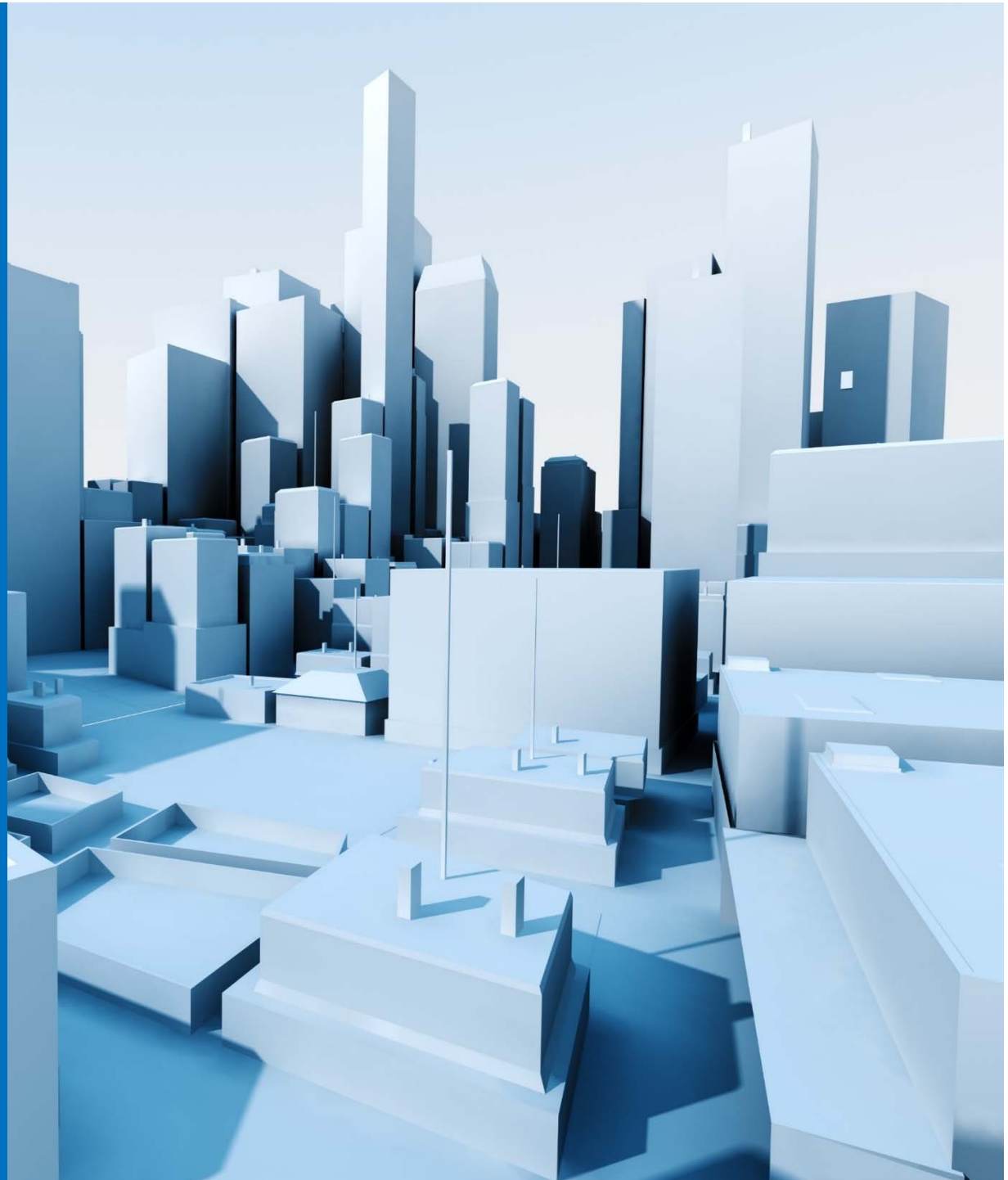




Presentation of IPSAS financial statements



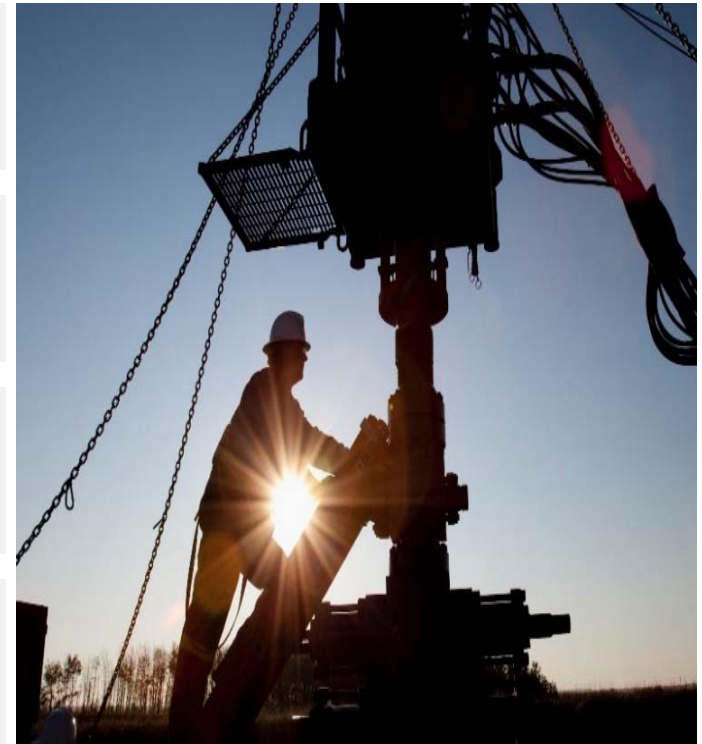
Contents

IPSAS 1: Presentation of Financial Statements

IPSAS 2: Cash Flow Statements

IPSAS 3: Accounting Policies, Changes in Accounting Estimates and Errors

Discussions





IPSAS 1

Scope and Objective

Effective date

Issued in May 2000 and effective for annual periods beginning on or after January 1, 2008.

Scope

All financial statements (FS) prepared in accordance with IPSAS

Objective

To set out the manner in which general-purpose financial statements shall be prepared under the accrual basis of accounting, including guidance for their structure and the minimum requirements for content.



Components of FS

A complete set of financial statements comprises:

- Statement of financial position
- Statement of financial performance
- Statement of changes in net assets/equity
- Cash flow statement
- When the entity makes its approved budget publicly available, a comparison of budget and accrual amounts
- Notes, comprising a summary of significant accounting policies and other explanatory notes

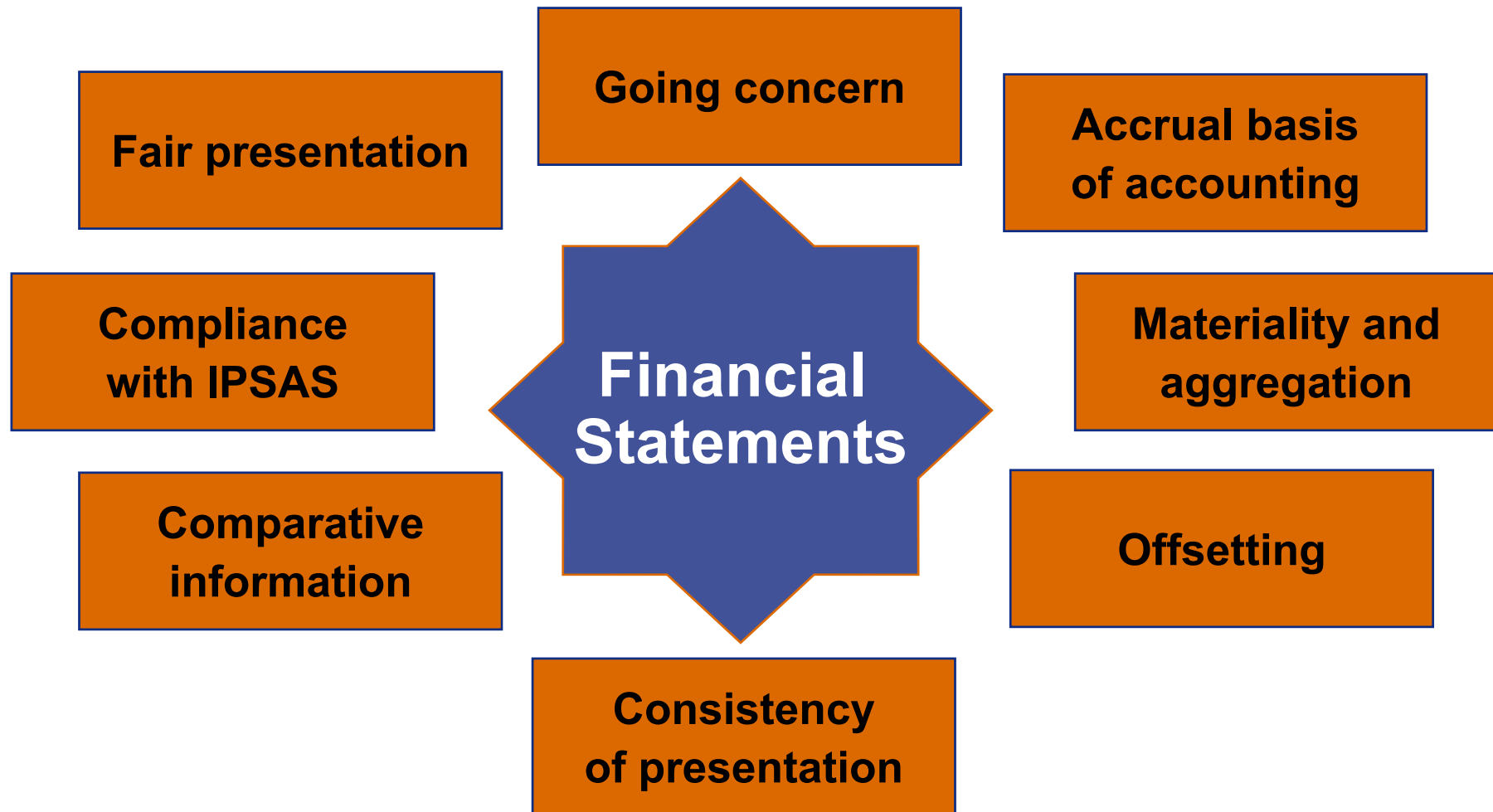


Compliance with IPSAS

An entity whose financial statements comply with IPSAS shall make an explicit and unreserved statement of such compliance in the notes.

Financial statements shall not be described as complying with IPSAS unless they comply with all the requirements of IPSAS.

Overall considerations



Going Concern

- Management should make an assessment of the entity's ability to continue as a going concern.
- Management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the reporting date.
- Management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before
- Disclose that fact if financial statements not prepare on a going concern basis, the basis on which prepared the financial statements and the reason why the entity is not regarded as a going concern



Consistency & frequency of presentation

Retain the same presentation and classification of items unless

- **Change will result in more appropriate presentation as required by IPSAS 3**
- **Change required by an IPSAS**

Present a complete set of financial statements (including comparative information) at least annually.

If FS are presented for a period longer or shorter than one year, disclose:

- **that fact and the reason for using a longer or shorter period.**
- **the fact that comparative amounts presented in the financial statements (and notes) are not entirely comparable.**

- Enhancing the inter-period comparability of information
- allowing the assessment of trends in financial information for predictive purposes.
- Details of a legal dispute whose outcome was uncertain at the end of the immediately preceding reporting
- Comparative narrative and descriptive information relevant to
- Accounting policy applied retrospectively or retrospective restatement of items or reclassifies items then present statements of financial position as at:
 - the end of the current period,
 - the end of the previous period
 - the beginning of the earliest comparative period.



Materiality and aggregation

- Separate presentation of material items of dissimilar nature or function
- Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances.
- Immaterial items need not be presented separately
 - Aggregate with amounts of similar nature or function
 - If sufficiently material after aggregation, separate presentation in notes required



Offsetting

Assets and liabilities should not be offset unless

- Required or permitted by an IPSAS
- Offset if it reflects the substance of the transaction or other event,

Items of income and expense should not be offset unless

- Required or permitted by an IPSAS
- Gains, losses and related expenses arising from the same or similar items are not material

Measuring assets net of valuation allowances—for example, obsolescence allowances on inventories and doubtful debts allowances on receivables—is not offsetting.



Fair presentation

Achieved by appropriate application of IPSAS

Requires faithful representation of effects of transactions, events and conditions in accordance with recognition criteria set out in the Framework



Accrual basis of accounting

Prepare its financial statements, except for cash flow information, using the accrual basis of accounting.

Recognises items as assets, liabilities, equity, income and expenses when they satisfy the definitions and recognition criteria



Statement of financial position



Statement of financial position

Include line items that present assets:

- Property, plant and equipment;
- Investment property;
- Intangible assets;
- Financial assets
- Investments accounted for using the equity method;
- Biological assets;
- Inventories;
- Trade and other receivables;
- Current tax recoverable; and
- Cash and cash equivalents; etc.

Statement of financial position

Liabilities

- Trade and other payables;
- Provisions;
- Financial liabilities
- Liabilities for current tax,
- Deferred tax liabilities
- Liabilities included in disposal groups classified as held for sale
- Finance lease obligations

Equity

- Net assets residual interest
- Increased by surplus and
- Reduced by deficit
- Share capital (if any- some public sector entities will not have share capital)

A financial asset is classified as current when it is held primarily for the purpose of being traded and it is expected to be realised between 12 and 24 months after the reporting period.

- A) True
- B) False

Current / non - current

Assets current if:

- Involved in normal operating cycle
- Held primarily for trading purposes
- Expected to be realised within 12 months
- Cash or a cash equivalent

Liabilities current if:

- Involved in normal operating cycle
- Held primarily for trading purposes
- Due to be settled within 12 months
- No unconditional right to defer settlement for at least 12 months

◆ **All other assets and liabilities are non-current**



Statement of financial performance



Statement of financial performance

- ❖ All items of revenue and expenses recognized in the period shall be included in surplus or deficit unless an IPSAS requires otherwise
- ❖ As a minimum, the face of the statement of financial performance shall include line items that present the following amounts for the period:
 - Revenue;
 - Finance costs;
 - Share of the surplus or deficit of associates and joint ventures accounted for using the equity method;
 - Pre-tax gain or loss recognized on the disposal of assets or settlement of liabilities attributable to discontinuing operations; and
 - Surplus or deficit.



Expense classification

Analysis of expenses in the statement of financial performance may be given by

- By nature or
- by function.

If presented by function, classification of expenses by nature should be provided as additional notes.



Expense classification

Analysis of expenses in the statement of financial performance may be given by

- By nature or
- by function.

If presented by function, classification of expenses by nature should be provided as additional notes.

Expense classification

By nature:

Revenue		X
Employee benefits expense	X	
Depreciation and amortisation	X	
Other expenses	<u>X</u>	
Total expenses		<u>(X)</u>
Surplus		<u>X</u>

By function:

Revenue	X
Cost of sales	(X)
Distribution costs	(X)
Administrative expenses	(X)
Surplus	X

IPSAS 1 does not discuss the concept of OCI, however under the Implementation guidance (IG4), these items are presented directly in the statement of changes in net assets/equity. They include:

- ❖ changes in revaluation surplus
- ❖ actuarial gains and losses on defined benefit plans
- ❖ gains and losses arising from translating the financial statements of a foreign operation
- ❖ gains and losses on re-measuring available-for-sale financial
- ❖ the effective portion of gains and losses on hedging instruments in a cash flow hedge.

Statement of changes in net asset/equity

An entity shall present a statement of changes in net assets/equity showing on the face of the statement:

- a. Surplus or deficit for the period;
- b. Each item of revenue and expense for the period that, as required by other Standards, is recognized directly in net assets/equity, and the total of these items;
- c. Total revenue and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to owners of the controlling entity and to minority interest; and
- d. For each component of net assets/equity separately disclosed, the effects of changes in accounting policies and corrections of errors recognized in accordance with IPSAS 3.

Statement of changes in net asset/equity

An entity shall also present, either on the face of the statement of changes in net assets/equity or in the notes:

- a) The amounts of transactions with owners acting in their capacity as owners, showing separately distributions to owners;
- b) The balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date, and the changes during the period; and
- c) To the extent that components of net assets/equity are separately disclosed, a reconciliation between the carrying amount of each component of net assets/equity at the beginning and the end of the period, separately disclosing each change.



Notes

Present information in systematic order and cross reference to main statements. Normally presented in the following order:

- Statement of compliance with IPSAS
- Bases of measurement and significant accounting policies applied
- Supporting information required by IPSAS for items presented in the primary statements
- Other disclosures e.g. contingent liabilities
- Significant accounting policies
- Management's judgements in applying accounting policies with significant effects on amounts recognised



IPSAS 2

Scope and Objective

Effective date

IPSAS 2 is effective for annual periods beginning on or after July 1, 2001.

Scope

All financial statements (FS) prepared under the accrual basis of accounting in accordance with IPSAS

Objective

To require the presentation of information about historical changes in a public sector entity's cash and cash equivalents by means of a cash flow statement that classifies cash flows during the period according to operating, investing, and financing activities.



Cash and cash equivalents

Comprises

- cash on hand and
- demand deposits.
- short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- bank overdrafts which are repayable on demand held for the purpose of meeting short-term cash commitments rather than for investment or other purposes



Classification of cash flows

The cash flow statement shall present cash flows during the period classified by the following:

1. Operating activities
2. Investing activities
3. Financing activities

Operating Activities

Operating activities shall be presented using the direct or indirect method. Cash flows from operating activities include:

- a) Cash receipts from taxes, levies, and fines;
- b) Cash receipts from charges for goods and services
- c) Cash receipts from grants or transfers and other appropriations
- d) Cash receipts from royalties, fees, commissions, and other revenue;
- e) Cash payments to other public sector entities;
- f) Cash payments to suppliers for goods and services;
- g) Cash payments to and on behalf of employees;
- h) Cash receipts/payments from/to insurance entities for policies
- i) Cash payments of local property taxes or income taxes;
- j) Cash receipts and payments from contracts held for dealing or trading purposes;

Cash flows from investing activities (aimed at entity's future service delivery) include:

- a) Cash payments to acquire property, plant and equipment, intangibles, and other long-term assets. These payments include those relating to capitalized development costs and self-constructed property, plant, and equipment;
- b) Cash receipts from sales of property, plant and equipment, intangibles, and other long-term assets;
- c) Cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);
- d) Cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes); and
- e) Cash advances and loans made to other parties (other than advances and loans made by a public financial institution).

Cash flows from investing activities (aimed at providing capital to the entity) include:

- a) Cash from issuance of debentures, loan notes, bonds, and long-term borrowings;
- b) cash proceeds from issuing shares or other equity instruments;
- c) cash payments to owners to acquire or redeem the entity's shares;
- d) Cash repayment of loans and amounts borrowed; and
- e) cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.



IPSAS 3

Scope and Objective

Effective date

IPSAS 3 was issued in May 2000 and became effective for annual periods beginning on or after January 1, 2008.

Scope

Applicable to all financial statements (FS) in selection and applying accounting policies and accounting for changes in policies and prior period errors under IPSAS.

Objective

To prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and the corrections of errors.

Accounting policies

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

The accounting policies applied to an item are determined by applying IPSAS and considering any relevant Implementation Guidance issued by the IASB.

Change in accounting estimate

A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities.

Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors. The effect of a change in an accounting estimate, shall be recognized prospectively by including it in profit or loss in:

- (a) the period of the change, if the change affects that period only; or
- (b) the period of the change and future periods, if the change affects both.

Changes in Accounting Policies

An entity shall change accounting policies only if the change:

- ❖ Is required by an IPSAS; or
- ❖ Results in FS providing more reliable and more relevant information about transactions

The effects of changes in accounting policies are presented as retrospective adjustments, unless the change is as a result of amendments in an IPSAS in which case the entity follows the transition guidelines in the IPSAS

Prior period errors

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

- a) Was available when financial statements for those periods were authorised for issue; and**
- b) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those FS.**

The effects of corrections of errors are presented as retrospective adjustments



Discussion



Questions?



Thank you

Stephen Obock
Senior Manager, KPMG Kenya
0709 576 129/0712 601 624
sobock@kpmg.co.ke