law and thus, are also legally enforceable. In some cases, equitable obligations—those that stem from a duty to another entity to do that which an ordinary conscience and sense of justice would deem fair, just, and right – might also be enforceable when they are supported by courts of equity. The IASB/FASB have referred to this type of enforceability as legal compulsion.
180. The IASB/FASB Framework convergence project<sup>28</sup> notes that when an entity feels morally or economically compelled to do something, these are things that are outside of legal compulsion. Moral compulsion refers what one ought to do to be fair, right or just. This differs from legal compulsion which emanates from forces external to the entity. Moral compulsion is an internal compulsion. Economic compulsion refers to an entity doing what is in its own best interests. This differs from legal compulsion as it too emanates from internal rather than external forces. The difficulty with these types of obligations is determining if the entity really “feels” morally or economically compelled. Management may feel compelled in good times while not so compelled in bad times.
181. Consistent with the approach in the asset definition to restrict assets to those that a government has a right or other access to, the definition of a liability could also link and limit obligations to those that are enforceable. To clarify what is meant by of the entity in the definition itself, it is possible to provide additional guidance on what is meant by enforceability.
182. Enforceability can be defined to mean those that are equivalent to legal enforceability. For example, two or more parties might agree to accept the decisions of an arbitrator. The arbitrator in a wage settlement situation can impose and enforce requirements upon both the employees and the entity itself. Even though the consequences of enforcement might differ somewhat, they are regarded as the equivalent of legally enforceable obligations. Other mechanisms might make it very difficult for the parties to avoid abiding by the arbitrator’s decision.

<sup>28</sup> IASB/FASB, Elements 2 – Liability Definition, February 2006, paragraphs 57 – 60.

183. Links to economic obligations incurred in exchange transactions are contractual in nature. They are based on written or oral agreements which outline an entity's requirement to pay cash or to provide goods or services to specified or determinable other parties.
184. Some economic obligations of the entity require nonreciprocal transfers from an entity to one or more other parties. Such economic obligations of the entity include those arising from deliberate actions of the entity such as unconditional or conditional transfers that have not yet been paid.
185. Some economic obligations of the entity arise from constructive obligations. A constructive obligation might be created, inferred, or construed from the facts in a particular situation, rather than contracted by agreement with another entity or imposed by government. For example, an entity might have a history of paying employee pension benefits even though there is no specified contractual agreement to do so and the entity has not announced a policy to do so. Nonetheless, a court could construe that practice to have created a legally enforceable obligation.
186. Economic obligations of an entity might also arise as a result of actions taken by others that are binding on the entity, such as legislative actions (statutes such as those requiring the payment of income and sales taxes), judicial actions (such as court awards for damages), or executive actions (for example, regulatory requirements or fines). Even if some discretion is provided to the entity as to how it acts in response to that action, as long as the entity is required to take some action it has an economic obligation. For example, an entity might have a choice of remedying a breach of legislation or paying a fine. So long as others can require the entity to take one or the other action, the entity is obligated to an economic obligation.
187. From this perspective, enforceable would mean that a:
  - (a) *Separate party* is involved. In the case of the arbitrator, it is an individual appointed by the parties in dispute.
  - (b) *Mechanism* exists that is capable of forcing an entity to take a specified course of action or consequence. If that specified course of action is not taken by the entity, then the claimant or intended recipient of the action can seek assistance from the separate party to enforce the consequences.
188. Obligations that would not be enforced by a separate party or mechanism would not qualify for financial reporting purposes. For example, an entity would not have an enforceable obligation merely because its employees are on strike to demand additional compensation, because there is no mechanism or separate party by which to enforce any action.
189. While statutes and regulations may differ from country to country, this legal compulsion or enforceability approach provides a solid basis upon which to build a definition of liabilities. Otherwise, liabilities are in the eyes of management who can decide whether or not to honor these types of compulsions. No other party could force them to settle or act upon them.

190. The IASB/FASB have taken a singular approach to the definitions. In that case the definition becomes:

*A liability of an entity is a present economic obligation of the entity that is enforceable.*

191. The two best alternatives to the existing definition appear to be:

*A liability is a present economic obligation of the entity.*

*A liability of an entity is a present economic obligation of the entity that is enforceable.*

192. In both cases, supporting text can be added to clarify the terms and phrases in each of the definitions. Nevertheless, the position taken by the IASB/FASB project is that the link between the obligation and the entity should be part of the definition. This is also reflective of IPSASB's current definition.

**Preliminary View 5**

A liability of an entity is a present economic obligation of the entity that is enforceable.

*Does the Board think linking the obligation to the entity using the concept of enforceability is appropriate and that it provides useful clarification?*

*Assessing a working definition of a liability*

The following examples have been provided for illustration and discussion purposes only. They are not meant to be definitive as individual circumstances and facts may be different. The examples have been based on:

*A liability of an entity is a present economic obligation of the entity that is enforceable.*

<b>Liability</b>	<b>Proposed definition</b>	<b>IPSASB definition</b>
<b>Accounts payable</b>	<p><i>Present economic obligation:</i> Obligation to pay exists today. An economic resource must be provided to settle the obligation. Goods and services received.</p> <p><i>Enforceable:</i> Established by another's right to the settlement.</p> <p><i>Expected to flow:</i> Recognition criteria.</p>	<p><i>Present obligation:</i> Obligation to pay exists today. An economic resource must be provided to settle the obligation.</p> <p><i>Past events:</i> Goods and services received.</p> <p><i>Expected to flow:</i> No different.</p>

Liability	Proposed definition	IPSASB definition
<p><b>Unconditional transfer payable</b> Government has unconditionally agreed to pay another entity a sum of money.</p>	<p><i>Present economic obligation:</i> The transferring government has an obligation to pay that exists today. An economic resource must be provided to settle the obligation.</p> <p><i>Enforceable:</i> Established by another’s right to the transfer.</p> <p><i>Expected to flow:</i> Recognition criteria.</p>	<p><i>Present obligation:</i> Obligation to pay exists today. An economic resource must be provided to settle the obligation.</p> <p><i>Past events:</i> Goods and services received.</p> <p><i>Expected to flow:</i> No different.</p>
<p><b>Unconditional transfer paid in advance of recipient using the resources</b></p>	<p><i>Present economic obligation:</i> The transferring government has no economic obligation as the amount has been paid. The recipient has no present obligation that exists today.</p> <p><i>Enforceable:</i> Transferring government cannot force the recipient to repay the amount. Recipient can use the money as it chooses.</p> <p><i>Expected to flow:</i> Recognition criteria.</p>	<p><i>Present obligation:</i> The transferring government has no economic obligation as the amount has been paid. The recipient has no present obligation.</p> <p><i>Past events:</i> Transfer has been paid. No economic obligation exists for the transferor. Recipient can use the money as it chooses.</p> <p><i>Expected to flow:</i> No different than IASB.</p>

Liability	Proposed definition	IPSASB definition
<p><b>Conditional transfer paid in advance of recipient using the resources with no repayment clause for failure to perform</b></p> <p>Transfers paid to another entity for the provision of services or the acquisition of another asset.</p>	<p><i>Present economic obligation:</i></p> <p>The transferring government has no economic obligation as the amount has been paid. The recipient has no economic obligation to the transferor. The recipient has yet to provide the services or acquire the asset so no economic obligation exists today.</p> <p><i>Enforceable:</i></p> <p>Transferring government cannot force the recipient to repay the amount. No other can force the recipient to pay until the services are provided or the asset acquired.</p> <p><i>Expected to flow:</i> Recognition criteria.</p>	<p><i>Present obligation:</i></p> <p>The transferring government has no economic obligation as the amount has been paid. The recipient has no economic obligation to the transferor. The recipient has yet to provide the services or acquire the asset.</p> <p><i>Past events:</i></p> <p>Transfer has been paid by transferor. No economic obligation exists. Recipient has not provided services or acquired the asset.</p> <p><i>Expected to flow:</i> No different.</p>
<p><b>Conditional transfer paid in advance of recipient using the resources with a repayment clause for failure to perform</b></p> <p>Transfers paid to another entity for the provision of services or the acquisition of another asset.</p>	<p><i>Present economic obligation:</i></p> <p>The transferring government has no economic obligation as the amount has been paid. The recipient has no economic obligation to the transferor until it fails to perform. The recipient has yet to provide the services or acquire the asset so no economic obligation exists today.</p> <p><i>Enforceable:</i></p> <p>Transferring government cannot force the recipient to repay the amount. No other can force the recipient to pay until the services are provided or the asset acquired or the recipient fails to perform.</p> <p><i>Expected to flow:</i> Recognition criteria.</p>	<p><i>Present obligation:</i></p> <p>The transferring government has no economic obligation as the amount has been paid. The recipient has no economic obligation to the transferor until it fails to perform. The recipient has yet to provide the services or acquire the asset.</p> <p><i>Past events:</i></p> <p>Transfer has been paid by transferor. No economic obligation exists. Recipient has not provided services or acquired the asset. Recipient expects to perform.</p> <p><i>Expected to flow:</i> No different.</p>

Liability	Proposed definition	IPSASB definition
<p><b>Conditional transfer paid in advance of recipient using the resources with a repayment clause for failure to perform</b></p> <p>Transfers paid to another entity for the provision of services or the acquisition of another asset.</p>	<p><i>Present economic obligation:</i> The transferring government has no economic obligation as the amount has been paid. The recipient has no economic obligation to the transferor until it fails to perform. The recipient has yet to provide the services or acquire the asset so no economic obligation exists today.</p> <p><i>Enforceable:</i> Transferring government cannot force the recipient to repay the amount. No other can force the recipient to pay until the services are provided or the asset acquired or the recipient fails to perform.</p> <p><i>Expected to flow:</i> Recognition criteria.</p>	<p><i>Present obligation:</i> The transferring government has no economic obligation as the amount has been paid. The recipient has no economic obligation to the transferor until it fails to perform. The recipient has yet to provide the services or acquire the asset.</p> <p><i>Past events:</i> Transfer has been paid by transferor. No economic obligation exists. Recipient has not provided services or acquired the asset. Recipient expects to perform.</p> <p><i>Expected to flow:</i> No different.</p>
<p><b>Loan guarantee given</b></p> <p>A sovereign government has agreed to guarantee the debt of a local government.</p>	<p><i>Present economic obligation:</i> Unconditional promise by government to stand ready to pay cash for amounts not paid by the borrowing party, which compensates for cash shortfalls that would otherwise occur or potentially from receiving cash inflows from the sale of, or negotiated release from, the guarantee. The guarantee exists today.</p> <p><i>Enforceable:</i> Established by contract identifying the sovereign government as being obligated to pay.</p> <p><i>Expected to flow:</i> Recognition criteria.</p>	<p><i>Present obligation:</i> The local government has a resource it has used to reduce the cost of borrowing and enjoys an economic benefit. The guarantee of the sovereign government is an unconditional obligation to stand ready to pay on default and repayment is conditional and triggered by failure to repay the debt.</p> <p><i>Past events:</i> Contract has been agreed to.</p> <p><i>Expected to flow:</i> No different.</p>

## Revenue and Expense Definitions – General Considerations and Improvements

193. The IPSAS definitions are:

*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.*

*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.*

194. Staff are of the view that the definitions should parallel each other as close as possible given that both definitions are referring to changes in assets and liabilities:

*Revenues ~~is~~ are the gross ~~inflow of~~ increases in economic benefits or service potential during the reporting period in the form of inflows or enhancements of assets or decreases of liabilities ~~when those inflows that result in ~~an~~ increases~~ in net assets/equity, other than ~~increases~~ those relating to contributions from owners.*

*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.*

195. The next question that arises is the use of the word “gross” in the revenue definition. The revenue definition appears to require that revenue items be recorded gross of any expenses. However, there are a number of existing IPSASs that require or permit netting of certain expenses against revenue or revenue against certain expenses. For example, expenses related to a provision that is recognized in accordance with IPSAS 19 and reimbursed under a contractual arrangement may be netted against the reimbursement. Other examples include trade discounts and volume rebates and gains and losses on foreign currency exchange. These standards level decisions do not appear to follow the basic definition of revenue yet, in some cases, it makes sense to the net effect, for example, when there is a legal of offset.

196. If this point of view is taken:

*Revenues are ~~the gross~~ increases in economic benefits or service potential during the reporting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in net assets/equity, other than those relating to contributions from owners.*

*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.*

197. Further, as staff is proposing that gains and losses are not elements in and of themselves, the notion of gains and losses can be built into the definitions of revenues and expenses:

*Revenues, including gains, are increases in economic benefits or service potential during the reporting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in net assets/equity, other than those relating to contributions from owners.*

*Expenses, including losses, 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.*

198. The IASB Framework, PSAB, FASAB, UK ASB, AASB, NZARSB and SA ASB all indicate that the definition of revenues includes gains. The same standard setters agree that the definition of expenses includes losses. They point out that gains and losses are considered subsets of revenues and expenses, rather than distinct elements, just as capital assets and financial assets are considered a subset of assets, and that gains are no different in nature [increases in economic resources] than revenues and the same for losses and expenses.
199. In addition, the proposed definition of assets focuses on economic resources and not economic benefits. The existing definitions focus on the benefits or service potential flowing into or out of the entity. To make clear that revenues and expenses result in changes to assets and liabilities it is proposed that the definitions of revenue and expense make explicit this link. Economic resources would be described as to include service potential.

***Preliminary View 6***

Revenues, including gains, are increases in economic resources ~~benefits or service potential~~ during the reporting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in net assets/equity, other than those relating to contributions from owners.

***Preliminary View 7***

Expenses, including losses, are decreases in economic resources ~~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.

*Does the Board agree with the revisions to the revenue and expense definitions?*

## Appendix A – Element definition, characteristics and identification

2006	IPSAS 1, Presentation of Financial Statements	No explanation of what an element of financial statement is. But the definition of accrual accounting notes that the elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.
2007	IASB Framework	Financial statements portray the effects of transactions and other events by grouping them into broad classes according to their economic characteristics. These broad classes are termed the elements of financial statements. Related to measurement of financial position in the balance sheet: <ul style="list-style-type: none"> <li>- Assets</li> <li>- Liabilities</li> <li>- Equity</li> </ul> Related to measurement of financial performance in the income statement: <ul style="list-style-type: none"> <li>- Income (including revenues and gains)</li> <li>- Expenses</li> </ul>
2006	Canada PS 1000	Elements of financial statements are the basic categories of items portrayed therein in order to meet the objectives of financial statements. There are two types of elements: those that describe economic(financial and non-financial) resources, obligations and accumulated surplus or deficit of a government at a point in time, and those that describe changes in economic resources, obligations and accumulated surplus or deficit over a period of time. The elements of government financial statements include: assets (both financial and non-financial), liabilities, revenue and expenses.
	Canada 1000	Elements of financial statements are the basis categories of items portrayed therein in order to meet the objectives of financial statements. Two types of elements: <ul style="list-style-type: none"> <li>- Those that describe economic resources, obligations and net assets/equity over a point in time</li> <li>- Those that describe changes in economic resources, obligation and net assets/equity over a period in time.</li> <li>- Notes are not elements of financial statements</li> </ul> Balance sheet: <ul style="list-style-type: none"> <li>- Assets</li> <li>- Liabilities</li> <li>- Net assets/equity</li> </ul>

		<p>Income statement:</p> <ul style="list-style-type: none"> <li>- Revenues</li> <li>- Expenses</li> <li>- Gains</li> <li>- Losses</li> </ul>
2007	US FASAB ED	<p>The term <i>element</i> refers to broad classes of items, such as assets, liabilities, revenues, and expenses that comprise the building blocks of financial statements. Components of those broad classes, such as cash, investments, and debt instruments, may meet the definitions of elements but are not elements as the term is used in this Statement. Instead, they are called <i>items</i> or by descriptive names. This Statement focuses on the broad classes and their characteristics instead of defining particular assets, liabilities, or other items. The elements of accrual-basis financial statements defined in this Statement are assets, liabilities, net position, revenues, and expenses.</p>
2007	US GASB	<p>Elements are the broad fundamental components of financial statements. This Statement identifies five elements of financial position – assets, liabilities, deferred outflows of resources, deferred inflow of resources and net position – and two elements of resources flows statements – outflow of resources and inflows of resources.</p>
1985	US FASB CON 6	<p>Elements of financial statements are building blocks with which financial statements are constructed – the classes of items that financial statements comprise. The items in financial statements represent, in words and numbers, certain entity resources, claims to those resources, and the effects of transactions and other events and circumstances that result in changes in those resources and claims.</p> <ul style="list-style-type: none"> <li>- Assets</li> <li>- Liabilities</li> <li>- Net assets/equity</li> <li>- Investments by owners</li> <li>- Distribution to owners</li> <li>- Comprehensive income</li> <li>- Revenues (NFP only)</li> <li>- Expenses (NFP only)</li> <li>- Gains (NFP only)</li> <li>- Losses (NFP only)</li> </ul>
1999	UK ASB Principles	<p>Elements of financial statements are building blocks with which financial statements are constructed – the classes of items that financial statements comprise. In the case of the balance sheet (or statement of</p>

		<p>financial position):</p> <ul style="list-style-type: none"> <li>- Assets</li> <li>- Liabilities</li> <li>- Ownership interest <ul style="list-style-type: none"> <li>• Contributions from owners</li> <li>• Distribution to owners</li> </ul> </li> </ul> <p>In the case of the profit and loss account (or statement of financial performance):</p> <ul style="list-style-type: none"> <li>- Gains (includes all forms of income and revenue as well as all recognised gains (realised and unrealised) on non-revenue items)</li> <li>- Losses (incorporates all forms of expenses, sometimes referred to as revenue expenditure, and all recognized losses (realised and unrealised) on non-revenue items)</li> </ul>
IASB 9A 03/06	Australia AASB	<p>No description of an element.</p> <p>Financial measures in statement of financial position:</p> <ul style="list-style-type: none"> <li>- Assets</li> <li>- Liabilities</li> <li>- Equity: <ul style="list-style-type: none"> <li>• Contribution by owners</li> <li>• Distribution to owners</li> </ul> </li> </ul> <p>Financial measures in statement of financial performance:</p> <ul style="list-style-type: none"> <li>- Revenues: <ul style="list-style-type: none"> <li>Includes savings in the outflows of future economic benefits (eg forgiveness of liabilities)</li> </ul> </li> <li>- Expenses</li> </ul>
1993	NZ ARSB	<p>Financial reports portray the effects of transactions and other events by grouping them into broad classes according to their economic characteristics in order to meet their objectives specified in paragraph 3.1. These broad classes are termed elements. (para 7.1)</p> <p>Financial elements:</p> <p>Directly related to financial position:</p> <ul style="list-style-type: none"> <li>- Assets</li> <li>- Liabilities</li> <li>- Equity</li> </ul> <p>Directly related to financial performance:</p> <ul style="list-style-type: none"> <li>- Revenues</li> <li>- Expenses</li> </ul>
IASB 9A 03/06	German ASB	<p>No description of an element.</p> <p>Financial measures in statement of financial position:</p> <ul style="list-style-type: none"> <li>- Assets</li> <li>- Liabilities</li> <li>- Equity</li> </ul> <p>Financial measures in statement of income and</p>

		<p>expenses:</p> <ul style="list-style-type: none"> <li>- Income</li> <li>- Expenses</li> </ul>
2006	Japan ASB DP	<p>No description of an element.</p> <p>Balance sheet:</p> <ul style="list-style-type: none"> <li>- Assets</li> <li>- Liabilities</li> <li>- Net assets</li> </ul> <p>Income Statement:</p> <ul style="list-style-type: none"> <li>- Revenues/gains</li> <li>- Expenses/losses</li> <li>- Net income</li> </ul> <p>Comprehensive income</p>
2006	South African ASB	<p>Financial statements portray the financial effects of transactions and other events by grouping them into broad classes according to their economic characteristics. These broad classes are termed the elements of financial statements. The elements directly related to the measurement of financial position in the statement of financial position are assets, liabilities and net assets. The elements directly related to the measurement of financial performance in the statement of financial performance are revenue and expenses.</p>

**Appendix B – Summary of the various financial position elements and their definitions**

DATE	PUBLICATION	ASSET DEFINITION
2006	IPSAS 1	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.
2007	IFRS Framework	An asset is a resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity.
2006	Canada PS 1000	Assets are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.
	Canada 1000	Assets are economic resources controlled by an entity as a result of past transactions or events and from which future economic benefits may be obtained.
2007	US FASAB ED	An asset is a resource that embodies economic benefits or services that the federal government can control.
2007	US GASB	Assets are resources with present service capacity that the government presently controls.
1985	US FASB CON 6	Assets are probable future economic benefits obtained of controlled by a particular entity as a result of past transactions or events.
1999	UK ASB Principles	Assets are rights or other access to future economic benefits controlled by an entity as a result of past transactions or events.
2004	Australia AASB	An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.
1993	NZ ARSB	Assets are service potential or future economic benefits controlled by the entity as a result of past transactions or other past events.
2002	German ASB Draft	An asset is a resource controlled by an enterprise as a result of past events. The inflow of future economic benefits is expected as a result of utilization of that asset within the enterprise or as a result of its disposal.
2006	Japan ASB DP	Assets are economic resources that the reporting entity controls as a result of past transactions or events.
2006	South African ASB	An asset is a resource controlled by the entity as a result of past events and from which future economic benefits or service potential is expected to flow to the entity.

DATE	PUBLICATION	ASSET – DEFERRED OUTFLOW
2007	GASB	A deferred outflow of resources—a consumption of net assets by the government that is applicable to a future reporting period

<b>DATE</b>	<b>PUBLICATION</b>	<b>LIABILITY DEFINITION</b>
2006	IPSAS 1, Presentation of Financial Statements	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.
2007	IFRS Framework	A liability is a present obligation 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.
2006	Canada PS 1000	Liabilities are present obligations of a government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits.
	Canada 1000	Liabilities are obligations of an entity arising from past transactions or events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits in the future.
2007	US FASAB ED	A liability is a present obligation of the federal government to provide assets or services to another entity at a determinable date, when a specified event occurs, or on demand.
2007	US GASB	Liabilities are present obligations to sacrifice resources that the government has little or no discretion to avoid.
1985	US FASB CON 6	Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.
1999	UK ASB Principles	Liabilities are obligations of an entity to transfer economic benefits as a result of past transactions or events.
2004	Australia AASB	A liability is a present obligation 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.
1993	NZ ARSB	Liabilities are the future sacrifices of service potential or of future economic benefits that the entity is presently obligated to make to other entities as a result of past transactions or other past events.
2002	Germany ASB Draft	A liability is a present obligation to an external party arising from past events. The outflow is expected as a result of the settlement of the obligation.
2006	Japan ASB DP	Liabilities are obligations or their equivalents to give up or deliver the economic resources that the reporting entity controls, as a result

DATE	PUBLICATION	LIABILITY DEFINITION
		of past transactions or events.
2006	South African ASB	A liability is a present obligation 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.

DATE	PUBLICATION	LIABILITY – DEFERRED INFLOW
2007	GASB	A deferred inflow of resources—an acquisition of net assets by the government that is applicable to a future reporting period.

DATE	PUBLICATION	NET ASSET/EQUITY DEFINITION
2006	IPSAS 1, Presentation of Financial Statements	Net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities.
2007	IFRS Framework	Equity is the residual interest in the assets of the entity after deducting all its liabilities.
2006	Canada PS 1000	No definition offered but implied residual difference between assets and liabilities.
	Canada 1000	Equity is the ownership interest in the assets of a profit-oriented enterprise after deducting its liabilities. While equity of a profit-oriented enterprise in total is a residual, it includes specific categories of items, for example, types of share capital, contributed surplus and retained earnings.
2007	US FASAB ED	Net position or its equivalent, net assets, is the arithmetic difference between the total assets and total liabilities recognized in the federal government's or a component entity's balance sheet. Net position may be positive (assets greater than liabilities) or negative (assets less than liabilities).
2007	US GASB	Net position is the residual of all other elements presented in a statement of financial position.
1985	US FASB CON 6	Equity or net assets is the residual interest in the assets of an entity that remains after deducting its liabilities.
1999	UK ASB Principles	Ownership interest is the residual amount found by deducting all of the entity's liabilities from all of the entity's assets.
2004	Australia AASB	Equity is the residual interest in the assets of the entity after deducting all its liabilities.
1993	NZ ARSB	Equity is the residual interest in the assets of the entity after deduction of its liabilities.
2002	German ASB Draft	Equity embodies the claims of owners. Equity is distinguishable from liabilities. The criteria for distinguishing between equity and liabilities are based

		on whether the claims are for a fixed amount (liabilities) or for a residual amount (equity).
2006	Japan ASB DP	Net assets is the difference between total assets and total liabilities.
2006	South African ASB	Net assets are the residual interest of the owners in the assets of the entity after deducting all its liabilities.

DATE	PUBLICATION	OWNERS EQUITY
2006	Japan ASB DP	Owners' equity is a component of net assets attributable to shareholders who are the owners of the reporting entity (shareholders of the parent company in the case of consolidated financial statements).

DATE	PUBLICATION	CONTRIBUTIONS FROM OWNERS
1985	FASB	Investments by owners are increases in equity of a particular business enterprise resulting from transfers to it from other entities of something valuable to obtain or increase ownership interests (or equity) in it.
1999	UK ASB Principles	Contributions from owners are increases in ownership interest resulting from transfers from owners in their capacity as owners.
	NZ ARSB	Contributions by owners means service potential or future economic benefits that have been contributed to the entity by parties external to the entity other than those which result in liabilities of the entity that establish a financial interest in the net assets of the entity which: (a) conveys entitlement both to distributions of service potential or future economic benefits by the entity during its life, such distributions being at the discretion of the ownership group or its 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, transferred or redeemed.
2004	South African ASB	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 of the entity, which: a. convey 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.
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DATE	PUBLICATION	<b>DISTRIBUTION TO OWNERS</b>
1985	FASB	Distributions to owners are decreases in equity of a particular business enterprise resulting from transferring assets, rendering services, or incurring liabilities by the enterprise to owners.
1999	UK ASB Principles	Distributions to owners are decreases in ownership interest resulting from transfers to owners in their capacity as owners.
	NZ ARSB	Distributions to owners means service potential or future economic benefits distributed by the entity to all or part of its ownership group, either as a return on investment or as a return of investment.
2004	South African ASB	Distributions to owners are decreases in residual interest resulting from transfers to owners in their capacity as owners.

DATE	PUBLICATION	<b>CAPITAL MAINTENANCE ADJUSTMENT</b>
	IASB	The revaluation or restatement of assets and liabilities gives rise to increases or decreases in equity. While these increases or decreases meet the definition of income and expenses, they are not included in the income statement under certain concepts of capital maintenance. Instead these items are included in equity as capital maintenance adjustments or revaluation reserves.
	AASB	Capital maintenance adjustments are adjustments made under certain accounting models to the entity's capital to take account of the effects of price changes on the entity's assets and liabilities.
	NZ ARSB	Capital maintenance adjustments are adjustments made under certain accounting models to the entity's capital to take account of the effects of price changes on the entity's assets and liabilities.

**Appendix C – Summary of definitions of revenue/gains and expenses/losses**

DATE	PUBLICATION	REVENUE DEFINITION
2006	IPSAS 1, Presentation of Financial Statements	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.
2007	IFRS Framework	Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases in liabilities that result in increases in equity, other than those relating to contributions from equity participants.
2006	Canada PS 1000	Revenues, including gains, are increases in economic resources, either by way of increases of assets or decreases of liabilities, resulting from the operations, transactions and events of the accounting period.
	Canada 1000	Revenues are increases in economic resources, either by way of inflows or enhancements of assets or reductions of liabilities, resulting from the ordinary activities of an entity.
2007	US FASAB ED	A revenue is an increase in assets, a decrease in liabilities, or a combination of both from providing goods or services, levying taxes or other impositions, receiving donations, or any other activity (excluding borrowing) performed during the reporting period.
2007	US GASB	An inflow of resources is an acquisition of net assets by the government that is applicable to the reporting period.
1985	US FASB CON 6	Revenues are inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.
1999	UK ASB Principles	No revenue definition but included in gains definition.
2004	Australia AASB	Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants. The definition of income encompasses both revenue and gains.

1993	NZ ARSB	Revenue are inflows or other enhancements or savings in outflows, of service potential or future economic benefits in the form of increases in assets or reductions in liabilities of the entity, other than those relating to contributions by owners, that result in an increase in equity during the reporting period.
2002	German ASB Draft	Income is the increase in economic benefits during an accounting period. The increase in economic benefits is in the form of a direct inflow (inflow of cash or cash equivalents), an increase in the value of an asset or the decrease in the value of a liability. The profit or loss from extraordinary items comprises income and expenses which do not arise in the course of the ordinary activities of an enterprise.
2006	Japan ASB DP	Revenues/gains are those items that result in increases in net income or minority interests' share in earnings, and represent the portion of the amount corresponding to increases in assets or decreases in liabilities having occurred by the end of a particular period which have been released from the risks.
2006	South African ASB	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, other than increases relating to contributions from owners.

DATE	PUBLICATION	GAIN DEFINITION
2006	IPSAS 1, Presentation of Financial Statements	
2007	IFRS Framework	The definition of income encompasses both revenue and gains.
2006	Canada PS 1000	The definition of revenue encompasses both revenue and gains.
	Canada 1000	Gains are increases in equity / net assets from peripheral or incidental transactions and events affecting an entity and from all other transactions, events and circumstances affecting the entity except those that result from revenues or equity / net assets contributions.
2007	US FASAB ED	The definitions of revenue and expense in this Statement include items that might be reported as gains and losses. Gains and losses are considered subsets of revenues and expenses, rather than distinct elements, just as capital assets and financial assets are considered subsets of assets.
	US GASB	

1985	US FASB CON 6	Gains are increases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from revenues or investments by owners.
1999	UK ASB Principles	Gains are increases in ownership interest not resulting from contributions from owners.
2004	Australia AASB	The definition of income encompasses both revenue and gains.
1993	NZ ARSB	The definition of revenue encompasses both revenue and gains.
2002	German ASB Draft	The profit or loss from extraordinary items comprises income and expenses which do not arise in the course of the ordinary activities of an enterprise.
2006	South African ASB	The definition of revenue encompasses both revenue and gains. Gains represent increases in economic benefits or service potential and as such are no different in nature from revenue. Hence, they are not regarded as constituting a separate element in this framework.

<b>DATE</b>	<b>PUBLICATION</b>	<b>EXPENSE DEFINITION</b>
2006	IPSAS 1, Presentation of Financial Statements	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.
2007	IFRS Framework	Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.
2006	Canada PS 1000	Expenses, including losses, are decreases in economic resources, either by way of decreases in assets or increases in liabilities, resulting from the operations, transactions and events of the accounting period.
	Canada 1000	Expenses are decreases in economic resources, either by way of outflows or reductions of assets or incurrences of liabilities, resulting from an entity's ordinary revenue generating or service delivery activities.
2007	US FASAB ED	An expense is a decrease in assets, an increase in liabilities, or a combination of both from providing cash or cash equivalents, goods or services, or any other activity (excluding repayments of borrowing) performed during the reporting period.

2007	US GASB	An outflow of resources is a consumption of net assets by the government that is applicable to the reporting period.
1985	US FASB CON 6	Expenses are outflows or other using up of assets or incurrences of liabilities (or a combination of both) from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major or central operations.
1999	UK ASB Principles	No expense definition but included in losses definition.
2004	Australia AASB	Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. The definition of expenses encompasses losses as well as those expenses that arise in the course of the ordinary activities of the entity.
1993	NZ ARSB	Expense are consumptions or losses of service potential or future economic benefits in the form of reductions in assets or increases in liabilities of the entity, other than those relating to distributions to owners, that result in a decrease in equity during the reporting period.
2002	German ASB Draft	Expenses are decreases in economic benefits during an accounting period. The decreases in economic benefits are in the form of a direct outflow (outflow of cash or cash equivalents), an increase in the value of a liability or the decrease of the value of an asset. The profit or loss from extraordinary items comprises income and expenses which do not arise in the course of the ordinary activities of an enterprise.
2006	Japan ASB DP	Expenses/losses are those items that result in decreases in net income or minority interests' share in earnings, and represent the portion of the amount corresponding to decreases in assets or increases in liabilities having occurred by the end of a particular period which has been released from the risks.
2006	South African ASB	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, other than those relating to distributions to owners.

DATE	PUBLICATION	LOSS DEFINITION
2006	IPSAS 1, Presentation of Financial Statements	

2007	IFRS Framework	The definition of expenses encompasses losses as well as those that arise in the course of the ordinary activities of the entity.
2006	Canada PS 1000	The definition of expenses encompasses both expenses and losses.
	Canada 1000	Losses are decreases in equity / net assets from peripheral or incidental transactions and events affecting an entity and from all other transactions, events and circumstances affecting the entity except those that result from expenses or distributions of equity / net assets.
2007	US FASAB ED	The definitions of revenue and expense in this Statement include items that might be reported as gains and losses. Gains and losses are considered subsets of revenues and expenses, rather than distinct elements, just as capital assets and financial assets are considered subsets of assets.
	US GASB	
1985	US FASB CON 6	Losses are decreases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from expenses or distributions to owners.
1999	UK ASB	Losses are decreases in ownership interest not resulting from distributions to owners.
2004	Australia AASB	The definition of expenses encompasses losses as well as those expenses that arise in the course of the ordinary activities of the entity.
1993	NZ ARSB	The definition of expenses encompasses losses.
2002	German ASB Draft	The profit or loss from extraordinary items comprises income and expenses which do not arise in the course of the ordinary activities of an enterprise.
2006	South African ASB	The definition of expenses encompasses losses as well as those expenses that arise in the course of the operating activities of the entity. Losses represent decreases in economic benefits or service potential and as such, they are no different in nature from other expenses. Hence, they are not regarded as a separate element in this framework.

DATE	PUBLICATION	INCOME/COMPREHENSIVE INCOME
1985	US FASB CON 6	Comprehensive income is the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners.

2006	Japan ASB DP	<p>This Conceptual Framework positively positions net income as one of the elements of financial statements and defines revenues/gains and expenses/losses, which are the sources of net income, by relating them to net income (and minority interests' share in earnings).</p> <p>Net income is a portion of the changes in net assets during a certain period (excluding changes resulting from direct transactions with shareholders, who are the owners of the reporting entity, minority shareholders of subsidiaries, and option holders, who may become its owners in the future) that represents the results of investments that are released from risks during a certain period and are attributable to the owners of the reporting entity.</p> <p>This Conceptual Framework positions comprehensive income as an independent element as well as net income because comprehensive income might be proved to be more useful than net income based on future research.</p> <p>Comprehensive income is the change in net assets during a certain period resulting from transactions or events other than direct transactions with shareholders, who are the owners of the reporting entity, minority shareholders of subsidiaries, and option holders, who may become its owners in the future.</p>
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