International Public Sector Accounting Standards (IPSAS) Workshop

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1. Introduction - Scope

The objective of IPSAS 3 is 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.

1. Introduction - Scope

IPSAS 3 applies to all public organizations and shall also be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.

1. Introduction - Scope

The standard does not cover **t**he tax effects of corrections of prior period errors and of retrospective adjustments made to apply changes in accounting policies are as they are not relevant for many public sector organization.

2. Accounting Policies

2. Accounting Policies

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

2.Accounting Policies

2.1 Selection and Application of Accounting Policies

When an IPSAS specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Standard and considering any relevant Implementation Guidance issued by the IPSASB for the Standard.

2.Accounting Policies

In the absence of an IPSAS that specifically applies to a transaction, other event or condition, management shall use its judgment in developing and applying an accounting policy that results in information that is:

2. Accounting Policies

(a) Relevant to the decision-making needs of users; and

(b) Reliable, in that the financial statements:

(i) Represent faithfully the financial position, financial performance and cash flows of the organization;

(ii) Reflect the economic substance of transactions, other events and conditions and not merely the legal form;

(iii) Are neutral i.e., free from bias;

(iv) Are prudent; and

(v) Are complete in all material respects.

2.Accounting Policies

2.2 Consistency of Accounting Policies

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

Accounting Policies

2.3 Changes in Accounting Policies

An organization should only change its accounting policy only if the change:

(a) Is required by an IPSAS; or

(b) Results in the financial statements providing reliable and more relevant.

2.Accounting Policies

2.3.1 Retrospective Application

When a change in accounting policy is applied retrospectively the organization should adjust the opening balance of each affected component of net assets/equity for the earliest period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

2.Accounting Policies

2.3.2 Limitations on Retrospective Application

When it is impracticable to determine the period specific effects of changing an accounting policy on comparative information for one or more prior periods presented, the organization shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable.

2.Accounting Policies

2.3.3 Disclosures

1. Title of the standard
2. Transitional provisions, their nature and effect on the future
3. The nature of the change in accounting policy
4. Adjustments in the current period
5. Incase of impracticability, then the situation that led to that.

3.Change in Accounting Estimates

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

3.Change in Accounting Estimates

Changes in accounting estimates

Current and prospective method

3.Change in Accounting Estimates

As a result of the uncertainties inherent in delivering services, conducting trading or other activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgments based on the latest available, reliable information.

3.Change in Accounting Estimates

For example, estimates may be required, of:

(a) Tax revenue due to government;

(b) Bad debts arising from uncollected taxes;

(c) Inventory obsolescence;

(d) The fair value of financial assets or financial liabilities;

3.Change in Accounting Estimates

(e) The useful lives of, or expected pattern of consumption of future economic benefits or service potential embodied in depreciable assets, or the percentage completion of road construction; and

(f) Warranty obligations

3.Change in Accounting Estimates

3.1 Changes in accounting estimates treatment

The effect of a change in an accounting estimate, shall be recognized prospectively by including it in surplus or deficit in:

(a) The period of the change, if the change affects the period only; or

(b) The period of the change and future periods, if the change affects both.

3.Change in Accounting Estimates

3.2 Changes in accounting estimates treatment

To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets/equity,

it shall be recognized by adjusting the carrying amount of the related asset, liability, or net assets/equity item in the period of change.

3.Change in Accounting Estimates

3.3 Disclosures

An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect on future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.

4 Errors

4 Errors

4.1 Introduction

Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with IPSASs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an organization’s financial position, financial performance or cash flows.

4 Errors

Potential current period errors discovered in that period are corrected before the financial statements are authorized for issue. However, material errors are sometimes not discovered until a subsequent period, and these **prior period errors** are corrected in the comparative information presented in the financial statements for that subsequent period.

4 Errors

4.1. Retrospective application of correction of errors

A material prior period error should be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by:

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

4 Errors

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

4 Errors

4.2. Limitations of Retrospective Restatement

When it is impracticable to determine the period specific effects of an error on comparative information for one or more prior periods presented, the organization shall restate the opening balances of assets, liabilities and net assets/equity for the earliest period for which retrospective restatement is practicable (which may be the current period).

4 Errors

When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the organization shall restate the comparative information to correct the error prospectively from the earliest date practicable.

4 Errors

4.3 Disclosures

(a) The nature of the prior period error;

(b) For each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;

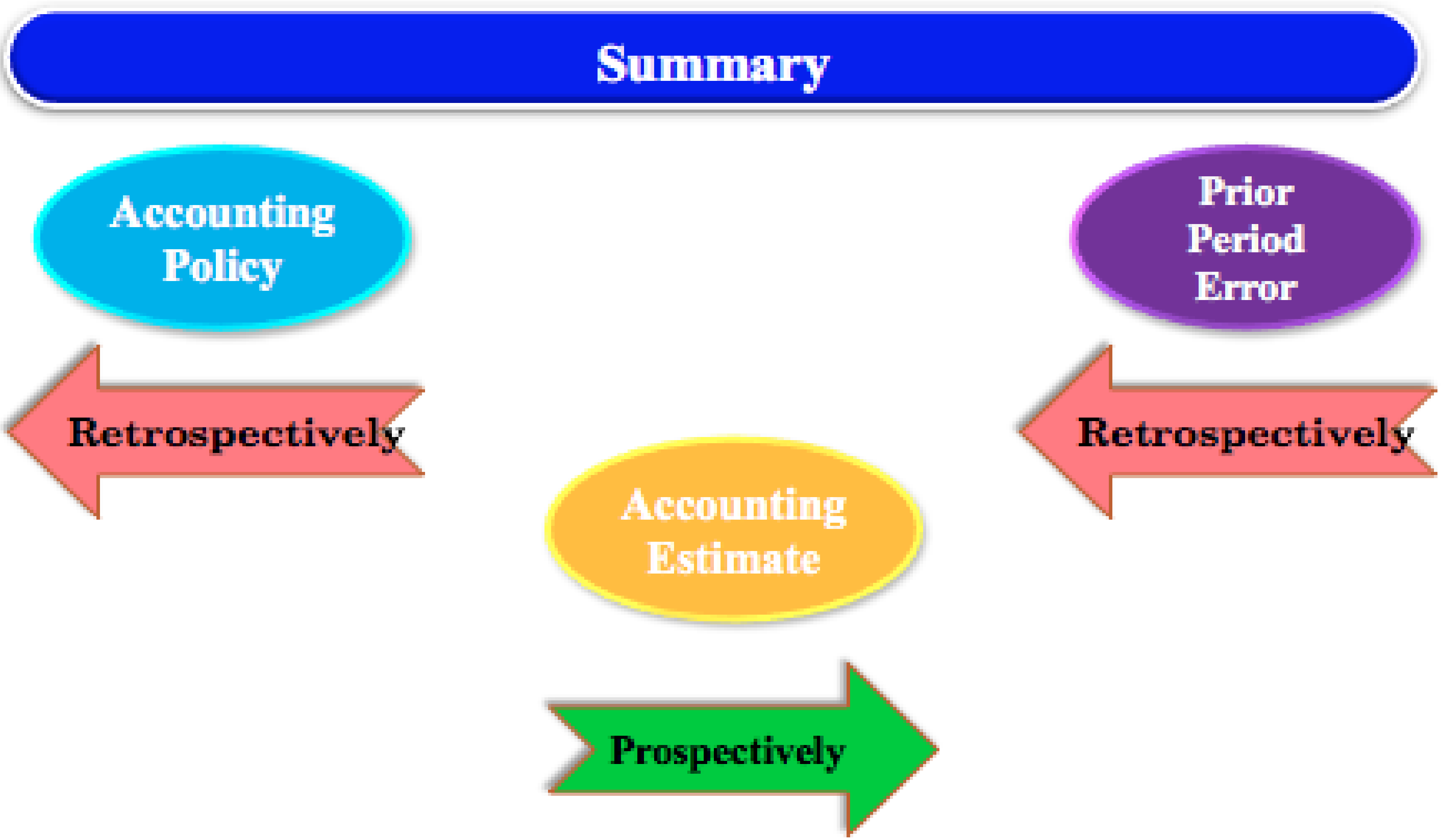
4 Errors

4.3 Disclosures

(c) The amount of the correction at the beginning of the earliest prior period presented; and

(d) If retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

Summary


Summary
Accounting Policy
Prior Period Error
Retrospectively
Retrospectively
Accounting Estimate
Prospectively