

Summary Comparison: PSAB's Proposals for a Revised Reporting Model and IPSASB's Existing Reporting Model

Introduction

This comparison was prepared to provide stakeholders with an overview of the differences between the Public Sector Accounting Board's (PSAB) proposals for a revised reporting model and the International Public Sector Accounting Board's (IPSASB) existing reporting model.

Read this alongside PSAB's Consultation Paper "[Reviewing PSAB's Approach to International Public Sector Accounting Standards](#)." This summary comparison may help inform your evaluation of and the merits of the various options for a future international strategy for PSAB.

Please note: This comparison prepared by staff was not approved by PSAB. It is not meant to be a complete overview nor an identification of all the differences.

Highlights

The reporting model comparison was structured based on the key concepts proposed in PSAB's Statement of Principles, "[A Revised Reporting Model for the Canadian Public Sector](#)."

The following table identifies where there are differences between PSAB's proposals for a revised reporting model and IPSASB's existing reporting model found in:

- the conceptual framework;
- IPSAS 1: *Presentation of Financial Statements*;
- IPSAS 2: *Cash Flow Statements*; and
- IPSAS 24: *Presentation of Budget Information in Financial Statements*.

The main differences in the reporting model are in the requirements related to the presentation of budget information and the reporting of non-compliance with legislative authorities.

The comparison has been based on the following classifications:

- Similar / Consistent**
 Staff is of the view that the principles are similar.
- Minor Differences Noted**
 Staff is of the view that the differences would not have significant implications for financial reporting.
- Difference Noted**
 Staff is of the view that the principles are different and may have a significant impact.

Subject	Comparison
Statement of financial position	Minor Differences Noted
Statement of surplus or deficit	Minor Differences Noted
Statement of changes in net assets or net liabilities	Similar / Consistent
Statement of cash flow	Minor Differences Noted
Statement of net debt or net financial assets	Minor Differences Noted
Presentation of the approved budget	Difference Noted
Reporting non-compliance with legislative authorities	Minor Differences Noted
Reporting risks and uncertainties associated with the entity	Similar / Consistent

Comparison

Statement of Financial Position

Presentation of Assets and Liabilities

PSAB's proposals	Handbook of International Public Sector Accounting Pronouncements
The statement of financial position should report financial assets, non-financial assets and liabilities.	An entity shall present current and non-current assets and current and non-current liabilities as separate classifications on the face of its statement of financial position.

PSAB considered whether assets and liabilities should be presented as current and non-current.

The Board believes that, given the characteristics of public sector entities, it is more important to present the nature of the assets as financial and non-financial on the statement of financial position rather than their liquidity. If an entity wants to present assets and liabilities as current and non-current, this can be done in the notes to the financial statements.

PSAB feels that attempting to show this breakdown – in addition to the financial and non-financial asset presentation on the statement of financial position – would make the statement visually complex.

Net Financial Position

PSAB's proposals	Handbook of International Public Sector Accounting Pronouncements
The statement of financial position should account for net assets or net liabilities as the indicator of net financial position.	Net financial position is the difference between assets and liabilities after adding other resources and deducting other obligations recognized in the statement of financial position.

In its net financial position indicator, IPSASB includes other resources and other obligations. PSAB does not. Since IPSASB has not yet identified any transactions that would fall into these categories, the net financial position indicator of both standard setters is currently the same.

Components of Net Assets or Net Liabilities

PSAB's proposals	Handbook of International Public Sector Accounting Pronouncements
<p>The primary sources of GAAP may require certain amounts to be reported directly in a component of net assets or net liabilities. When this is the case, an entity should report the following additional information about the composition of its net assets or net liabilities at the financial statement date:</p> <ul style="list-style-type: none"> • the accumulated surplus or deficit; • the accumulated remeasurement gains and losses; and/or • accumulated other. 	<p>When an entity has no share capital, it shall disclose net assets/equity, either on the face of the statement of financial position or in the notes, showing separately:</p> <ul style="list-style-type: none"> • accumulated surpluses or deficits: an accumulation of past surpluses and deficits; • contributed capital: the cumulative total, at the reporting date, of contributions from owners less distributions to owners; • reserves: generally arise from the accumulation of gains and losses from revaluations; and

PSAB's proposals	Handbook of International Public Sector Accounting Pronouncements
	<ul style="list-style-type: none"> • non-controlling interest: attributed to minority interests.

The differences in the components of net assets or net liabilities are considered minor:

- Both IPSASB and PSAB have a component that accumulates past surpluses and deficits and components that accumulate gains and losses related to revaluations.
- PSAB does not have the contributed capital component. However, contributed capital is expected to be rare or minimal in the Canadian public sector.
- PSAB does not have the non-controlling interest component. In PSAB's reporting model, a non-controlling interests' component is not required because unlike IPSAS, the CPA Canada Public Sector Accounting Handbook requires proportionate consolidation accounting when a non-controlling interest exists.

Statement of Surplus or Deficit

PSAB's proposals	Handbook of International Public Sector Accounting Pronouncements
An entity should recognize all revenue and expense arising in a period in the statement of surplus or deficit, unless a standard requires otherwise.	<p>All items of revenue and expense recognized in a period shall be included in surplus or deficit, unless an IPSAS requires otherwise.¹</p> <p>Surplus or deficit is presented on the statement of financial performance.</p>
<p>The statement of surplus or deficit should:</p> <ul style="list-style-type: none"> • report revenues segregated by significant types of revenues; • report expenses by function or major program; and • account for the surplus or deficit for the period, which is the difference between the revenues and expenses recognized in the statement of surplus or deficit. 	<p>An entity shall present a sub classification of total revenue, classified in a manner appropriate to the entity's operations.</p> <p>An entity shall present expenses using a classification based on either the nature of the expenses or their function within the entity. Entities classifying expenses by function shall disclose additional information on the nature of expenses,</p>

¹ Some International Public Sector Accounting Standards (IPSAS) deal with items that may meet the definitions of revenue or expense but are excluded from surplus or deficit. Rather the IPSAS require that these items be recognized directly in net assets or net liabilities.

PSAB's proposals	Handbook of International Public Sector Accounting Pronouncements
	including depreciation and amortization and employee benefits expense.

There are two minor differences between IPSASB's statement and that proposed by PSAB:

1. the name of the statement; and
2. the presentation of expenses.

Name of Statement

PSAB prefers the name "statement of surplus or deficit" over "statement of financial performance" because financial performance is a broad concept, the reporting of which is beyond the scope of financial statements. Surplus or deficit is only one aspect of financial performance and is the bottom line indicator on the surplus or deficit statement.

Presentation of Expenses

PSAB decided to retain the presentation of expenses by function with the nature (object) of the expenses disclosed in the notes for the following reasons:

- it provides accountability for the total costs for each major public sector entity function;
- it is useful for understanding the cost of the public sector entity's economic resources consumed in meeting its objectives; and
- it allows financial statement readers to compare the costs of each function of the entity to its total costs and as a result obtain information about the public sector entity's priorities (e.g., the percentage of revenues used for education could be compared to the amount used for health).

Statement of Cash Flow

PSAB's proposals	Handbook of International Public Sector Accounting Pronouncements
<p>The statement of cash flow should report cash flows during the period classified by operating, capital, investing and financing activities.</p> <p>If an entity enters into financing activities, the statement of cash flow should account for the net cash available to be used for financing activities or the net cash needed to be generated by financing activities.</p>	<p>The statement shows cash flows from:</p> <ul style="list-style-type: none"> • operating activities; • investing activities; and • financing activities.

There are two minor differences between IPSASB's statement and PSAB's proposed statement:

1. the presentation of capital activities; and
2. the isolation of financing activities.

Presentation of Capital Activities

PSAB decided to retain the presentation of capital activities in the statement of cash flow, as these are significant in the public sector.

Isolation of Financing Activities

Highlighting net cash before financing activities after all other categories of inflows and outflows of cash for the period are presented, makes the cash flow statement more understandable to users. This presentation would show whether all of an entity's other activities combined resulted in the need for cash to be raised through financing activities or not.

The proposed presentation highlights one aspect of the entity's sustainability. Reporting sustainability is an important dimension of accountability reporting and it is important to many of the respondents to [Consultation Paper 1](#) and [Consultation Paper 2](#).

Statement of Net Debt or Net Financial Assets

IPSASB does not require a statement of net debt or net assets. PSAB does. PSAB feels that the net debt or net financial assets indicator is an important indicator. There is nothing in the IPSASB's Handbook that prohibits a preparer from calculating and presenting net debt or net financial assets.

Presentation of the Approved Budget

Requirement to Present the Budget

PSAB's proposals	Handbook of International Public Sector Accounting Pronouncements
All public sector entities should be held accountable for compliance with, and performance against, the originally approved budget.	The standard applies to entities which are required or elect to make their approved budgets publicly available.

The comparison of actual financial statement results with those budgeted is a fundamental component of the financial accountability cycle in the public sector. Actual-to-budget comparison provided in the financial statements forms the basis for closing the accountability cycle. It is crucial for users to be able to compare what actually happened with what was planned or budgeted. As a result, PSAB is of the view that all public sector entities should present their approved budget on the statement of surplus or deficit.

Presentation of Multiple Budgets

PSAB's proposals	Handbook of International Public Sector Accounting Pronouncements
The statement of surplus or deficit should present a comparison of the actual results for the accounting period with those originally budgeted. The budget amounts on the statement of surplus or deficit should be presented using the same basis of accounting, following the same accounting principles, for the same scope of activities and using the same classifications as the actual amounts.	IPSASB requires the presentation of the original and final budget amounts and actual amounts on a comparable basis with the budget that is made publicly available.

PSAB believes that the approved original budget should be presented on the financial statements:²

- It is the budget that was thoroughly considered and approved by the appropriate authority.
- It is the budget for which an entity is held accountable.

Having more than one budget column on the statement of surplus or deficit may complicate the actual-to-budget comparison.

Restating Actuals versus Budget Figures

PSAB's proposals	Handbook of International Public Sector Accounting Pronouncements
When the basis of accounting, principles or classification used in the budget is different than that used for the financial statements, the budget amounts would need to be restated and the restated amounts would be identified and reported as such on the face of the statement of surplus or deficit. Note disclosure or a schedule would reconcile the restated budget numbers back to those approved in the original budget.	An entity shall present a comparison of budget and actual amounts as additional budget columns in the primary financial statements, only where the financial statements and the budget are prepared on a comparable basis.
When the scope of activities in the budget is not the same as the scope of activities in the	When the budget and the financial statements are not prepared on a comparable basis a separate statement of comparison of budget to actual amounts is presented. In this case, the separate statement is prepared on a budget basis. A reconciliation between the actual amounts prepared

² In its Statement of Principles, "A Revised Reporting Model for the Canadian Public Sector", PSAB does recognize exceptions to this requirement.

PSAB's proposals	Handbook of International Public Sector Accounting Pronouncements
financial statements (i.e., not all controlled entities are included in the budget), a note would be required on the face of the statement of surplus or deficit explaining why the actual-to-budget comparison could not be done.	on a comparable basis to the budget and the actual amounts presented in the financial statements is required either in the notes or on the statement of comparison of budget to actual amounts. By way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, is required, unless such explanation is included in other public documents issued in conjunction with the financial statements.

If the budget and the actuals are not prepared in the same manner, PSAB requires either a restatement of the budget figures or a note indicating that the comparison could not be done (depending on what is different). However, IPSASB requires the actual numbers to be restated in accordance with how the budget is prepared.

PSAB believes that since the actual amounts are audited, users can have some level of comfort over these numbers. As a result, PSAB believes that it is more appropriate for the budget to be restated.

Reporting Non-compliance with Legislative Authorities

PSAB requires that financial statements show when an entity has exceeded its legislated revenue, borrowing, investing, expense and expenditure authority limits. IPSASB does not.

Contacts

Antonella Risi, CPA, CA
Principal, Public Sector Accounting
Phone: +1 (416) 204-3484
Email: arisi@psabcanada.ca

Martha Jones Denning, CPA, CA
Principal, Public Sector Accounting
Phone: +1 (416) 204-3288
Email: mjonesdenning@psabcanada.ca