Part 2: Financial Reporting under the Cash Basis of Accounting—Encouraged Additional Disclosures

This part of the Standard is not mandatory. It is has been prepared to support those entities transitioning from the cash basis of accounting to the accrual basis of financial reporting and adoption of the accrual IPSAS. It sets out encouraged additional disclosures for reporting under the cash basis of accounting. It should be read together with Part 1 of this Standard, which sets out the requirements for reporting under the cash basis of accounting. The encouraged disclosures, which have been set in italic type, should be read in the context of the commentary paragraphs in this part of the Standard, which are in plain type.

Reporting entities should plot their path to adoption of the accrual IPSAS, and commence the process of building the information necessary to comply with those IPSAS consistent with the transition path that has been adopted.

Financial Reporting under the Cash Basis of Accounting Part 2: Encouraged Additional Disclosures

The encouraged disclosures are set out in italicized type. They are to be read in the context of the commentary paragraphs in Part 2 of this Standard, which are in plain type,

2.1 Encouraged Additional Disclosures

Definitions

2.1.1 *The following terms are used in this part of the Standard with the meanings specified:*

<u>Accrual basis</u> means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.

<u>Assets</u> 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.

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

<u>Closing rate</u> is the spot exchange rate at the reporting date.

<u>Distributions to owners</u> are future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.

<u>Expenses</u> 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.

<u>Liabilities</u> 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.

<u>Revenue</u> 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.

Terms defined in Part 1 of this Standard are used in this part of the Standard with their defined meaning.

Future Economic Benefits or Service Potential

2.1.2 Assets, including cash and other resources, provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives but which do not directly generate net cash inflows are often described as embodying "service potential." Assets that are used to generate net cash inflows are often described as embodying future economic benefits. To encompass all the purposes to which assets may be put, this Standard uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.

Going Concern

2.1.3 *When preparing the financial statements of an entity, those responsible for the preparation of the financial statements are encouraged to make an assessment of the entity's ability to continue as a going concern. When those responsible for the preparation of the financial statements are aware, in making their assessment, of material uncertainties related to events or conditions which may cast significant doubt upon the entity's ability to continue as a going concern, the disclosure of those uncertainties is encouraged.*

2.1.4 The determination of whether an entity is a going concern is primarily relevant for individual entities rather than for the government as a whole. For individual entities, in assessing whether the entity is a going concern, those responsible for the preparation of the financial statements:

(a) Will need to take into account all available information for the foreseeable future which will include, but will not necessarily be limited to, twelve months from the approval of the financial statements; and

(b) May need to consider a wide range of factors surrounding current and expected performance, potential and announced restructurings of organizational units, estimates of receipts or the likelihood of continued government funding, and potential sources of replacement financing before it is appropriate to conclude that the entity is a going concern.

2.1.5 There may be circumstances where the usual going concern tests of liquidity and solvency as applied to business enterprises appear unfavorable, but other factors suggest that the entity is nonetheless a going concern. For example:

(a) In assessing whether the government is a going concern, the power to levy rates or taxes may enable some entities to be considered as a going concern even though their cash payments may exceed their cash receipts for extended periods; and

(b) For an individual entity, an assessment of its cash flows for a reporting period may suggest that the entity is not a going concern. However, there may be multi-year funding agreements in place with the government that will ensure the continued operation of the entity.

Administered Transactions

2.1.6 *An entity is encouraged to disclose in the notes to the financial statements, the amount and nature of cash flows and cash balances resulting from transactions administered by the entity as an agent on behalf of others where those amounts are outside the control of the entity.*

2.1.7 The cash flows associated with transactions administered by an entity acting as an agent on behalf of others may not pass through a bank account controlled by the reporting entity. In these cases, the entity cannot use, or otherwise benefit from, the cash it administers in the pursuit of its own objectives. These cash flows are not controlled by the entity and therefore are not included in the totals shown on the face of the statement of cash receipts and payments or other financial statements that might be prepared. However, disclosure of the amount and nature of these transactions by major type is encouraged because it provides useful information on the scope of the entity's activities and it is relevant for an assessment of an entity's performance.

2.1.8 Where such cash receipts and payments pass through a bank account controlled by the entity, they are treated as cash flows and balances of the entity itself and included in the totals shown on the face of the statement of cash receipts and payments. Paragraph 1.3.13(a) of Part 1 of this Standard permits such cash receipts and payments to be reported on a net basis. Paragraphs 2.1.9 to 2.1.13 below provide guidance on the cash receipts, payments and balances that:

(a) May be controlled by a government or government entity and will be reported in the statement of cash receipts and payments in accordance with Part 1 of this Standard; and

(b) Are administered transactions which will not be included on the face of the statement of cash receipts and payments or other financial statements that might be prepared but for which disclosure is encouraged.

Revenue Collection

2.1.9 Public sector entities may control cash or administer cash receipts or payments on behalf of the government or other governments or government entities. For example, a government Department of Taxation (or revenue collection agency) may be established with its own bank account and provided with an appropriation to fund its operations. The operations of the Department will include administering certain aspects of the Taxation Act and may encompass the collection of taxes on behalf of the government.

2.1.10 A Department of Taxation can use cash appropriated to it and deposited in a bank account which it controls to achieve its operating objectives as mandated, and can exclude others from using or benefiting from that cash. In these cases, the Department will control the cash appropriated for its own use. However, the cash the Department collects on behalf of the government through its tax collection activities is usually deposited in a specified government trust fund or transferred to a government bank account administered by the Treasury or similar department. In these circumstances, the cash collected cannot be used to support achievement of the objectives of the Department of Taxation, or otherwise deployed at the discretion of the Department's management without specific appropriation or other authorization by the government or relevant body. Therefore, the cash collected is not controlled by the Department of Taxation and would not form part of the cash receipts or cash balances of the Department. As a consequence of a government decision, some of the amounts collected may be appropriated or otherwise allocated for use by the Department. However, it is the government's decision to authorize the expenditure of the funds by the Department of Taxation, rather than the collection of the cash, that gives rise to the control.

2.1.11 Similar circumstances may arise when one government, for example a state or local government, collects cash on behalf of another government (such as a national government). In these cases, the government is acting as an agent for others in the collection of cash. The cash that arises as a result of managing transactions as an agent for others would not usually be deposited in a bank account of the collection agency and therefore would not form part of the cash receipts, cash payments or cash balances of the reporting entity.

"Pass-through" Cash Flows

2.1.12 In some cases, the administrative arrangements in place in respect of the revenue collection activities a government or government entity undertakes as an agent of another party may provide for the cash collected to be initially deposited in the entity's own bank account before it is transferred to the ultimate recipient. Cash flows arising as a consequence of these transactions are sometimes termed "pass-through" cash flows. In these cases, the entity will:

(a) Control the cash it collects in its capacity as an agent for the, usually short, period the cash is deposited in the entity's bank account prior to transfer to third parties;

(b) Usually benefit from any interest arising from amounts deposited in interest bearing accounts prior to its transfer to the other entity; and

(c) Have an obligation to transfer the cash collected to third parties in accordance with legislative requirements or administrative arrangements.

When cash inflows from administered transactions pass through a bank account controlled by the reporting entity, the cash receipts, cash transfers and cash balances arising from the collection activity will be included in the entity's statement of cash receipts and payments in accordance with paragraph 1.3.4(a) of Part 1 of this Standard. Paragraph 1.3.13(a) of Part 1 of this Standard specifies that cash receipts and payments which arise from transactions the entity administers on behalf of other parties and which are recognized in the financial statements may be reported on a net basis.

Transfer Payments

2.1.13 Consistent with a government's objectives and with legislation or other authority, amounts appropriated to a government entity (a department, agency or similar) may include amounts to be transferred to third parties in respect of, for example, unemployment benefits, age or invalid pensions, family allowances and other social security and community benefit payments. In some cases, these amounts will pass through a bank account controlled by the entity. Where this occurs, the entity will recognize the cash appropriated for transfer during the reporting period as a cash receipt, the amounts transferred during that reporting period as a cash payment and any amounts held at the end of the reporting period for transfer in the future as part of closing balance of cash.

Disclosure of Major Classes of Cash Flows

2.1.14 *An entity is encouraged to disclose, either on the face of the statement of cash receipts and payments or other financial statements or in the notes to those statements:*

(a) An analysis of total cash payments using a classification based on either the nature of the payments or their function within the entity, as appropriate; and

(b) *Proceeds from borrowings. In addition, the amount of borrowings may be further classified into type and source.*

2.1.15 The sub-classifications encouraged in paragraph 2.1.14(a) may be presented on the face of the statement of cash receipts and payments in accordance with the requirements of paragraph 1.3.12 of Part 1 of this Standard. Where a different classification basis is adopted in the statement of cash receipts and payments, additional disaggregated disclosures reflecting the encouragement in paragraph 2.1.14(a) above is encouraged either as a separate statement or by way of note.

2.1.16 Cash payment items may be further sub-classified in order to enhance accountability by identifying the major purposes for which the payments are made. They may also be sub-classified in order to highlight the costs and cost recoveries of particular programs, activities or other relevant segments of the reporting entity. An entity is encouraged to present this information in at least one of the following two ways.

2.1.17 The first method is referred to as the nature of payments method. Payments are aggregated in the statement of cash receipts and payments according to their nature (for example, purchases of materials, transport costs, wages and salaries), and are not reallocated amongst various functions within the entity. An example of a classification using the nature of payments method is as follows:

	Cash payments
Wages and salaries	(X)
Transport costs	(X)
Capital acquisitions	(X)
Borrowing costs	(X)
Other	(X)
Total payments	(X)

2.1.18 The second method, referred to as the functional method of classification, classifies payments according to the program or purpose for which they were made. This presentation often provides more relevant information to users, although the allocation of payments to functions can be arbitrary and may involve considerable judgment. An example of a functional classification of cash payments is as follows:

	Cash payments
Health services	(X)
Education services	(X)
Other	(X)
Total payments	(X)

2.1.19 Under this method, the cash payments associated with the main functions undertaken by the entity are shown separately. In this example, the entity has functions related to the provision of health services and education services. The entity would present cash payment line items for each of these functions.

2.1.20 Entities classifying cash payments by function are encouraged to disclose additional information on the nature of payments, including payments made for salaries and other employee benefits.

2.1.21 Paragraph 1.3.12 of Part 1 of this Standard requires the disclosure of total cash receipts of the entity showing separately a sub-classification of total cash receipts using a classification basis appropriate to the entity's operations. The sub-classification of cash receipts into appropriate classes will depend upon the size, nature and function of the amounts involved. In addition to disclosure of the amount of receipts from borrowings, the following sub-classifications may be appropriate:

(a) Receipts from taxation (these may be further sub-classified into types of taxes);

(b) Receipts from fees, fines, penalties and licenses;

(c) Receipts from exchange transactions including receipts from the sale of goods and services and user charges (where these are classified as exchange transactions);

(d) The total amount of receipts from external and other assistance (possibly classified by the amount of grants, loans and other assistance provided, the significant classes of providers of that assistance and the amount provided);

(e) Receipts from other grants, transfers, or budget appropriations (possibly classified by source and purpose);

(f) Receipts from interest and dividends; and

(g) Receipts from gifts, donations, and other forms of assistance.

Related Party Disclosures

2.1.22 *An entity is encouraged to disclose in the notes to the financial statements information required by International Public Sector Accounting Standard IPSAS 20, "Related Party Disclosures."*

2.1.23 IPSAS 20, in the accrual based series of IPSAS, defines related parties and other relevant terms, requires the disclosure of related party relationships where control exists and requires the disclosure of certain information about related party transactions, including information about aggregate remuneration of key management personnel.

Disclosure of Assets, Liabilities, Revenues, Expenses and Comparison with Budgets

2.1.24 *An entity is encouraged to disclose in the notes to the financial statements:*

(a) *Information about the assets, liabilities, revenues and expenses of the entity; and*

(b) *If the entity does not make publicly available its approved budget, a comparison with budgets*

2.1.25 Governments and government entities control significant resources in addition to cash and deploy those resources in the achievement of service delivery objectives. They borrow to fund their activities, incur other debts and liabilities in the course of their operations and make commitments to expend money in the future on the acquisition of capital assets. They also incur costs and generate revenues during the reporting period which will result in cash flows of a future reporting period. Non-cash assets, liabilities, revenues and expenses will not be reported on the face of the statement of cash receipts and payments or other financial statements that might be prepared under the cash basis of accounting. However, governments maintain records of, and monitor and manage, their debt and other liabilities, their non-cash assets and the costs of their activities during the reporting period and the sources and amount of related revenues. The disclosure of information about assets, liabilities and the costs and revenues of particular programs and activities will enhance accountability and provide information useful for decision-making purposes and, therefore, is encouraged by this Standard.

2.1.26 Entities that make such disclosures are encouraged to identify revenues and expenses by nature or their function as appropriate to the entity's operations and assets and liabilities by type, for example, by classifying:

(a) Assets as receivables, investments or property plant and equipment; and

(b) Liabilities as payables, borrowings by type or source and other liabilities.

While such disclosures may not be comprehensive in the first instance, entities are encouraged to progressively develop and build on them as they transition to full adoption of the accrual IPSAS. In order to comply with the requirements of paragraphs 1.3.5 and 1.3.32 of Part 1 of this Standard, these disclosures will need to comply with qualitative characteristics of financial information and should be clearly described and readily understood.

2.1.27 Accrual basis IPSAS can provide useful guidance to entities disclosing additional information about assets, liabilities revenues and expense. Recommended Practice Guidelines will also provide guidance on disclosures that will assist users to better understand such matters as the financial position, financial performance and cash flows of the entity; its service performance objectives and achievements; and the sustainability of its finances.

Comparison with Budgets

2.1.28 Public sector entities are typically subject to budgetary limits in the form of appropriations or other budgetary authority which may be given effect through authorizing legislation. One of the objectives of financial reporting by public sector entities is to report on whether cash was obtained and used in accordance with the legally adopted budget. In some jurisdictions, this requirement is reflected in legislation. Entities which make publicly available their approved budgets are required to comply with the requirements of paragraphs 1.7.1 to 1.7.46 of Part 1 of this Standard. This Standard encourages other entities (that is, entities which do not make publicly available their approved budgets) to include in their financial statements the disclosure of a comparison of actual with the budgeted amounts for the reporting period where the financial statements and the budget are on the same basis of accounting. Reporting against budgets for these other entities may be presented in different ways, including:

(a) The preparation of a note with separate columns for budgeted amounts and actual amounts. A column showing any variances from the budget or appropriation may also be presented for completeness; and

(b) Disclosure that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or payments made without appropriation or other form of authority, then details may be disclosed by way of note to the relevant item in the financial statements.

2.1.29 *Entities which disclose in their financial statements a comparison of actual with budgeted amounts are encouraged to include in the financial statements a cross reference to reports which include information about service achievements.*

2.1.30 *Entities which adopt multi-period budgets are encouraged to* provide additional note disclosures *about the relationship between budget and actual amounts during the budget period*.

2.1.31 Additional budget information, including information about service achievements, may be presented in documents other than financial statements. Entities which disclose in their financial statements a comparison of actual with budgeted amounts are encouraged to include in their financial statements a cross reference to such documents, particularly to link budget and actual data to non-financial budget data and service achievements.

2.1.32 As noted in paragraph 1.7.32 of this Standard, entities may take different approaches to determining the annual budget within the multi-period budget. Where multi-period budgets are adopted, entities are encouraged to provide additional disclosures about such matters as the relationship between the multi period budget and component annual budgets and actual amounts during the budget period.

Consolidated Financial Statements

Definitions

2.1.33 *The following terms are used in this Part of the Standard with the meanings specified:*

Consolidated financial statements are the financial statements of an economic entity in which the cash receipts, cash payments and cash balances of the controlling entity and its controlled entities are presented as that of a single entity.

Control of an entity: An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity.

Controlled entity is an entity that is under the control of another entity (known as the controlling entity).

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

Economic entity means a controlling entity and its controlled entities.

Economic Entity

2.1.34 The term "economic entity" is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity, and group. Factors to be considered in assessing whether one entity controls another entity for financial reporting purpose are outlined in IPSAS 35, *Consolidated Financial Statements*.

2.1.35 An economic entity may include entities with both social policy and commercial objectives. For example, a government housing department may be an economic entity which includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.

2.1.36 The determination of the economic entity will need to be made having regard to the constitutional arrangements in a jurisdiction, in particular the ways in which government power is limited and allocated, and how the government system is set up and operates. For example, in jurisdictions with an executive, legislature and judiciary, these may collectively form an economic entity in respect of which there is a user need for consolidated financial statements. Such consolidated financial statements are commonly referred to as whole-of-government financial statements.

Scope of Consolidated Financial Statements

2.1.37 *A controlling entity, other than a controlling entity identified in paragraph 2.1.40 is encouraged to present consolidated financial statements which consolidates all its controlled entities, foreign and domestic by applying the following consolidation procedures:*

(a) *Cash balances and cash transactions between entities within the economic entity are eliminated in full;*

(b) *When the financial statements used in a consolidation are drawn up to different reporting dates, adjustments are made for the effects of significant cash transactions that have* *occurred between those dates and the date of the controlling entity's financial statements; and*

(c) *Consolidated financial statements are prepared using uniform accounting policies for like cash transactions. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.*

2.1.38 *When a controlling entity, other than a controlling entity identified in paragraph 2.1.40, does not present financial statements that consolidated all its controlled entities, it is encouraged to present financial statements that consolidate those of its controlled entities which represent the budget sector, general government sector or other economic entity that represents core government activities and responds to users information needs.*

2.1.39 *An economic entity uses the term "consolidated financial statements" to describe financial statements which comprises the controlling entity and its controlled entities as identified in paragraph 2.1.37. Financial statements of an economic entity which do not comprise the controlling entity and all its controlled entities as identified in paragraph 2.1.37, are identified by a term that is readily understood and clearly describes the classes or (characteristics) of entities that make up the economic entity.*

2.1.40 *The preparation of consolidated financial statements is unnecessary for a controlling entity that meets all the following conditions:*

(a) *It is itself a controlled entity and the information needs of users are met by its controlling entity's consolidated financial statements and, in the case of a partially owned controlled entity, all its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not presenting consolidated financial statements;*

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

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

(d) *Its ultimate or any intermediate controlling entity produces consolidated financial statements that are available for public use and comply with the Cash Basis IPSAS or the accrual IPSAS.*

2.1.41 For accountability and decision-making purposes, users of the financial statements of a government or other public sector entity are usually concerned with, and need to be informed about, the cash resources controlled by the economic entity as a whole. This need is served by consolidated financial statements which present financial information about the economic entity as a single entity without regard for the legal boundaries of the separate legal entities.

2.1.42 This Standard encourages governments and other public sector controlling entities to present financial statements which consolidate all controlled entities when users of such financial statements are likely to exist.

2.1.43 The consolidated financial statements of an economic entity that comprises a government and all its controlled entities will provide information about the cash resources controlled by the government directly and through its controlled entities at reporting date, and changes in those resources during the reporting period. The consolidated financial statements of other public sector economic entities such as, for example, a ministry of health or an education department, will provide information about the cash resources controlled by the ministry or department and changes in those resources during the reporting period.

2.1.44 The preparation of consolidated financial statements is not a cost-free process. Therefore, it is important that the benefits of preparing such statements justify the costs of their preparation. Preparation of consolidated financial statements by a controlling entity which is itself a controlled entity will often not be necessary in the circumstances identified in paragraph 2.1.40. This is because users' need for information presented in cash basis financial statements are often met by the consolidated financial statements of its controlling entity when such statements are prepared consistent with the requirement of the Cash Basis IPSAS or the accrual IPSAS, and the other circumstances identified in paragraph 2.1.40 apply. However, in other cases, consolidated financial statements at a whole-of-government level may not meet the information needs of users in respect of key sectors or activities of a government. In many jurisdictions, there are legislated financial reporting requirements intended to address the information needs of such users.

2.1.45 In some cases, an entity which has the power to direct the relevant activities of another entity may not be able to benefit from the activities of that other entity - for example, when the other entity is subject to severe external long-term restrictions which prevent the entity with the power to direct its activities from benefiting from those activities. The cash flows and balances of such entities are not included in consolidated financial statements. This is because consolidated financial statements present information about the cash resources of the government or other public sector reporting entity that can be used to support the delivery of goods and services or otherwise benefit the reporting entity.

2.1.46 Paragraph 2.1.40(d) acknowledges that the ultimate or intermediate controlling entity of an entity which adopts the cash basis IPSAS may prepare and present consolidated financial statements on an accrual basis. While this may occur in some jurisdictions, the ultimate or intermediate controlling entity is likely to face significant practical issues in compiling, in respect of controlled entities that adopt the cash basis, the information necessary to comply with the accrual IPSAS.

Transitioning to Consolidated Financial Statements

2.1.47 Governments and other public sector entities may control a large number of entities including government departments, agencies and commercial public sector entities. The preparation of consolidated financial statements that consolidate a controlling entity and all its controlled entities can be a complex and resource intensive process. Some governments and other public sector entities face significant obstacles in the preparation and presentation of consolidated financial statements and may not be able to prepare fully consolidated financial statements in the short to medium term as they commence the transition to the full accrual basis. This may be because of capacity constraints that limit the ability of a government or other entity to collect and process data from all controlled entities in a timely fashion, because of legislative or other requirements to present financial statements for a subgroup of controlled entities rather than for all controlled entities, or for other reasons.

2.1.48 As governments and other public sector entities that report on the cash basis transition to the accrual basis of financial reporting and develop the capacity, systems and the legislative frameworks to overcome obstacles to consolidation, the potential to include in cash basis financial statements information about additional controlled entities will increase. For governments, the preparation of financial statements that report information about the cash receipts, cash payments and cash balances of an economic entity that comprises the controlled entities that represents, for example, the budget sector, the general government sector or other representation of core government activities will provide information about key sectors of government that is useful to users for accountability and decision-making purposes. This Standard encourages a controlling entity that does not present fully consolidated financial statements to present financial statements for such an economic entity as an interim step in the transition to the accrual basis of financial reporting and the presentation of fully consolidated financial statements in accordance with the accrual IPSAS. Government agencies which do not consolidate all their controlled entities are also encouraged to present financial statements which consolidate controlled entities which represent a subgroup of their activities useful to users for accountability and decision-making purposes.

2.1.49 The term "consolidated financial statements" is used to describe financial statements that present a "full consolidation" of all controlled entities as identified in paragraph 2.1.37 of this Standard. A term other than "consolidated financial statements" is to be used to describe financial statements that present information about an economic entity that does not include the controlling entity and all its controlled entities. That term is to be readily understood and to clearly describe the classes or (characteristics) of entities that make up the economic entity. The selection of an appropriate term is a matter of professional judgement. That judgment should be exercised in the context of the qualitative characteristics of financial reporting including that it be understandable and a faithful representation of the economic entity presented. For national, state/provincial or local governments that prepare such financial statements, terms such as, for example, the financial statements of the budget sector or the general government sector may be appropriate.

Consolidation Procedures

2.1.50 The consolidation procedures outlined in paragraph 2.1.37 provide the basis for preparing consolidated financial statements for all the entities within the economic entity as a single economic unit, as encouraged by this Standard.

2.1.51 The consolidated financial statements encouraged by this Standard reflect transactions between the economic entity and other entities external to it. Accordingly, transactions between entities within the economic entity are eliminated to avoid double-counting. For example, a government department may sell a physical asset to another government department. Because the net cash effect on the whole-of-government reporting entity is zero, this transaction needs to be eliminated to avoid overstating the cash receipts and cash payments of the whole-of-government reporting entity. A government entity may hold funds with a public sector financial institution. These balances would be eliminated at the whole-of-government level because they represent balances within the economic entity. Similarly, a commercial public sector entity operating overseas may make a payment to a government department which remains in transit at the reporting date. In this case, failure to eliminate the transaction in the preparation of whole-of-government consolidated financial statements would result in understating the cash balance of the whole-of-government economic entity and overstating its cash payments. However, the transaction would not be eliminated in financial statements prepared for a group entity that, for example, represented a general government sector which excluded the commercial public sector entity.

2.1.52 Individual entities within the economic entity may adopt different policies for the classification of cash receipts and cash payments and the presentation of their financial statements. Cash receipts or cash payments arising from like transactions are classified and presented in a uniform manner in the consolidated financial statements where practicable.

Consolidation Disclosures

2.1.53 *An* entity *is encouraged to disclose in the notes to the consolidated financial statements of an economic entity prepared in accordance with the encouragements in paragraph 2.1.37:*

(a) *A listing of significant controlled entities including the name, the jurisdiction in which the controlled entity operates (when it is different from that of the controlling entity);*

(b) *The reasons for not consolidating a controlled entity;*

(c) *The proportion of ownership interest in controlled entities and a description of how that ownership interest has been determined; and*

(d) *Where applicable, the factors considered in determining that the controlling entity:*

(i) *Controls another entity (or category of entities) even though it holds less than half of the voting rights of the other entity (or entities), together with an explanation of how control exists; and*

(ii) *Does not control another entity (or category of entities) even though it holds more than half of the voting rights of the other entity (or entities).*

2.1.54 *An entity which presents financial statements for an economic entity which consolidates some but not all controlled entities as is encouraged in paragraph 2.1.37, is encouraged to disclose in the notes to those financial statements the disclosures encouraged in paragraph 2.1.53 together with:*

(a) *A description of the classes (or characteristics) of controlled entities that are included in, and excluded from, the group financial statements together with an explanation of the reason for the exclusion of any classes from the group accounts; and*

(b) *A listing of significant entities that have been added to, or removed from, those included in the group financial statements since presentation of the previous period's financial statements.*

2.1.55 *A controlling entity which does not present a consolidated financial statement as encouraged in paragraph 2.1.37 is encouraged to disclose the reasons why the consolidated financial statements have not been presented together with the method used to account for controlled entities in its separate financial statements. It is also encouraged to disclose the name and the principal address of its controlling entity that publishes a consolidated financial statement***.**

2.1.56 The disclosures encouraged in paragraphs 2.1.53 and 2.1.54 will provide users with information about the composition and key features of fully consolidated financial statements prepared in accordance with the encouragements in paragraph 2.1.37, and financial statements that consolidate a subset of its controlled entities in accordance with the encouragements in paragraph 2.1.38. The disclosures encouraged in paragraph 2.1.55 will enable users to determine whether a controlling entity prepares consolidated financial statements and, if not, the method used to account for controlled entities.

Acquisitions and Disposals of Controlled Entities and Other Operating Units

2.1.57 *An entity is encouraged to disclose and present separately the aggregate cash flows arising from acquisitions and from disposals of controlled entities or other operating units.*

2.1.58 *An entity is encouraged to disclose in the notes to the financial statements, in aggregate in respect of both acquisitions and disposals of controlled entities or other operating units during the period, each of the following:*

(a) *The total purchase or disposal consideration (including cash or other assets);*

(b) *The portion of the purchase or disposal consideration discharged by means of cash; and*

(c) *The amount of cash in the controlled entity or operating unit acquired or disposed of.*

2.1.59 The separate presentation of the cash flow effects of acquisitions and disposals of controlled entities and other operations, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from cash receipts and payments arising from the other activities of the entity. To enable users to identify the effects of both acquisitions and disposals, the cash flow effects of disposals would not be deducted from those acquisitions.

2.1.60 The aggregate amount of the cash paid or received as purchase or sale consideration is reported in the statement of cash receipts and payments net of cash acquired or disposed of.

2.1.61 Paragraph 2.1.24 encourages the disclosure of assets, liabilities, revenues and expenses of the entity. Assets, liabilities, revenues and expenses other than cash or cash flows of a controlled entity or operating unit acquired or disposed of may also be separately disclosed, summarized by each major category. Consistent with the requirement of paragraph 1.3.32 of Part 1 of this Standard, where such disclosure is made, the assets, liabilities, revenues and expenses should be clearly identified and the basis on which they are measured and recognized explained.

Joint Arrangements

2.1.62 *An entity is encouraged to make disclosures about joint arrangements which are necessary for a fair presentation of the cash receipts and payments of the entity during the period and the balances of cash as at reporting date.*

2.1.63 A joint arrangement is an arrangement of which two or more parties have joint control. Many public sector entities establish joint arrangements to undertake a variety of activities. The nature of these activities range from commercial undertakings to provision of community services at no charge. The terms of a joint arrangement are set out in a contract or other binding arrangement and usually specify the initial contribution from each joint venturer and the share of revenues or other benefits (if any) and expenses of each of the joint venturers. Entities which report on a cash basis will generally report:

(a) As cash payments, the cash expended in the acquisition of an interest in a joint arrangement and in the ongoing operations of the joint arrangement; and

(b) As cash receipts, the cash received from the joint arrangement.

Disclosures about joint arrangements may include a listing and description of interests in significant joint arrangements. International Public Sector Accounting Standards IPSAS 36, *Investments in Associates and Joint Ventures* and IPSAS 37, *Joint Arrangements* in the accrual based series of IPSAS provides guidance on the different forms and structures that joint arrangements may take and potential additional disclosures that might be made. The definition and explanation of "control" in IPSAS 35 will need to be considered in determining whether an entity is an "associate" and whether an arrangement is a "joint arrangement" as defined in IPSAS 36 and IPSAS 37.

Financial Reporting in Hyperinflationary Economies

2.1.64 In a hyperinflationary economy, the presentation of the financial statements in the local currency without restatement is not useful. Money loses purchasing power at such a rate that comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

2.1.65 This Standard does not identify an absolute rate at which hyperinflation is deemed to arise. It is a matter of judgment when restatement of financial statements in accordance with the encouragements in this Standard would become necessary. Hyperinflation is indicated by characteristics of the economic environment of a country which include, but are not limited to, the following:

(a) The general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power;

(b) The general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency;

(c) Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;

(d) Interest rates, wages and prices are linked to a price index; and

(e) The cumulative inflation rate over three years is approaching, or exceeds, 100%.

The Restatement of Financial Statements

2.1.66 *An entity that reports in the currency of a hyperinflationary economy is encouraged to:*

(a) *Restate its statement of cash receipts and payments and other financial statements in terms of the measuring unit current at the reporting date;*

(b) *Restate the comparative information for the previous period, and any information in respect of earlier periods in terms of the measuring unit current at the reporting date; and*

(c) *Use a general price index that reflects changes in general purchasing power. It is preferable that all entities that report in the currency of the same economy use the same index.*

2.1.67 *The entity is encouraged to make the following disclosures:*

(a) *The fact that the statement of cash receipts and payments and other financial statements, and the corresponding figures for previous periods, have been restated for the changes in the general purchasing power of the reporting currency and, as a result, are stated in terms of the measuring unit current at the reporting date; and*

(b) *The identity and level of the price index at the reporting date and the movement in the index during the current and the previous reporting period.*

2.1.68 Prices change over time as the result of various political, economic and social forces. Specific forces such as changes in supply and demand, and technological changes may cause individual prices to increase or decrease significantly and independently of each other. In addition, general economic forces may result in changes in the general level of prices and therefore in the general purchasing power of money.

2.1.69 In a hyperinflationary economy, the usefulness of financial statements is substantially increased if they are expressed in terms of the measuring unit current at the reporting date. As a result, the treatments and disclosures in paragraphs 2.1.66 and 2.1.67 above are encouraged. Presentation of this information as the primary presentation rather than as a supplement to financial statements which have not been restated is encouraged. Separate presentation of the statement of cash receipts and payments and other financial statements before restatement is discouraged.

2.1.70 All items in the statement of cash receipts and payments will be expressed in terms of the measuring unit current at the reporting date. Therefore, all amounts, including any payments by third parties disclosed on the face of the statement of cash receipts and payments or in other financial statements, would be restated by applying the change in the general price index from the dates when the payments and receipts were initially recorded.

2.1.71 Many entities in the public sector include in their financial statements the related budgetary information, to facilitate comparisons with the budget. Where this occurs, this Standard encourages restatement of the budgetary information in accordance with this Standard.

Comparative Information

2.1.72 If comparisons with previous periods are to be meaningful, comparative information for the previous reporting period will be restated by applying a general price index so that the comparative financial statements are presented in terms of the measurement unit current at the end of the reporting period. Information that is disclosed in respect of earlier periods is also expressed in terms of the measurement unit current at the end of the reporting period.

Consolidated Financial Statements

2.1.73 A controlling entity that reports in the currency of a hyperinflationary economy may have controlled entities that also report in the currencies of hyperinflationary economies. If the statement of cash receipts and payments and other financial statements are to be prepared on a consistent basis, the financial statements of any such controlled entity will be restated by applying a general price index of the country in whose currency it reports before they are included in the consolidated financial statements issued by its controlling entity. Where such a controlled entity is a foreign controlled entity, its restated financial statements are translated at closing rates.

2.1.74 If financial statements with different reporting dates are consolidated, all items, whether non-monetary or monetary, need to be restated into the measuring unit current at the date of the consolidated financial statement.

Selection and Use of the General Price Index

2.1.75 The restatement of financial statements in accordance with the approach encouraged by this Standard requires the use of a general price index that reflects changes in general purchasing power. It is preferable that all entities that report in the currency of the same economy use the same index.

2.1.76 The disclosures encouraged by this Standard are intended to make clear the basis of dealing with the effects of hyperinflation in the financial statements. They are also intended to provide other information necessary to understand that basis and the resulting amounts.

Payments by Third Parties on Behalf of the Entity

2.1.77 *When during the reporting period a reporting entity has been formally advised that payments have been made to directly settle its obligations or purchase goods and services for its benefit by third parties, or the entity has otherwise verified that such payments have been made, the entity is encouraged to disclose in notes to the financial statements:*

(a) *Total payments made by such third parties; and*

(b) *A sub-classification of the total amount of such payments using a classification basis appropriate to the entity's operation.*

2.1.78 In some cases, third parties purchase goods or services on behalf of the entity or settle obligations of the entity. For example, a national government may fund the operation of a health or education program of an independent provincial or municipal government by directly paying service providers and acquiring and transferring to the other government the necessary supplies during the period. Similarly, a national government or independent aid agency may pay a construction company directly for building a road for another government rather than providing the funds directly to the government itself. These payments may be made by way of a grant, donation or other form of aid, or as a loan which is to be repaid. In these cases, the provincial or municipal government does not receive cash (including cash equivalents) directly from, or gain control of a bank account or similar facility established for its benefit by, the other entity. Therefore, the amount settled or paid on its behalf does not constitute "cash" as defined in this Standard. However, the recipient government benefits from the cash payments being made on its behalf.

2.1.79 The disclosure of information about the amount, and the classes of payments made by third parties (whether by nature, function or both) will provide additional information useful for accountability and decision-making purposes. In some cases, an entity may not have been formally advised or otherwise be aware of third party payments made on its behalf during the reporting period, or may be unable to verify that an expected payment has occurred. If an entity cannot have confidence that the amount of third party payments disclosed is a faithful representation of all such payments made on behalf of the entity during the period, the notes should advise users that such disclosures may not encompass all such third party payments.

2.1.80 Paragraph 2.1.77 encourages the disclosure of the total amount of third party payments made during the reporting period and the major classes of such payments. Third party payments will encompass amounts defined as external assistance and other assistance in paragraph 2.1.82 of this Standard. Paragraph 2.1.90(b) encourages the disclosure of the amount of external assistance provided to an entity in the form of third party payments. Paragraph 2.1.91 encourages that such disclosures also be made about other assistance where practicable.

2.1.81 The sub-classifications (or classes) of third party payments which may be disclosed in accordance with paragraphs 2.1.77(b) are a matter of professional judgment. The factors that will be considered in exercising that judgment are outlined in paragraph 1.3.17 of Part 1 of this Standard.

Recipients of External and Other Assistance

Definitions

2.1.82 *The* following *terms are used in this Standard with the meaning specified:*

Assistance means external assistance and other assistance.

Bilateral External Assistance Agencies are agencies established under national law, regulation or other authority of a nation for the purpose of, or including the purpose of, providing some or all of that nation's external assistance.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equally value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

External Assistance means all official resources which the recipient can use or otherwise benefit from in pursuit of its objectives.

Multilateral External Assistance Agencies are all agencies established under international agreement or treaty for the purpose of, or including the purpose of, providing external assistance.

Non-Governmental Organizations (NGOs) are all foreign or national agencies established independent of control by any government for the purpose of providing assistance to government(s), government agencies, other organizations or individuals.

Official Resources means all loans, grants, technical assistance, guarantees or other forms of assistance provided or committed under a binding agreement by multilateral or bilateral external assistance agencies or by a government, or agencies of a government, other than to a recipient of the same nation as the government or government agency providing, or committing to provide, the assistance.

Other Assistance means resources provided by non-governmental organizations (NGOs) and gifts and donations or other forms of assistance voluntarily provided by individuals and private sector organizations which the recipient can use or otherwise benefit from in pursuit of its objectives. Other assistance does not include official resources, taxes, fines and fees, resources provided in an exchange transaction or resources provided by the government or agencies of a government of the same nation as the recipient.

Assistance

2.1.83 "Assistance" is defined broadly in this Standard to encompass "external assistance" and "other assistance". Key features of external assistance and other assistance are outlined below.

External assistance

2.1.84 External assistance is defined as all official resources which the recipient can use or otherwise benefit from in pursuit of its objectives. Different organizations may use different terminology for external assistance or classes of external assistance. For example, some organizations may use the term external aid or aid, rather than external assistance. In these cases, the different terminology is unlikely to cause confusion. However, in other cases, the terminology may be substantially different. In these cases it will be necessary to exercise professional judgment in determining whether the resources provided should be classified as external assistance.

2.1.85 Official resources are resources provided or committed under a binding agreement by multilateral or bilateral external assistance agencies or governments or government agencies, other than to a recipient of the same nation as the provider of the assistance. Governments as referred to in the definition of official resources may include national, state, provincial or local governments in any nation. Therefore, assistance provided by, for example, a national government or state government agency of one nation to a state or local government of another nation is external assistance as defined in this Standard. However, assistance provided by a national or state government to another level of government within the same nation and assistance provided by non-governmental organizations (NGOs), even if such assistance is provided under a binding agreement, does not satisfy the definition of official resources and, therefore, is not external assistance.

2.1.86 External assistance agreements may provide for the entity to:

(a) Draw down in cash the full proceeds of the loan or grant or a tranche of the loan or grant;

(b) Seek reimbursement(s) for qualifying payments made by the entity to a third party settling in cash an obligation(s) of the entity, as defined by the loan or grant agreement; or

(c) Request the external assistance agency to make payments directly to a third party settling in cash an obligation(s) of the recipient entity as defined by the loan or grant agreement, including an obligation of the recipient entity for goods or services provided or to be provided by a NGO.

External assistance agreements may also include the provision of goods or services to the recipient.

Other Assistance

2.1.87 Other assistance is defined as resources provided by NGO’s and assistance that is voluntarily provided by, for example, individuals and charitable and other organizations. Taxes and other resources compulsorily paid or payable to public sector entities in accordance with laws or regulation, fines or other penalties imposed for breaches of laws or regulation, and fees for services provided by, or on behalf of, public sector entities are not other assistance as defined in paragraph 2.1.82. Similarly, resources provided in exchange transactions and transfers of resources between governments within the same nation are not classified as other assistance.

2.1.88 In most cases it will be clear whether resources are provided voluntarily and whether their intent is to provide assistance for purposes of, for example, emergency relief or to assist the entity in achieving economic development or welfare objectives, or for other purposes. However, in some cases, it will be necessary to exercise professional judgment in determining whether the resources provided should be classified as other assistance.

2.1.89 NGOs are foreign or national agencies established independent of control by any government. In some rare cases, it may not be clear whether the donor organization is a bilateral or multilateral external assistance agency or a NGO, and therefore independent of control by any government. Where such a donor organization provides, or commits to provide, assistance under the terms of a binding agreement, the distinction between official resources as defined in this Standard and resources provided by a NGO may become blurred. In these cases, professional judgment will need to be exercised to determine whether the assistance received satisfies the definition of external assistance or other assistance.

External Assistance Received

2.1.90 *An entity is encouraged to disclose separately in notes to the financial statements:*

(a) *The total amount of external assistance received in cash during the period unless disclosed as a separate class of cash receipt on the face of the statement of cash receipts and payments;*

(b) *The total external assistance paid by third parties during the period to directly settle obligations of the entity or purchase goods and services on behalf of the entity when advised by the third party or otherwise verified by the recipient;*

(c) *The total amount of external assistance received during the period as loans and the total amount received as grants;*

(d) *The significant classes of providers of external assistance and the amount provided;*

(e) *By significant class and amount, the purposes for which external assistance was received and used during the reporting period showing separately amounts provided by way of loans and grants; and*

(f) *The balance of undrawn external assistance loans and grants available at reporting date to fund future operations when the amount of the loans or grants available to the recipient is specified in a binding agreement and the satisfaction of any substantial terms and conditions that determine, or affect access to, that amount is highly likely, showing separately:*

   (i) *Total external assistance loans;*

   (ii) *Total external assistance grants; and*

   (iii) *The purposes for which the undrawn loan assistance and undrawn grant assistance may be used.*

Other Assistance Received

2.1.91 *Where practicable, an entity is encouraged to apply to other assistance received, the disclosures identified in paragraph 2.1.90 above.*

External Assistance and Other Assistance Received

2.1.92 Disclosure of the total amount of external assistance received and, separately, other assistance received in the form of cash and in the form of third party payments made on behalf of the entity can provide useful information about the extent to which the operations of the reporting entity are funded from taxes and/or internal sources, or are dependent upon external assistance and other assistance, and the form of that assistance – whether as cash or other benefit. The disclosure of external assistance and other assistance received in the form of payments made by third parties is encouraged when the entity has been formally advised, or otherwise verified, that such payments have been made during the reporting period.

2.1.93 Disclosure of the amount of external assistance and other assistance received by way of loan or grant will enable users to identify whether the entity has an obligation to repay the assistance provided at some time in the future.

2.1.94 Disclosure of the significant classes of providers of assistance such as, for example, multilateral donors, bilateral donors, international assistance organizations, NGOs, national assistance organizations or other major classes as appropriate for the reporting entity will identify the extent of the entity's dependence on particular classes of providers, and will be relevant to an assessment of the sustainability of the assistance.

2.1.95 An entity may receive external assistance for many purposes including assistance to support its:

(a) Economic development or welfare objectives, often termed development assistance;

(b) Emergency relief objectives, often termed emergency assistance;

(c) Balance of payments position or to defend its currency exchange rate, often termed balance of payments assistance;

(d) Military and/or defense objectives, often termed military assistance; and

(e) Trading activities, including export credits or loans offered by export/import banks or other government agencies, often termed trade finance.

2.1.96 Other assistance may also be provided for some of these purposes such as, for example, emergency relief and to support an entity's welfare objectives.

2.1.97 Disclosure by significant class of the purposes for which external assistance and other assistance was provided and used during the reporting period will further enhance the entity's accountability for its use of assistance received.

2.1.98 The amount of external assistance and assistance from NGO's and other sources currently committed under a binding agreement but not yet drawn may be significant. In some cases, the amount of assistance loan(s) or grant(s) is specified in a binding agreement and the satisfaction of any substantial conditions that need to be satisfied to access that amount is highly likely. This may occur in respect of undrawn balances of project funding for projects currently under development where conditions have been, and continue to be, satisfied and the project is anticipated to continue under the terms of the agreement. The disclosure of undrawn balances of external assistance and other assistance in these circumstances will provide information about the extent to which assistance made available to the entity has been drawn on during the reporting period and the amount of committed external and other assistance is available to support the ongoing development of particular projects.

2.1.99 In some cases, a donor may express an intention to provide ongoing assistance to the reporting entity, but not specify in a binding agreement the amount of the assistance loan(s) or grant(s) to be provided in future periods. In other cases, the amount of assistance may be specified but be subject to terms and conditions, the satisfaction of which cannot be assessed as being highly likely at the reporting date. In these cases, disclosure of the undrawn amounts is not encouraged by paragraph 2.1.90(f). In some cases, professional judgment may need to be exercised in assessing whether the satisfaction of the substantial terms and conditions that determine, or effect access to, the external assistance or other assistance is highly likely.

Goods and Services Received

2.1.100 *An entity is encouraged to disclose separately in the notes to the financial statements the value of assistance received during the period in the form of goods or service, and the basis on which that value is determined.*

2.1.101 *S*ignificant resources may be received as assistance in the form of goods or services. This will occur when new or used goods such as vehicles, computers or other equipment are transferred to the entity under an external assistance agreement or by, for example, NGO's or private sector benefactors. It will also occur when food aid is provided to a government for distribution to its citizens as emergency relief under an external assistance agreement or by NGO's or other donors. For some recipients, goods or services may be the major form in which assistance is received.

2.1.102 Disclosure of the value of assistance received as goods and services during the reporting period will assist readers of the financial statements to better understand the full extent of assistance received during the reporting period. However, in some cases and for some recipients, determining the value of such goods and services can be a difficult, time consuming and costly process. This is particularly so where a domestic market price for those goods and services cannot be readily determined, where the goods and services provided are not widely traded in international markets or where they are of an unique nature, such as often occurs in respect of emergency assistance.

2.1.103 This Standard does not specify the basis on which the value of the goods or services is to be determined. Therefore, their value may be determined as the depreciated historical cost of physical assets at the time the assets are transferred to the recipient or the price paid for the food by an external assistance agency or other donor. It may also be determined on the basis of an assessment of the value by management of the transferor, or the recipient, or by a third party. Where the value of assistance in the form of goods or services is disclosed, paragraph 2.1.100 encourages the disclosure of the basis on which that value is determined. Where such is described as fair value it will conform with the definition of fair value – that is, the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

2.2 Governments and Other Public Sector Entities Completing the Transition to the Accrual Basis of Financial Reporting and Adoption of Accrual IPSAS

Presentation of the Statement of Cash Receipts and Payments

2.2.1 *An entity which is completing its transition to the accrual basis of financial reporting and adoption of accrual IPSAS is encouraged to present a statement of cash receipts and payments in the same format as that required by International Public Sector Accounting Standard 2 (IPSAS 2), Cash Flow Statements.*

2.2.2 As entities transition to the accrual basis of financial reporting they will need to progressively build the information and systems necessary to comply with each accrual IPSAS on issue prior to the formal adoption of the accrual IPSAS. The presentation of information in a format that replicates as far as possible that adopted by the accrual IPSAS will assist the transition process.

2.2.3 IPSAS 2 provides guidance on classifying cash flows as operating, financing and investing and includes requirements for preparing a cash flow statement which reports these classes separately on the face of the statement. A summary of key aspects of IPSAS 2 and guidance on their application for financial reporting under this Standard is included in Appendix 3. Part 2 of this Standard encourages disclosure of information additional to that required by IPSAS 2. Entities which adopt the format of IPSAS 2 for the presentation of the statement of cash receipts and payments are encouraged to also make the additional disclosures identified in Part 2 of this Standard.

Consolidated Financial Statements – The Economic Entity

2.2.4 This Standard encourages controlling entities to present consolidated financial statements which consolidates all controlled entities in accordance with generally accepted consolidation processes, and identifies some circumstances in which this may not be necessary. These circumstances reflect those in IPSAS 35, *Consolidated Financial Statements*. However, IPSAS 35 includes additional exemptions from the requirement to prepare consolidated financial statements for controlling entities that are investment entities and measure their controlled entities at fair value through surplus or deficit. This exemption is not applicable to controlling entities that are investment entities and apply the Cash Basis IPSAS.

2.2.5 When financial statements which consolidate all controlled entities are not presented, this Standard encourages the presentation of financial statements which present information about an economic entity that comprises subgroups of controlled entities such as those reflecting the budget sector or the general government sector or other representation of core government activities. While accrual IPSAS do not prohibit the presentation of information about such economic entities, they cannot be presented as an alternative to the full consolidation of all controlled entities as prescribed in IPSAS 35.

2.2.6 Entities completing the transition to the accrual basis of financial reporting and adoption of the accrual IPSAS will need to be aware of these differences in the consolidation requirements of the accrual and cash basis IPSAS.

Required and Encouraged Disclosures under the Cash Basis IPSAS

2.2.7 The requirements and encouragements of this Standard are not inconsistent with the requirements and encouragements of the equivalent accrual IPSAS to the extent they apply to financial reporting under the cash basis. However, in some cases this Standard encourages disclosures that are not required by the accrual IPSAS. This occurs in respect of, for example, encouraged disclosures about such matters as third party payments and external and other assistance. These disclosures are encouraged in this Standard to provide additional information useful in assessing how the entity is resourced. Such information is useful to all users of general purpose financial statements for accountability and decision-making purposes. It may also be relevant to the “special purpose” needs of, for example, providers of external and other assistance for information useful in monitoring the provision and use of assistance provided to the entity.

IPSAS 33—First-Time Adoption of Accrual Basis IPSAS

2.2.8 IPSAS 33, *First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* identifies transitional provisions that provide entities with relief from adoption of certain of the requirements of accrual IPSAS for three (3) years from the date of first adoption of accrual IPSAS. IPSAS 33 provides that on the date of adoption of IPSAS, a first-time adopter may elect to adopt one of more of the exemptions included in IPSAS 33 and, subject to the nature of the exemptions adopted, identify its financial statements as either:

(a) *Transitional IPSAS financial statements*, when it adopts exemptions identified in IPSAS 33 as “Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS”; or

(b) *Financial statements that comply with the accrual IPSAS*, when it adopts other of the exemptions identified in IPSAS 33. That is the exemptions identified in IPSAS 33 as “Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS”[3].

2.2.9 Appendix A of IPSAS 33 lists the transitional exemptions and provisions that a first-time adopter is required to apply and/or can elect to apply on adoption of accrual basis IPSAS, and illustrates whether fair presentation and the first-time adopter’s ability to assert compliance with accrual basis IPSAS will be affected.

[3] IPSAS 33, Appendix A lists the transitional exemptions and provisions that a first-time adopter is required to apply and/or can elect to apply on adoption of accrual basis IPSAS and illustrates whether fair presentation and the first-time adopter’s ability to assert compliance with accrual basis IPSAS will be affected.