

IPSAS 1- Financial Statements Presentation. -Mandatory and Non- Mandatory disclosures

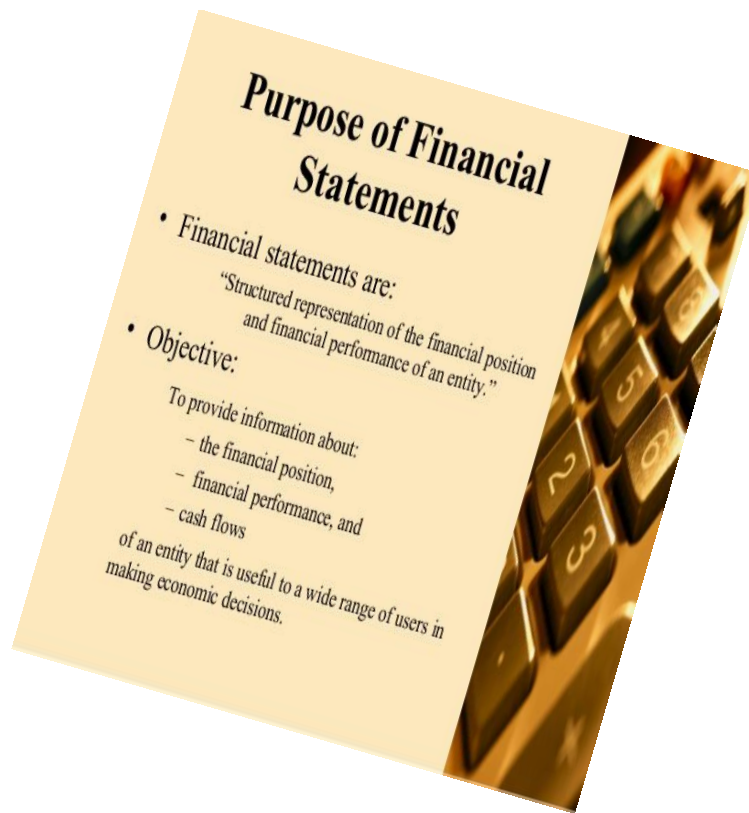
Presentation by:

**By
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IPSAS 1: Presentation of Financial Statements



By
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IPSAS 1 – Some Background



- Drawn primarily from IAS 1 (revised December 2003), “Presentation of Financial Statements”
- First issued in May 2000
- Applicable for annual periods beginning on or after July 1, 2001.
- Later revised to bring in changes made to IAS 1 by IASB
- The revised version was effective from January 1, 2008.

OBJECTIVE



- To prescribe the manner in which general purpose financial statements should be presented to ensure comparability of the entity's financial statements over time and also with the financial statements of other entities.
- sets out
 - overall considerations for the presentation of financial statements,
 - guidance for their structure, and
 - minimum requirements for the content of financial statements prepared under the accrual basis of accounting.

Applicability

- To all general purpose financial statements prepared and presented under the accrual basis of accounting in accordance with IPSASs.
- To all entities whether or not they need to prepare consolidated financial statements or separate financial statements,
- To all public sector entities other than Government Business Enterprises (GBEs).

Government Business Enterprise (GBEs)

- An entity that has all the following characteristics:
 - Is an entity with the power to contract in its own name;
 - Has been assigned the financial and operational authority to carry on a business;
 - sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;
 - Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and
 - Is controlled by a public sector entity.



Financial Statements



- **Structured representation** of the **financial position** and **financial performance** of an entity.
 - **Objective:**
 - To Provide information about
 - the financial position,
 - financial performance and
 - cash flows
- of an entity that is **useful to** a wide range of users **for decision-making.**

Financial Statements...



A Complete set of financial statements includes:

A statement of financial position

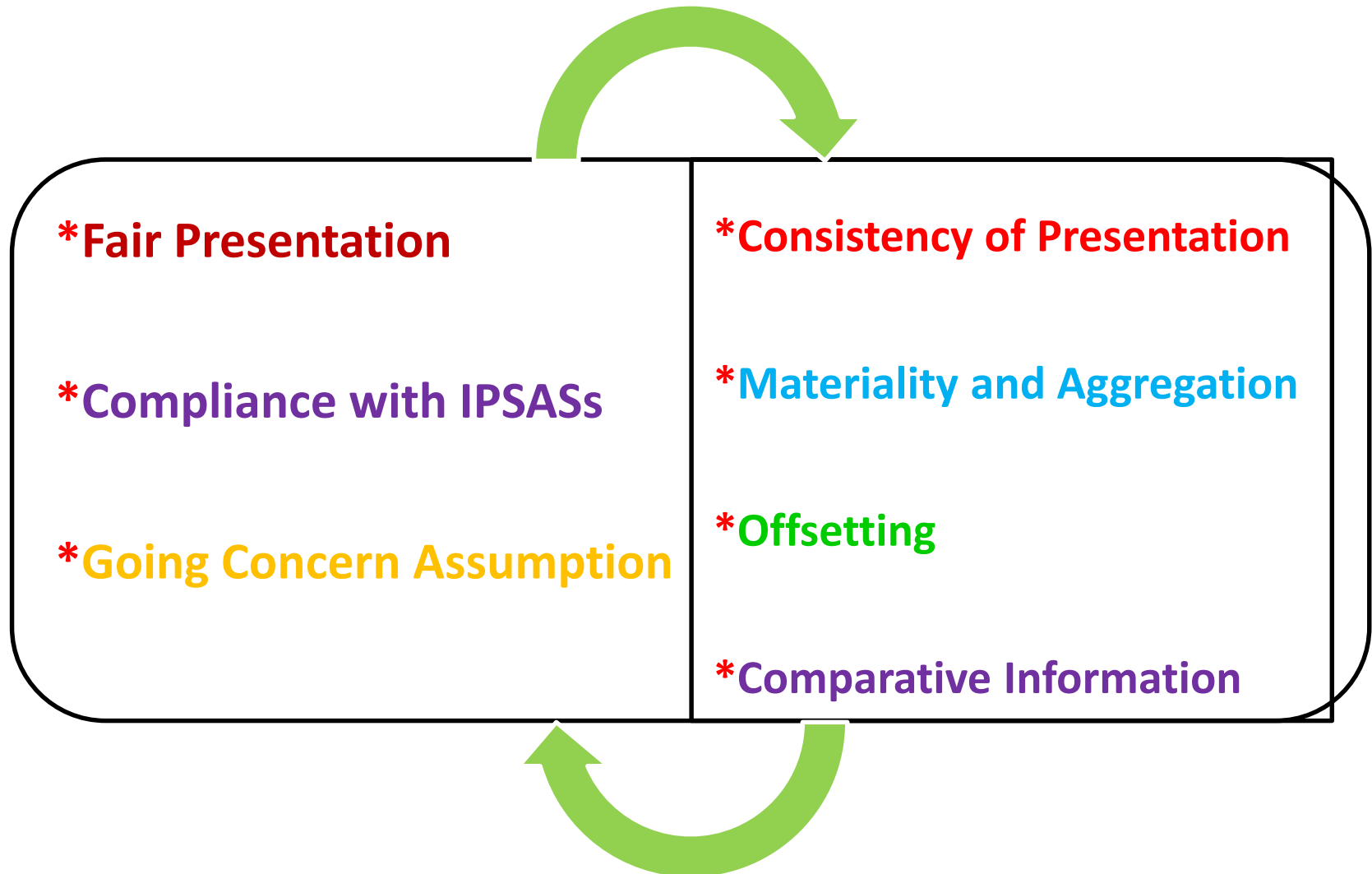
A statement of financial performance

A statement of changes in Net Assets/Equity

A statement of cash flows

Notes to the financial statements; comprising of a summary of significant accounting policies and other explanatory notes.

Overall Considerations in Preparation of Financial statements



Fair Presentation



- Financial statements to present fairly the financial position, financial performance and cash flows of an entity.
- Fair presentation **requires the faithful representation** of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in IPSASs.

Compliance to IPSASs



- An entity whose financial statements comply with IPSASs shall state explicitly such compliance in the notes.
- Financial statements shall be construed to comply with IPSASs only when they comply with all the requirements of IPSASs.

Going Concern Assumption



- Financial statements shall be prepared on a going concern basis
- Where the financial statements are not prepared on a going concern basis, that fact should be disclosed
- When significant doubt is cast upon the entity's ability to continue as a going concern, those **uncertainties together with the basis on which the financial statements are prepared are to be disclosed.**

Consistency of Presentation



- The presentation and classification of items in the financial statements shall be retained from one period to the next unless:
 - It is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in IPSAS 3; or
 - An IPSAS requires a change in presentation.

Materiality and Aggregation

- Each material class of similar items shall be presented separately in the financial statements.
- Items of a dissimilar nature or function shall be presented separately unless they are immaterial.

Offsetting

- Assets and liabilities, and revenue and expenses, shall not be offset unless required or permitted by an IPSAS.
- Measuring assets net of valuation allowances is not offsetting and therefore allowed.

Comparative Information



- Except when an IPSAS permits or requires otherwise, **comparative information shall be disclosed in respect of the previous period** for all amounts reported in the financial statements.
- **Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.**

Comparative Information...



- When the presentation or classification of items in the financial statements is amended, comparative amounts should also be reclassified unless the reclassification is impracticable.
- When comparative amounts are reclassified, an entity shall disclose:
 - **The nature of the reclassification;**
 - **The amount of each item or class of items that is reclassified;**
and
 - **The reason for the reclassification.**

Comparative Information..



- **When it is impracticable to reclassify comparative amounts, an entity shall disclose:**
 - **The reason for not reclassifying the amounts; and**
 - **The nature of the adjustments that would have been made if the amounts had been reclassified.**

Disclosures

(On the face of Financial statements
Or
Notes to the Financial Statements)

Structure and Content



- Each financial statements should be identified clearly.
- The following information should displayed prominently for each financial statement
 - The name of the reporting entity or other means of identification and any change in that information from the preceding reporting date;
 - The financial statements cover the individual entity or the economic entity;
 - The reporting date or the period covered by the financial statements, whichever is appropriate;
 - The presentation currency used in presenting the financial statements; and
 - The level of rounding used in presenting amounts in the financial statements

Statement of Financial position

- A statement that **reports (reflects) the financial position (health)** of a reporting entity at a given point in time.
- The financial position of an entity is reflected by the amounts of:
 - **assets,**
 - **liabilities, and**
 - **Net assets/Equity.**

Statement of Financial position

- is a detailed expression of the accounting equation.

$$\text{Assets} = \text{Equity} + \text{Liabilities}$$

Assets

- 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.
- Classification for statement of financial position purposes:
 - Non-current assets
 - Current assets

Liabilities



- 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.
- Classification for statement of financial position purposes:
 - Non-current liabilities
 - Current liabilities

Equity

- The residual interest in the assets of the entity after deducting all its liabilities.
- Owners claims against assets of an entity
 - If, $\text{Assets} = \text{Equity} + \text{Liabilities}$
 - Then, $\text{Equity} = \text{Assets} - \text{Liabilities}$

Statement of Financial Position:

Minimum Disclosure

- (a) Property, plant and equipment;
- (b) Investment property;
- (c) Intangible assets;
- (d) Financial assets (excluding amounts shown under (e), (g), (h) and (i));
- (e) Investments accounted for using the equity method;
- (f) Inventories;
- (g) Recoverables from non-exchange transactions (taxes and transfers);
- (h) Receivables from exchange transactions;
- (i) Cash and cash equivalents;

Statement of Financial Position:

Minimum Disclosure...

- (j) Taxes and transfers payable;
- (k) Payables under exchange transactions;
- (l) Provisions;
- (m) Financial liabilities (excluding amounts shown under (j), (k) and (l));
- (n) Minority interest, presented within net assets/equity; and
- (o) Net assets/equity attributable to owners of the controlling entity.



Statement of Financial Position:

Minimum Disclosure

Public Sector Entity

statement of financial position

As at June 30th,

	2017	2016
	Kshs 'million'	Kshs 'million'
ASSETS		
Current assets		
Cash and cash equivalents	X	X
Receivables	X	X
Inventories	X	X
Prepayments	X	X
Other current assets	<u>X</u>	<u>X</u>
	<u>X</u>	<u>X</u>

Statement of Financial Position:

Minimum Disclosure (cont'd)

Non-current assets

Receivables	X	X
Investments in associates	X	X
Other financial assets	X	X
Infrastructure, plant and equipment	X	X
Land and buildings	X	X
Intangible assets	X	X
Other non-financial assets	<u>X</u>	<u>X</u>
	<u>X</u>	<u>X</u>
Total assets	<u>X</u>	<u>X</u>

Statement of Financial Position:

Minimum Disclosure (cont'd)

LIABILITIES

Current liabilities

Payables	X	X
Short-term borrowings	X	X
Current portion of long-term borrowings	X	X
Short-term provisions	X	X
Employee benefits	<u>X</u>	<u>X</u>
	<u>X</u>	<u>X</u>

Non-current liabilities

Payables	X	X
Long-term borrowings	X	X
Long-term provisions	X	X
Employee benefits	<u>X</u>	<u>X</u>
	<u>X</u>	<u>X</u>

Total liabilities

Net assets

<u>X</u>	<u>X</u>
<u>X</u>	<u>X</u>



Statement of Financial Position:

Minimum Disclosure (cont'd)

NET ASSETS/EQUITY

Capital contributed by

Other government entities

X X

Reserves

X X

Accumulated surpluses/(deficits)

X X

Minority interest

X X

Total net assets/equity

X X

Statement of Financial Position:

Minimum Disclosure (cont'd)

When an entity has share capital, it shall disclose the following, either on the face of the statement of financial position or in the notes:

- For each class of share capital:
 - The number of shares authorized;
 - The number of shares issued and fully paid, and issued but not fully paid;
 - Par value per share, or that the shares have no par value;
 - A reconciliation of the number of shares outstanding at the beginning and at the end of the year;
 - The rights, preferences and restrictions attaching to that class, including restrictions on the distribution of dividends and the repayment of capital;
 - Shares in the entity held by the entity or by its controlled entities or associates; and
 - Shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts; and
- A description of the nature and purpose of each reserve within net assets/equity.

Statement of Financial Performance

- Provides information about the financial performance of the entity for a given period of time
- All items of revenue and expense recognized in a period are included in surplus or deficit.
- This includes the effects of changes in accounting estimates.



Revenue



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

Expenses



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



Statement of Financial Performance

- An entity has a choice to present an analysis of expenses using a classification based on either
 - the nature of expenses or
 - their function within the entity,
- Where an entity classifies expenses by function it shall disclose additional information on the nature of expenses, including depreciation and amortization expense and employee benefits expense.

Statement of Financial Performance

(Expenses classified by function)



Public Sector Entity

Statement of Financial Performance

For the year ended June 30,

	2017	2016
	Kshs 'million'	Kshs 'million'
Revenue		
Taxes	X	X
Fees, fines, penalties and licenses	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
Other revenue	<u>X</u>	<u>X</u>
Total revenue	<u>X</u>	<u>X</u>

Statement of Financial Performance

(Expenses classified by function)...



Expenses

General public services	(X)	(X)
Defense	(X)	(X)
Public order and safety	(X)	(X)
Education	(X)	(X)
Health	(X)	(X)
Social protection	(X)	(X)
Housing and community amenities	(X)	(X)
Recreational, cultural and religion	(X)	(X)
Economic affairs	(X)	(X)
Environmental protection	(X)	(X)
Other expenses	(X)	(X)
Finance costs	<u>(X)</u>	<u>(X)</u>
Total expenses	<u>(X)</u>	<u>(X)</u>

Statement of Financial Performance

(Expenses classified by function)...

Share of surplus of associates	<u>X</u>	<u>X</u>
Surplus/(deficit) for the period	<u>X</u>	<u>X</u>
Attributable to:		
Owners of the controlling entity	X	X
Minority interests	<u>X</u>	<u>X</u>
	<u>X</u>	<u>X</u>

Statement of Financial Performance

(Expenses classified by nature)

Public Sector Entity

Statement of Financial Performance

For the year ended June 30,

	2017	2016
	Kshs 'million'	Kshs 'million'
Revenue		
Taxes	X	X
Fees, fines, penalties and licenses	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
Other revenue	<u>X</u>	<u>X</u>
Total revenue	<u>X</u>	<u>X</u>

Statement of Financial Performance

(Expenses classified by nature)...

Expenses

Wages, salaries and employee benefits	(X)	(X)
Grants and other transfer payments	(X)	(X)
Supplies and consumables used	(X)	(X)
Depreciation and amortization expense	(X)	(X)
Impairment of property, plant and equipment	(X)	(X)
Other expenses	(X)	(X)
Finance costs	<u>(X)</u>	<u>(X)</u>

Total Expenses

Share of surplus of associates	<u>X</u>	<u>X</u>
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Surplus/(deficit) for the period

Attributable to:		
Owners of the controlling entity	X	X
Minority interest	<u>X</u>	<u>X</u>
	<u>X</u>	<u>X</u>

Statement of Changes in Net Assets/Equity

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

- Surplus or deficit for the period;
- Each item of revenue and expense for the period recognized directly in net assets/equity, and the total of these items;
- Total revenue and expense for the period showing separately the total amounts attributable to owners of the controlling entity and to minority interest; and
- 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.
- A reconciliation of the opening and closing balances of each element within net assets/equity.

PUBLIC SECTOR ENTITY – STATEMENT OF CHANGES IN NET ASSETS/EQUITY FOR YEAR ENDED DECEMBER 31, 20X2

(in thousands of currency units)

	Attributable to owners of the controlling entity					Minority interest
	Contributed Capital	Other Reserves ¹	Translation Reserve	Accumulated Surpluses/ (Deficits)	Total	
Balance at December 31, 20X0	X	X	(X)	X	X	X
Changes in accounting policy				(X)	(X)	(X)
Restated balance	X	X	(X)	X	X	X
Changes in net assets/equity for 20X1						
Gain on property revaluation		X			X	X
Loss on revaluation of investments		(X)			(X)	(X)
Exchange differences on translating foreign operations			(X)		(X)	(X)
Net revenue recognized directly in net assets/equity		X	(X)		X	X
Surplus for the period				X	X	X
Total recognized revenue and expense for the period		X	(X)	X	X	X
Balance at December 31, 20X1 carried forward	X	X	(X)	X	X	X

¹ Other reserves are analyzed into their components, if material.

Cash Flow Statement



- Provides users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilize those cash flows.
- IPSAS 2 sets out requirements for the presentation of the cash flow statement and related disclosures.

Notes to the Financial Statements

- Basis of preparation of the financial statements
- Specific accounting policies used;
- The measurement basis (or bases) used in preparing the financial statements;
- Judgements made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements

Notes to the Financial Statements...

- Key assumptions concerning the future, and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year
- Information required by IPSASs that is not presented on the face of the financial statements; and
- Additional information that is not presented on the face of the financial statements, but that is relevant to an understanding of any of them.

Other Disclosures



- The amount of dividends, or similar distributions, proposed or declared before the financial statements were authorized for issue but not recognized as a distribution to owners during the period, and the related amount per share; and
- The amount of any cumulative preference dividends, or similar distributions, not recognized.

Other Disclosures...



- **Disclose the following, if not disclosed elsewhere**
 - **The domicile and legal form of the entity, and the jurisdiction within which it operates;**
 - **A description of the nature of the entity's operations and principal activities;**
 - **A reference to the relevant legislation governing the entity's operations; and**
 - **The name of the controlling entity and the ultimate controlling entity of the economic entity (where applicable).**

Encouragement (Additional Disclosure)



- Information to assist users in assessing the performance of the entity, and its stewardship of assets, as well as making and evaluating decisions about the allocation of resources.
- This additional information may include details about
 - the entity's outputs and outcomes in the form of performance indicators,
 - statements of service performance,
 - program reviews and
 - other reports by management about the entity's achievements over the reporting period.
- Information about compliance with legislative, regulatory or other externally-imposed regulations.

Thank you