

PRESENTATION OF FINANCIAL STATEMENTS

IPSASB CAG Meeting – 24 June 2024

Toronto, Canada

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AGENDA

- 1. Project Update**
- 2. CAG Discussion topic:
Statement of Financial Position –
Classification of Assets and
Liabilities**

Project Update

Project overview

The project's **objective** is to improve the communication effectiveness of information reported in public sector financial statements

Presentation is focused on the selection, location, and organization of the information reported in general purpose financial statements.

Desired Outcomes



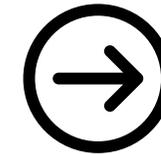
Project Update

Key decisions to date

To develop a new IPSAS to replace IPSAS 1, *Presentation of Financial Statements*



To use IFRS 18 as the starting base and adapt it to reflect the public sector context



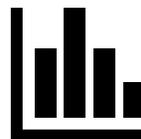
To issue a consultation paper accompanied by a 'full' illustrative exposure draft in Phase 1



To explore the concept of allowing for different presentation approaches



To focus on the statement of financial position, statement of financial performance, and statement of changes in net assets/equity

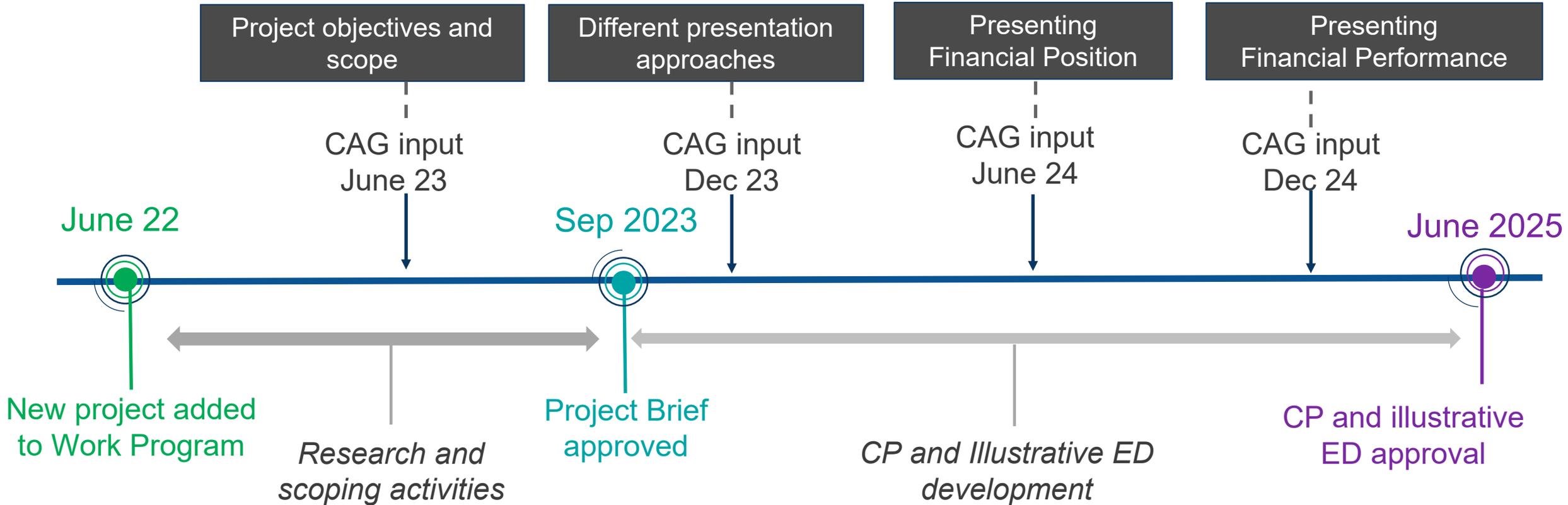


To define the elements of financial statements (assets, liabilities, revenue, and expenses) based on the IPSASB Conceptual Framework



Project Update

Project Timeline – Consultation Paper Development



Classification of Assets and Liabilities

| Statement Financial Position | 20X1 | 20X2 |
|--|------|------|
| Assets | | |
| ... | | |
| ... | | |
| ... | | |
| Liabilities | | |
| ... | | |
| ... | | |
| ... | | |
| Net assets/equity | | |
| Components of net assets/equity | | |
| ... | | |
| ... | | |
| Total net assets/equity | | |

How should assets and liabilities be classified in the Statement of Financial Position?

Two approaches are commonly used across the public sector:

- Current/non-current classification
- Financial/non-financial classification

Order of Liquidity approach on an exception basis.

Current/Non-Current Classification Approach

Supports assessments of solvency and liquidity.

- **Current assets** – those expected to be converted into cash or used up within the next reporting period
- **Non-current assets** – all other assets not classified as current
- **Current liabilities** – due for settlement within the next reporting period
- **Non-current liabilities** – all other liabilities not classified as current

| Statement Financial Position | 20X1 | 20X2 |
|--------------------------------|------|------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | | |
| Accounts receivables | | |
| Inventories | | |
| Total current assets | | |
| Non-current assets | | |
| Property, plant, and equipment | | |
| Investments | | |
| Total non-current assets | | |
| Total assets | | |
| LIABILITIES | | |
| Current liabilities | | |
| Trade creditors | | |
| Employee entitlements | | |
| Other payables | | |
| Total current liabilities | | |
| Non-current liabilities | | |
| Borrowings | | |
| Total non-current liabilities | | |
| Total liabilities | | |
| Net assets/equity | | |

Financial/Non-Financial Classification Approach



| Statement of Financial Position | | |
|---|-------------|-------------|
| as at March 31 | | |
| | 20X3 | 20X2 |
| Financial assets | XX | XX |
| Non-financial assets | XX | XX |
| Total assets | XX | XX |
| Financial liabilities | XX | XX |
| Non-financial liabilities | XX | XX |
| Total liabilities | XX | XX |
| Net assets (net liabilities) | XX | XX |
| Net assets (net liabilities) components: | | |
| accumulated surplus/deficit | XX | XX |
| accumulated remeasurements | XX | XX |
| accumulated other | XX | XX |
| | XX | XX |

Financial and Non-Financial Assets

How will the asset be used?

A financial asset is an asset that could be used to discharge existing financial liabilities or spend on future operations and is not for consumption in the normal course of operations.

A non-financial asset is an asset that does not meet the definition of a financial asset.

Examples

cash and cash equivalents, accounts receivable, inventories for sale and investments

Examples

Property, plant and equipment, inventories held for use, prepaid expenses and intangibles

Financial and Non-Financial Liabilities

How is the liability expected to be settled?

A financial liability is a liability that is expected to be settled using existing or future financial assets.

A non-financial liability is a liability that does not meet the definition of a financial liability.

Examples

accounts payable, liabilities for employee future benefits and borrowings

Example

Obligation to use tangible capital asset constructed with a transfer to provide services over a specified number of years

Differences in Approaches – Asset Classification

Current/non-current

Financial/non-financial

| Current assets | Financial assets |
|--------------------------------|--------------------------------|
| Cash | Cash |
| Accounts receivable | Accounts receivable |
| Short term investments | Investments |
| Inventory | Inventory held for sale |
| Prepaid expenses | - |
| Non-current assets | Non-financial assets |
| Property, plant, and equipment | Property, plant, and equipment |
| Intangibles | Intangibles |
| - | Inventory held for use |
| Long-term investments | - |
| - | Prepaid expenses |

Differences in Approaches – Liability Classification

Current/non-current

Financial/non-financial

| Current liabilities | Financial liabilities |
|----------------------------------|--|
| Trade creditors | Trade creditors |
| Loans (current) | Loans |
| Employee benefits (current) | Employee entitlements |
| Revenue in advance (current) | Revenue in advance (financial) |
| Non-current liabilities | Non-financial liabilities |
| Loans (non-current) | - |
| Employee benefits (non-current) | - |
| Revenue in advance (non-current) | Liabilities to be settled by using tangible capital assets to provide services |

Financial/Non-Financial Classification Approach

The approach allows for the separate reporting of the balances that make up an entity's *net debt balance* = financial assets – financial liabilities.

| Statement Financial Position | 20X4 | 20X3 |
|--|------------|------------|
| ASSETS | | |
| Financial assets | XXX | XXX |
| Non-financial assets | XXX | XXX |
| Total assets | XXX | XXX |
| LIABILITIES | | |
| Financial liabilities | XXX | XXX |
| Non-financial liabilities | XXX | XXX |
| Total liabilities | XXX | XXX |
| Net assets/net liabilities | XXX | XXX |
| Net assets (net liabilities) components | | |
| Accumulated surplus/(deficit) | XXX | XXX |
| Accumulated remeasurements | XXX | XXX |
| Accumulated other | XXX | XXX |
| Total net assets/net liabilities | XXX | XXX |

| Statement of Net Financial Assets (Net Financial Liabilities) | 20X4 | 20X3 |
|---|------------|------------|
| Financial assets | XXX | XXX |
| Non-financial assets | XXX | XXX |
| Net financial assets/net liabilities | XXX | XXX |

Key affordability indicator (formally 'net debt')

| | |
|--|--|
| Financial assets > financial liabilities | Financial assets available to provide services or settle financial liabilities |
| Financial assets < financial liabilities | There is a need for future financial assets to settle financial liabilities. |

Financial/Non-Financial Classification Approach

Benefits of approach

Increased transparency by distinguishing between:

- Financial assets available to settle financial liabilities and provide services
- Non-financial assets available to provide future services
- Financial obligations that need to be settled with financial resources
- Non-financial obligations

Improved information for accountability and decision-making purposes

If financial assets < financial liabilities

Increase taxes, reduce services, sell non-financial assets



FINANCIAL
ACCOUNTABILITY



RESOURCE
MANAGEMENT



SERVICE
DELIVERY

Classification of Assets and Liabilities

Question for CAG members

Favored classification approach

- Q1. What classification approach most appropriately meets the objectives of public sector financial reporting?
- (a) Current/non-current approach;
 - (b) Financial/non-financial approach;
 - (c) Order of liquidity approach; or
 - (d) Another approach.

What are the reasons for your preferred approach?

Classification of Assets and Liabilities

Question for CAG members

Extent of flexibility

Q2. Should the new IPSAS to replace IPSAS 1:

- (a) Require all public sector entities to apply a single standardized classification approach; or
- (b) Provide different classification approaches from which an entity may choose from?