

# IPSAS & PFM WORKSHOP

An IPSAS perspective

Name : Samuel Kiautha

Title: CPA,MBA

Date: Thursday, 11<sup>th</sup> March 2021.

# Presentation agenda



1. IPSAS 39-Employee benefits, overview
2. IPSAS 19- Provisions, contingent assets and liabilities
3. IPSAS 3- Accounting Policies, Changes in Accounting Estimates and Errors
4. IPSAS 41- Financial Instruments

# 1. IPSAS 39-EMPLOYEE BENEFITS



## Introduction

- ❑ IPSAS 39, Employee Benefits, replaced IPSAS 25, Employee benefits, on January 1, 2018.
- ❑ Incorporates changes from IAS 19 employee benefits to adopt some learning from the private sector

# IPSAS 39-EMPLOYEE BENEFITS



## **Underlying principle**

Cost of providing employee benefits shall be recognized in the period in which the benefit is earned by the employee, rather than when it is paid or payable.

# IPSAS 39-EMPLOYEE BENEFITS



## **Objectives**

The objective of this Standard is to prescribe the accounting and disclosure for employee benefits.

The Standard requires an entity to recognize:

- (a) A liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- (b) An expense when the entity consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits

# IPSAS 39-EMPLOYEE BENEFITS



## **Employee benefits?**

**Short-term employee benefit-paid wholly within 12 months. Examples:**

- i) Wages, salaries and social security contributions
- ii) Paid annual leave and paid sick leave;
- iii) Profit-sharing and bonuses; and
- (iv) Non-monetary benefits (such as medical care, housing, cars and free or subsidized goods or services) for current employees;

# IPSAS 39-EMPLOYEE BENEFITS



## **Employee benefits?**

### **Post-employment benefits; Examples:**

-Retirement benefits (e.g., pensions and lump sum payments on retirement. Other post-employment benefits, such as post-employment life insurance and post-employment medical care

### **Other long-term employee benefits. Examples:**

-Long-term paid absences such as long-service leave or sabbatical leave; (ii) Jubilee or other long-service benefits; and (iii) Long-term disability benefits;

### **Termination benefits.**

# IPSAS 39-EMPLOYEE BENEFITS



## **Post employment benefits**

### **Types of plans**

a) Defined contribution plan - post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.



# IPSAS 39-EMPLOYEE BENEFITS



## **Post employment benefits**

### **Types of plans**

- b) Defined benefit plans are post-employment benefit plans other than defined contribution plans.
- c) Multi-employer plans- are defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that-Pool the assets contributed by various entities that are not under common control;
- d) State plans-are plans established by legislation that operate as if they are multiemployer plans for all entities in economic categories laid down in legislation.

# IPSAS 39-EMPLOYEE BENEFITS



## **Disclosures**

- a) Characteristics of its defined benefit plans and risks associated with them.
- b) Identify and explain the amounts in its financial statements arising from its defined benefit plans; and
- c) describe how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows.

# FACES DIVIDER



“Tell me and I forget, teach me and I may remember,  
involve me and I learn.”

— [Benjamin Franklin](#)

## 2. IPSAS 19- Provisions, contingent assets and liabilities



**Effective Date:-** Periods beginning on or after January 1, 2004

### **Objective:**

The objective of this standard is to define provisions, contingent liabilities and contingent assets and identify the circumstances in which provisions should be recognized, how they should be measured, and the disclosures that should be made about them.

Standard also deals with disclosures on contingent liabilities and assets.

# IPSAS 19- Provisions, contingent assets and liabilities



## Scope

This standard applies to an entity that prepares and presents its financial statements under the accrual basis of accounting except:

- Provisions arising from insurance contracts
- Those resulting from executory contracts, other than where the contract is onerous (IPSAS 11- Construction contracts)
- Those covered under other IPSAS-12,25 etc.

# IPSAS 19- Provisions, contingent assets and liabilities



## **Key definitions**

Provision- a liability of uncertain timing or amount.

## Provisions and other liabilities-Distinction

Payables and accruals usually have certainty with the amount and the timing while provisions do not.

# IPSAS 19- Provisions, contingent assets and liabilities



## **Key definitions**

### **Provisions and contingent liabilities**

#### **Distinction**

Generally all provisions are contingent because there is no certainty in timing or amount.

However as per the standard, contingent liability is used for liabilities that are not recognized because their existence will only be confirmed by a future occurrence or non occurrence and they do not meet the recognition criteria.

# IPSAS 19- Provisions, contingent assets and liabilities



## **Recognition**

A provision shall be recognized when:

An entity has a present obligation to (legal or constructive) as a result of a past event.

- It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and

- A reliable estimate can be made of the amount of the obligation



# IPSAS 19- Provisions, contingent assets and liabilities



## **Recognition**

Contingent liability-

Generary-An entity shall not recognize a contingent liability

A contingent liability is disclosed in the financial statements, unless the possibility of an outflow of resources is remote.

An entity will assess its contingent liabilities to assess whether the recognition criteria has been met. If met, it should recognize a provision.

# IPSAS 19- Provisions, contingent assets and liabilities



## **Recognition**

### **Contingent Asset**

An entity shall not recognize a contingent asset

A contingent asset is disclosed, where an inflow of economic benefits or service potential is probable.

An entity will assess its contingent assets to assess whether the recognition criteria has been met. If met, it should recognize in the Financial statements.

# IPSAS 19- Provisions, contingent assets and liabilities



Contingent liabilities	Contingent assets
<ul style="list-style-type: none"> <li>▶ Not recognized</li> <li>▶ Disclosed unless outflow is remote</li> <li>▶ Continually assessed</li> </ul>	<ul style="list-style-type: none"> <li>▶ Do not recognize</li> <li>▶ Disclosed when inflow is probable</li> <li>▶ Continually assessed</li> <li>▶ If inflow becomes virtually certain = then recognize asset</li> </ul>

## Contingent liability

Present / possible obligation	Probable outflow	What to do
Yes	Yes	Provision disclosure
Yes	No	Contingent liability disclosed
Yes	Remote	-

# IPSAS 19- Provisions, contingent assets and liabilities



## **Measurement**

Best estimate-Reviewed regularly

The amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date.

# IPSAS 19- Provisions, contingent assets and liabilities



**Disclosures-**For each class of provision:

- The carrying amount at the beginning and end of the period
- Additional provisions in the period, including increases to existing provisions
- Amounts used during the period i.e incurred or charged against the provision
- Unused amounts during the period
- Changes due to the effect in discount rate where present value has been used

# IPSAS 19- Provisions, contingent assets and liabilities



## **Disclosures**

### Contingent liability

- An estimate of its financial effect
- An indication of uncertainties relating to amount and timing of outflow
- The possibility of any reimbursement.

# 3. IPSAS 3- Accounting Policies, Changes in Accounting Estimates and Errors



## Overview of IPSAS 3

### Introduction

**IPSAS 3** – was issued in May 2000.

In December 2006 the IPSASB issued a revised IPSAS 3.

The Standard is drawn primarily from International Accounting Standard (IAS) 8 (Revised December 2003), Accounting Policies, Changes in Accounting Estimates and Errors.

# IPSAS 3- Accounting Policies, Changes in Accounting Estimates and Errors



## Overview of IPSAS 3

### **Objective & Scope**

- 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.
- This Standard shall be applied in selecting and applying accounting policies, changes in accounting policies, changes in accounting estimates, and corrections of prior period errors.



# IPSAS 3- Accounting Policies, Changes in Accounting Estimates and Errors



## Overview of IPSAS 3

### **Consistency of Accounting Policies**

- An entity 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 an IPSAS requires or permits such categorization, an appropriate accounting policy shall be selected and applied consistently to each category.

# IPSAS 3- Accounting Policies, Changes in Accounting Estimates and Errors



## Overview of IPSAS 3 **Changes in Accounting Policies**

- Changes in accounting policies be applied retrospectively – implication:-
- Adjust the opening balance of each affected component of net assets/equity for the earliest period presented, and
  - The comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

# IPSAS 3- Accounting Policies, Changes in Accounting Estimates and Errors



## Overview of IPSAS 3

### **Changes in Accounting Estimates**

- The effect of a change in an accounting estimate shall be recognized prospectively by including it in surplus or deficit in the period of the change, if the change affects the period only; or the period of the change and future periods, if the change affects both.
- 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.

# IPSAS 3- Accounting Policies, Changes in Accounting Estimates and Errors



## Overview of IPSAS 3 Comparison with IAS 8

- IPSAS 3 does not require disclosures about adjustments to basic or diluted earnings per share. IAS 8 requires disclosure of amount of adjustment or correction for basic or diluted earnings per share.
- IPSAS 3 uses different terminology that are specific to public sector entities.

## 4. IPSAS 41- Financial Instruments



### **Overview of IPSAS 41**

#### **Introduction**

- The International Public Sector Standards Board approved IPSAS 41, Financial Instruments, in June 2018. IPSAS 41 was issued in August 2018.
- Effective date of IPSAS 41 The effective date of IPSAS 41 is January 1, 2022.

#### **Objective**

- To establish new requirements for classifying, recognizing and measuring financial instruments to replace those in IPSAS 29, Financial Instruments.

# IPSAS 41- Financial Instruments



## Overview of IPSAS 41

### Introduction

IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:

- i. Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held;
- ii. Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and
- iii. Improved hedge accounting-The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy

## Overview of IPSAS 41

### Key definition

- **Financial instruments:** are contracts that give rise to both a financial asset in one entity and a financial liability or an equity instrument in another. e.g. Accounts receivables, loans; and Investment certificates (Treasury Bills) ,hedging, derivatives and shares.

## **Overview of IPSAS 41**

### **Classification of financial assets**

Financial assets are classified as those at amortized costs, those at fair value through net assets and those at fair value through surplus or deficit.

Two considerations for that classification

1. The entity's management model for managing the financial assets; and
2. The contractual cash flow characteristics of the financial asset.



## **Overview of IPSAS 41**

### **Classification of financial assets**

#### **1. Classification at amortized cost.**

- Asset is held to collect cash inflows
- Payments for principal and interest are definite

E.g. loans.

# IPSAS 41- Financial Instruments



## **Overview of IPSAS 41**

### **Classification of financial assets**

2. Fair value through net assets.

- Asset is held to collect cash inflows
- Asset held for selling

E.g. bonds.

# IPSAS 41- Financial Instruments



## **Overview of IPSAS 41**

### **Classification of financial assets**

3. Fair value through surplus or deficit.

-Any of the two but a decision is made at the start

## **Overview of IPSAS 41**

### **Classification of financial liabilities**

All financial liabilities are measured at amortised costs.

Except those taken at fair value etc.

# IPSAS 41- Financial Instruments



## Overview of IPSAS 41

### Impairment of financial assets/credit losses.

Expected loss model=past events+ current conditions+ Forecast of future economic conditions

# Interactive Session

