

# IPSAS & PFM WORKSHOP

## Cash Basis IPSAS

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# Presentation agenda



1. Introduction to IPSAS
  2. IPSAS cash
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**International Public Sector  
Accounting Standards (IPSAS) A  
common financial language for the  
public sector.**

# INTRODUCTION TO IPSAS

- ❑ The International Public Sector Accounting Standards Board (the IPSASB) develops accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs)
- ❑ The aim of IPSAS is to achieve consistent and comparable financial information accros jurisdictions
- ❑ Cash basis is a temporal arrangement. The IPSASB encourages governments to progress to the accrual basis of accounting

# INTRODUCTION Cont'd...

There are two types of IPSAS;

- ❑ **Cash basis:** Allows for transparent financial reporting of cash receipts, payments and balances under the cash basis of accounting
- ❑ **Accrual accounting:** Focuses on revenue, costs, assets, liabilities and equity instead of cash flow only. Most IPSAS are on accrual basis which is in line with IFRS.

# IPSAS CASH

## OBJECTIVE

- ❑ The purpose of this Standard is to prescribe the manner in which general purpose financial statements should be presented under the cash basis of accounting
- ❑ Compliance with the requirements of this standard enhances comprehensive and transparent financial reporting and comparability with entity's own financial statements of previous periods and with the financial statements of other entities adopting same framework

# SCOPE OF THE REQUIREMENTS

- ☐ The requirements of this Standard applies to general purpose financial statements
- ☐ An entity whose financial statements comply with the requirements of this Standard should disclose that fact. Do not disclose if you have not fully complied
- ☐ The Standard applies to all public sector entities other than Government Business Enterprises e.g. State Corporations

# Financial **Reporting** under the Cash Basis of Accounting

The standard has two parts

**Part 1: Mandatory** - It sets out all the requirements that are applicable to all entities preparing general purpose financial statements under cash basis of accounting-**A statement of cash receipts and payments which recognizes all cash receipts, cash payments, and cash balances controlled by the entity; others-**

- Information about the entity
- Restrictions on cash balances and access to borrowings
- Budgetary basis, period and scope



# Financial **Reporting** under the Cash Basis of Accounting

**Part 2- Not Mandatory** - [additional accounting policies and disclosures](#) that a public sector entity is encouraged to adopt to enhance the usefulness of its financial statements for accountability and decision-making purposes and to support its transition to the accrual basis of financial reporting and adoption of Accrual Basis IPSAS.

- Consolidation is now not mandatory

# DEFINITIONS

- ❑ **General Purpose Financial Statements**- are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their specific information needs. They include tax/rate payers, members of the legislature, creditors/suppliers, the media and employees
- ❑ **Cash** – comprises cash on hand, demand deposits and cash equivalents
- ❑ **Cash basis** – a basis of accounting that recognizes transactions and other events only when cash is received or paid
- ❑ **Cash equivalents** – are 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

# DEFINITIONS Cont'd...

❑ **Cash flows** – are inflows and outflows of cash

❑ **Cash payments** – are cash outflows

❑ **Cash receipts** – are cash inflows

❑ **Control of cash** – arises when the entity can use or otherwise benefit from the cash in pursuit of its objectives and can exclude or regulate the access of others to that benefit

# DEFINITIONS Cont'd....

- ❑ **Accounting policies** – are specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements
- ❑ **Materiality** – information is material if its omission or misstatement could influence the decisions or assessments of users made on the basis of financial statements.
- ❑ **Reporting date** – date of the last day of the reporting period to which financial statements relate

# Components of Financial Statements

❑ A complete set of general purpose financial statements include the following components:

1. A statement of cash receipts and payments which:
  - Recognizes all cash receipts, cash payments and cash balances controlled by an entity; and
  - Separately identifies payments made by third parties on behalf of the entity
2. Accounting policies and explanatory notes; and
3. When an entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the statement of cash receipts and payments

## Components of Financial Statements Cont'd ...

- ❑ **Note:** When an entity elects to disclose information prepared on a different basis from the cash basis of accounting, such information should be disclosed in the notes to the financial statements
- Receivables, payables, borrowings and other liabilities, non-cash assets and accruing revenues and expenses;
- Commitments and contingent liabilities; and
- Performance indicators and the achievement of service delivery objectives

# 1. Statement of Cash Receipts and Payments

- ☐ This statement should present the following amounts for the reporting period:
  - (a) 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;
  - (b) Total cash payments of the entity showing separately a sub-classification of total cash payments using a classification basis appropriate to the entity's operations; and
  - (c) Beginning and closing cash balances of the entity
- ☐ **Important:** Cash receipts and payments should be reported on a gross basis

## Statement of Cash Receipts and Payments cont'd...

- ❑ Where, during the reporting period, a third party directly settles the obligations of an entity, the entity should disclose in separate columns on the face of this statements such information showing separately a sub-classification of the sources and uses of such payments using a classification basis appropriate to the entity's operation
- ❑ Such disclosure should only be made when the entity has been formally advised by the third party or the recipient that such payment has been made or has otherwise verified the payment



## 2. Accounting Policies and Explanatory Notes

☐ The notes should:

- (a) Present information about the basis of preparation of the financial statements and the specific accounting policies selected and applied for significant transactions and other events; and
- (b) Provide additional information which is not presented on the face of the financial statements but is necessary for a fair presentation of the entity's cash receipts, cash payments and cash balances

☐ Notes should be presented in a systematic manner

# Selection & Disclosure of Accounting Policies

- ❑ General purpose financial statements should present information that is:
  - Understandable;
  - Relevant to the decision-making & accountability needs of users; and
  - Reliable in that it:
    - (i) Represents faithfully the cash receipts, payments & balances of the entity & other information disclosed;
    - (ii) Is neutral, that is, free from bias; and
    - (iii) Is complete in all material respects

## **Selection & Disclosure of Accounting Policies** cont'd...

- ☐ The accounting policies section of the notes to the financial statements should describe each specific accounting policy that is necessary for a proper understanding of the financial statements
- ☐ Inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material

# Reporting Period

- ❑ The financial statements should be present at least annually. If, in exceptional circumstances, there is a departure from this an entity should disclose in addition to the period covered by the financial statements:
  - (a) The reason(s) for a period other than one year being used; and
  - (b) The fact that comparative amounts may not be comparable

# Authorization Date

- ❑ An entity should disclose the date when the financial statements were authorized for issue and who gave that authorization.
- ❑ If another body has the power to amend the financial statements after issuance, the entity should disclose that fact .

# Information about the Entity

- ❑ The following should be disclosed:
  - (a) The domicile and legal form of the entity, and the jurisdiction within which it operates
  - (b) A description of the nature of the entity's operations and principal activities
  - (c) A reference to the relevant legislation governing the entity's operations, if any; and
  - (d) The name of the controlling entity (where applicable, if any)

# Consistency of Presentation

- ❑ The presentation & classification of items in the financial statements should be retained from one period to the next unless:
  - (a) There is a significant change in the nature of the operations of the entity or review of its financial statements presentation that will result in a more appropriate presentation of events or transactions; or
  - (b) A change in presentation is required by a future amendment to this Standard

# Identification of Financial Statements

- ❑ The financial statements should be clearly identified and distinguished from other information in the same published document
- ❑ Each component of the financial statements should be clearly identified



# Correction of errors

- ❑ When an error arises in relation to a cash balance reported in the financial statements the amount of the error that relates to prior periods should be reported by adjusting the cash at the beginning of the period. Restate comparative information
- ❑ Disclose the following in the notes:
  - (a) The nature of the error;
  - (b) The amount of the correction; and
  - (c) The fact that comparative information has been restated

### 3. Presentation of Budget Information

- ❑ **Annual Budget** – approved budget for one year. It does not include published forward estimates or projections for periods beyond the budget period
- ❑ **Appropriation** – is an authorization granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority
- ❑ **Approved budget** – the expenditure authority derived from laws, appropriation bills, government ordinances and other decisions related to the anticipated revenue or receipts for the budgetary period

## **Budget Information Cont'd ...**

- ❑ Original budget – is the initial approved budget for the budget period
- ❑ Final Budget – is the original budget adjusted for all reserves, carry over amounts, transfers, allocations, supplemental appropriations, and other authorized legislative or similar authority changes applicable to the budget period

# **Comparison of Budget and Actual Amounts**

❑ The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- (a) The original and final budget amounts
- (b) The actual amounts on a comparable basis;  
and
- (c) By way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts

# Further Reading ....

- ❑ IPSAS Pronouncements - All editions
- IPSAS 1 – Presentation of Financial Statements
- Cash Basis IPSAS – Financial Reporting Under the Cash Basis of Accounting
- ❑ <http://www.treasury.go.ke/>
- ❑ <http://www.ifac.org/public-sector>

# THANK YOU.

`The illiterate of the 21st century will not be those who cannot read and write, but those who cannot learn, unlearn, and relearn.” -- American futurist, Alvin Toffler`