MEASURING FINANCIAL PERFORMANCE IN PUBLIC SECTOR FINANCIAL STATEMENTS

Prepared by:

Conceptual Framework Task Force

October 2012

Comments are requested by January 31, 2013
Consultation Paper 2 has been developed by the Public Sector Accounting Standards Board’s (PSAB) Conceptual Framework Task Force. It seeks input from its stakeholders regarding:

- the objective of public sector financial reporting;
- the identification of who public sector entities are financially accountable to;
- the identification of what public sector entities are financially accountable for;
- how the provision of information in financial statements can help to understandably demonstrate those accountabilities; and
- reporting model alternatives to demonstrate the accountabilities.

**Project Objectives**

The objective of this project is to review and amend, if necessary, the concepts underlying financial performance in the existing public sector conceptual framework in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and FINANCIAL STATEMENT OBJECTIVES, Section PS 1100. This review could also affect FINANCIAL STATEMENT PRESENTATION, Section PS 1201.

This project applies to all levels of government as well as government organizations that apply the CICA Public Sector Accounting (PSA) Handbook. The project and the conceptual framework focus only on general purpose financial statements.

**Reasons for project**

A Joint Working Group comprised of selected PSAB members and Deputy Ministers of Finance was established to deal with concerns expressed by the senior government finance community. A final subgroup report was issued suggesting PSAB review its conceptual framework. The application of standards based on concepts in the framework were seen to be creating volatility in, and affecting the understandability of, reported results and making it difficult to provide actual-to-budget comparisons.

In response, and in formulating its 2010-2013 Strategic Plan, PSAB initially planned its review in conjunction with the work being undertaken by the International Public Sector Accounting Standards Board (IPSASB). However, the senior government finance community expressed concern, indicating that PSAB should be proactive in developing a “made-in-Canada” solution. PSAB agreed to revise its 2010-2013 Strategic Plan accordingly, approved a revised project proposal and recruited a task force.

**Consultation Period**

October 2012 – January 2013
In April 2011, the Conceptual Framework Task Force began its review of the conceptual framework with the primary focus on the concepts underlying financial performance.

**Where are we in the process?**

This Consultation Paper is the second document produced by the Task Force. It has not been approved by PSAB.

Consultation Paper 1, “Characteristics of Public Sector Entities”, was issued in August 2011. Its purpose was to refine and better describe the characteristics of governments and other public sector entities. This contextual information is intended to ground the concepts and principles that follow in the realities of the public sector environment.

Consultation Paper 2 looks at the second big issue identified in the project proposal — measuring the financial performance of public sector entities.

The input received from the two Task Force Consultation Papers will be considered in drafting a statement of principles for public comment. Areas in the framework relating to financial performance that are not addressed in the two Consultation Papers will be addressed in the statement of principles.

**What are the next steps?**

A statement of principles is planned for the final quarter of 2013 that will address all areas of the concepts underlying financial performance as well as the implications of any proposals on the reporting model for public sector entities.
Introduction
The Conceptual Framework Task Force has undertaken a comprehensive review of the concepts that underlie the reporting of financial performance in the general purpose financial statements of public sector entities. Some of its conclusions to date are set out in this Consultation Paper for scrutiny and input by PSAB’s stakeholders. Specifically, the demand for public accountability and financial accountability in particular, has evolved as the lens through which the proposals in Conceptual Framework Consultation Paper 2 were developed. Proposals are set out regarding the objective of public sector financial reporting, and who public sector entities are accountable to and for what. Alternatives for how those accountabilities might be demonstrated in general purpose financial statements are also provided in this Consultation Paper.

Highlights of proposals
1. Public sector entities exist to serve the public. This mandate is the filter through which key characteristics of public sector entities are differentiated from less relevant attributes.

2. The objective of financial reporting by a public sector entity is to provide information for accountability purposes. Such information aids in understanding and assessing the performance and financial health of the public sector entity.

3. Public sector entities report on their financial accountability to the public and their elected representatives through the provision of information in their financial reports.

4. Financial reports of public sector entities should present information that is useful in evaluating an entity’s financial performance during the accounting period and its financial condition at the end of the accounting period. The financial statements are a fundamental component of the financial reporting of a public sector entity.

5. Broadly, public sector entities are expected to be accountable for: the extent to which the entity performed in accordance with its financial plan, the extent to which current activities/results have an effect on the activities/results of future periods, and the state of the financial condition of the entity.

6. More specifically, in the financial statements, public sector entities are expected to demonstrate accountability for eight aspects of financial performance as well as eight other financial aspects primarily related to financial position.
Your input is requested

The Conceptual Framework Task Force is requesting your input on various aspects of Conceptual Framework Consultation Paper 2.

Individuals, governments and organizations are invited to send written comments to the Task Force on the proposals and questions in the document. Comments are requested from those who agree with the proposals as well as from those who do not. All comments received will be available on the website shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly in the response.

When comments have been prepared as a result of a consultative process within an organization, it is helpful to identify the groups consulted. Where relevant, it may also be appropriate to identify the source of individual comments in the response. Such identification will promote understanding of how the proposals are affecting various aspects of a government or organization and provide context to the Task Force in understanding the comments.

Comments are most helpful if they are related to a specific proposal or subset of that proposal. When expressing disagreement, please clearly explain the problem and indicate a suggestion, supported by specific reasoning, for alternative wording.

Please respond to the following questions:

1. Do you agree with an approach to a public sector conceptual framework that focuses on identified accountabilities to the public and their elected representatives rather than an approach focused on the needs of discrete user groups? Please explain your reasoning.

2. Do you agree with the proposal that the objective of public sector financial reports is to provide information for accountability purposes? Please explain your reasoning.

3. Do you agree with the proposal that public sector financial reports should be designed to provide accountability information to the public and their elected representatives (i.e., that the public and their elected representatives are the primary users of the financial reports)? Please explain your reasoning.

4. Do you agree with the three proposed broad financial accountabilities expected to be demonstrated by a public sector entity about the financial affairs of the entity? Please explain your reasoning.

5. Do you agree with the 16 proposed financial statement accountabilities? Are there any missing? Are there any that should not be included? Please explain your reasoning.
6. Which of the three financial statement presentation alternatives do you prefer? Is a hybrid model (hybrid in the sense described in this Consultation Paper) an option that the Task Force should pursue? Please explain the reasoning for your choice and indicate why the other two alternatives were not chosen.

7. If you do not like any of the three financial statement presentation alternatives set out in this Consultation Paper, do you have another preferred model that would meet the identified financial statement accountabilities? Please explain your suggested model in sufficient detail for the Task Force to evaluate the proposal.

8. If new financial statement categories for deferred inflows and outflows are set up, what items would you see being accounted for in these categories (for example, endowments, general tax revenue, transfers received)? Do you have any suggestions for the criteria that should be used to determine what can/should be accounted for in those categories? For example, consider the following for inflows (and similar questions for outflows):
   - Does there need to be an external restriction on an inflow, requiring it to be applied to cost of services provided in future periods (time or performance requirement) in order for the inflow to be deferred?
   - Is an internally made but publicly communicated commitment to consistently use a certain type of inflow to provide future services enough to trigger deferral?
   - If an internal commitment is allowed to trigger deferral, should an irrevocable designation for its application to the cost of service provision in future periods be made upon receipt of inflow/levying of taxation?
   - How direct should the relationship be between the inflow and the costs of services to be provided in future periods in order for deferral of the inflow to be permitted?
   - Should only items that do not meet the definitions of assets and liabilities be considered for inclusion in deferral categories?

9. Should a set of general purpose financial statements of a public sector entity include other statements based on the identified accountabilities? For example, a separate (audited) statement of debt and other liabilities might respond to the financial statement accountability relating to debt and other liabilities, the sub-characteristic under “public accountability” that is “debt capacity” and provide useful information to consider in an evaluation of the financial condition of a public sector entity. Please explain your reasoning.

A PDF response form has been posted with this document to assist you in submitting your comments. You can save the form both during and after completion for future reference. You are not restricted by the size of the interactive comment fields in the response form and there is also a general comments section. Alternatively, you may send comments by email (in Word format), to: ed.psector@cica.ca.

In addition to written responses, focus group meetings will be held to garner input on the proposals. A schedule will be available on the Conceptual Framework project page on the web site in October 2012. A webcast outlining the proposals and alternatives set out in this Consultation Paper will also be available on the website in October 2012.
# Measuring Financial Performance in Public Sector Financial Statements

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In the public sector, the nature of financial performance is a function of what the public sector entity is held accountable for accomplishing in financial terms in the identified period. Multiple perspectives of financial performance considered together provide a comprehensive picture of a public sector entity’s achievement in relation to the multiple accountabilities expected of it.

The purpose of government is complex and multidimensional. So the reporting of the financial performance of a government or any public sector entity should reflect a number of perspectives. An understanding of the characteristics of public sector entities is critical to interpreting the financial performance of a public sector entity.

Understanding the key characteristics of public sector entities

Public sector entities exist to serve the public. This mandate is the filter through which key characteristics of public sector entities are differentiated from less relevant attributes.

The mandate to serve the public is a lens through which a public sector entity determines its priorities. The mandate is achieved through the provision of services, the allocation of resources and long-term stewardship of the financial, economic, environmental and social responsibilities that have been entrusted to public sector entities.

In order to achieve this mandate, public sector entities have been granted certain powers, rights and responsibilities, including a responsibility for policy development and implementation. The mandate to serve the public over the long term and the granted powers, rights and responsibilities demand public accountability for the actions, decisions and results of a public sector entity. This need for public accountability is the overriding characteristic of public sector entities. The role of the budget in resource allocation and policy implementation is a crucial piece of the accountability cycle, as is the role of financial statements in showing how actual and planned results compare. The public nature of a public sector entity’s budget and in the case of government, the public consultation inherent in the creation of the budget, only amplify the extent of accountability provided by the budget itself as well as the comparison to actual results. Operating and financial legislative frameworks are used to document the manner in which the public interest will be served (i.e., these frameworks outline how the rights and powers will be employed in fulfilling the responsibilities). Various governance structures are established to implement government policy, including the creation and control of government organizations. Resources that require special consideration or management, such as intangibles and infrastructure, and resources that
are specific to the public sector, such as Crown lands, are entrusted to and managed by public sector entities and are applied in serving the public interest.

A revised high-level list of the proposed key characteristics of public sector entities is set out in Appendix A. Generally, that list comprises the key characteristics of public sector entities. However, an individual public sector entity may not have all of these characteristics. Governments are more likely to have all of the characteristics than government organizations. However, the decisions of the government will affect the mandate, structure, operations and financing of its government organizations. Government organizations are created by government policy. They are controlled by, and are extensions of, government and they implement government policy.

Many of the characteristics of public sector entities have accounting or financial reporting implications\(^1\) that will inform the choice of data to be reported in the financial reports of a public sector entity. There are characteristics that fundamentally shape the objectives of public sector financial reporting, such as public accountability and multiple objectives, as well as characteristics that more specifically affect recognition and reporting in general purpose financial statements,\(^2\) such as non-exchange transactions and the nature of resources.

Full revised descriptions of the characteristics in Appendix A will be set out in the proposed statement of principles.

**Objective of public sector financial reporting**

Users and user needs for information in financial reports have traditionally been the lens through which decisions about the concepts underlying financial performance have been made. User needs have traditionally been the driving force behind the objectives of financial reporting and they have shaped the nature and substance of the indicators of financial position and results presented in financial statements. The public sector user needs studies done to date have come up with reasonably comparable sets of user needs,

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\(^1\) Accounting implications of the characteristics of public sector entities were identified by respondents to Consultation Paper 1 as well as by the Conceptual Framework Task Force. Only the reporting implications are addressed in Consultation Paper 2, as its purpose is to explore how financial performance is measured and reported in financial statements. The accounting implications have more relevance at the specific standard level, rather than at a conceptual level.

\(^2\) General purpose financial statements are called “financial statements” for the remainder of the document. The difference between general purpose financial statements and special purpose financial statements is set out in the Glossary.
even though some focused only on financial statements and others also considered financial reporting beyond financial statements such as compliance, performance and sustainability reporting.

But there are issues inherent in user needs studies, in particular the use of leading questions to elicit relevant feedback. And, arguably, the less financially sophisticated nature of public sector users makes such studies more problematic. The Task Force has questioned the validity of an approach that focuses on users’ needs given its conception in private sector conceptual frameworks where the comparatively narrow decision-making needs of investors and creditors are paramount. The public sector focus on public accountability envisions broader groups of users of financial statements that demand accountability from public sector entities on multiple fronts given the multiple objectives of public sector entities. Therefore, an accountability approach is proposed that would focus on the multiple perspectives of financial performance needed to describe the financial performance of a public sector entity. Focusing financial reports on meeting the specific needs of a primary user group or on the divergent needs of a number of user groups was seen to have the potential to impair the ability of the financial reports to meet the accountability objective.

An accountability objective still requires consideration of to whom a public sector entity is accountable and for what, and proposals for each are set out below. And one of the sources used to identify the accountabilities to be demonstrated in public sector financial reports was the user needs studies conducted by public sector standard setters in the past. Thus, the accountabilities remain grounded in, rather than divorced from, user needs but they are not driven solely by user needs (see “Accountable for what?” below).

**Question 1:** Do you agree with an approach to a public sector conceptual framework that focuses on identified accountabilities to the public and their elected representatives rather than an approach focuses on the needs of discrete user groups? Please explain your reasoning

The **objective of financial reporting by a public sector entity is to provide information for accountability purposes. Such information aids in understanding and assessing the finances of the public sector entity.**

Broadly, an accountability objective focuses on: governance; performance, including financial and non-financial performance, stewardship, and sustainability. A key component of a public sector entity’s accountability reporting will comprise financial reporting, and financial statements form one part of this financial reporting.
Reporting that has an accountability objective can be contrasted with reporting that focuses on valuation for decision-making by investors and creditors. A public sector focus of financial reporting on accountability may have implications for:

(a) the qualitative characteristics of the information to be reported;
(b) the focus of financial reports;
(c) measurement in financial reports; and
(d) the presentation of financial reports.

Information provided in financial reports for accountability purposes may also be useful for decision-making purposes such as:

(a) informing individuals that are voting in elections or advocating for programs, or
(b) informing elected officials that are making future policy decisions, defining future programs, or setting budget objectives.

**Question 2:** Do you agree with the proposal that the objective of public sector financial reports is to provide information for accountability purposes? Please explain your reasoning.

**Accountable to whom?**

Public sector entities report on their financial accountability to the public and their elected representatives through the provision of information in their financial reports.

The term “public” is used in its usual sense, meaning the community in general, or the people of the jurisdiction as a whole. The public primarily looks to a public sector entity for accountability from two perspectives — as resource providers and as service recipients, or both:

(a) A resource provider perspective might involve looking at the finances of a public sector entity from an “involuntary resource provider” perspective such as that of a taxpayer, or from a “voluntary resource provider” perspective such as that taken by lenders, investors, donors, suppliers, fee-for-service consumers and employees.

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3 Note: the qualitative characteristics of the information to be reported in financial statements will be dealt with in the Statement of Principles.
(b) A service recipient perspective might involve looking at the finances of a public sector entity from the perspective of taxpayers and other members of the community that benefit from the services provided by the government or other public sector entity, whether as a result of exchange or non-exchange transactions.

“Elected representatives” include legislators, councilors and, in the case of government organizations, the elected or appointed Board members.

As the primary users of public sector financial reports, members of the public may be less financially sophisticated than users of other types of financial reports. They likely have less access to intermediaries, such as investment analysts, who can interpret the financial reports for them. Therefore, public sector financial reports must place great emphasis on the understandability of the information reported in them. The financial reports cannot exclude complex transactions nor simplify complex transactions such that their substance is misleading but the emphasis on understandability would need to be considered in determining the reporting of items in financial reports. Preparers of financial reports should assume that users have a reasonable understanding of economic activities and accounting, together with a willingness to study the information with reasonable diligence.

General purpose financial reports prepared to respond to the needs of the public and their elected representatives for accountability purposes may also provide information useful to other users and for other purposes. For example, government statisticians, analysts, the media, financial advisors, public interest and lobby groups and others may find the information provided by the financial reports useful for their own purposes. Some users have the authority to require the preparation of financial reports tailored to meet their own specific information needs but may also use the information provided by general purpose financial reports for their own purposes (for example, regulatory and oversight bodies, subcommittees of the legislature or other governing body, central agencies and budget controllers, entity management and, in some cases, lending institutions and providers of development and other assistance). While these other users may find the information provided in general purpose financial reports useful, the reports would not be prepared to specifically respond to their particular information needs.

**Question 3:** Do you agree with the proposal that public sector financial reports should be designed to provide accountability information to the public and their elected representatives (i.e., that the public and their elected representatives are the primary users of the financial reports)? Please explain your reasoning.
Context of public sector financial reporting

The complex nature of the public sector, its myriad of objectives and the overriding objective of public accountability requires multi-faceted reporting. Ideally, reporting by a public sector entity would comprise multi-dimensional accountability reporting that includes: financial statements; other information about an entity’s financial condition, including future-oriented sustainability information; supplementary financial performance information; and non-financial performance information.

Reporting on accountability for governance, non-financial performance and sustainability is beyond the scope of financial statements, which largely portray the financial effects of past transactions and events. Only some of the accountability of an entity for its financial performance can be illustrated in financial statements. Some of the accountability of an entity for stewardship is represented by reporting on its financial condition but financial condition reporting is also beyond the scope of financial statements. However, one indicator that has a bearing on an evaluation of the financial condition of an entity is the financial position of an entity as reported in its financial statements.

Financial reports of public sector entities should present information that is useful in evaluating an entity’s financial performance during the accounting period and its financial condition at the end of the accounting period. The financial statements are a fundamental component of the financial reporting of a public sector entity.

Various perspectives on financial performance are presented in the financial statements. These perspectives are essential factors in assessing the overall financial performance of the entity in the accounting period. However, they are not the sole measures of the entity’s financial performance in the period. Additional financial performance information, such as the efficiency or cost-effectiveness of policies and programs, that draws on information external to the financial statements supplements and adds further depth to the perspectives of financial performance illustrated in the financial statements.
**Accountable for what?**

Broad accountabilities expected regarding the financial affairs of a public sector entity as well as more specific financial statement accountabilities were identified through a process that considered:

(a) the reporting and accounting implications of the key characteristics of public sector entities;
(b) the responsibilities of public sector entities as set out in the key characteristics; and
(c) the results of public sector user needs studies conducted in the past by various standard setters.

Using these sources, this Consultation Paper first sets out the broad financial accountabilities expected to be demonstrated by public sector entities, and then identifies the extent to which these can be demonstrated in financial statements.

**Broad accountabilities expected regarding the financial affairs of a public sector entity**

Public sector entities are expected to be accountable for:

(a) the extent to which the entity performed in accordance with its financial plan;
(b) the extent to which current activities/results have an effect on the activities/results of future periods; and
(c) the state of the financial condition of the entity.

**Question 4:** Do you agree with the three proposed broad financial accountabilities expected to be demonstrated by a public sector entity about the financial affairs of the entity? Please explain your reasoning.

**Extent to which financial statements provide information that addresses the broad accountabilities**

Financial statements provide part of the information required by the public and its elected representatives for accountability purposes. The extent to which financial statements can provide information to allow an assessment of compliance with or progress against the identified accountabilities is contrasted in the table in Appendix B with the broader financial accountabilities listed above that are expected to be reported against in the totality of public sector financial reporting.
The table in Appendix B indicates that there are multiple accountabilities that are expected to be met through recognition and presentation in the financial statements of public sector entities. The financial statement accountabilities that would provide different perspectives on financial performance and relate to both broad accountabilities (a) and (b) above are:

1. budget compliance (i.e., actual-to-budget financial performance comparison\(^4\));
2. annual surplus/deficit\(^5\);
3. the extent to which revenue of the period is sufficient to cover the cost of providing services in the period (plus any costs related to previous years that were not covered by revenue in previous years);
4. a change in net assets/net liabilities;
5. consumption of tangible capital assets and other resources specific to the public sector to be included in the measure of financial performance for the period;
6. the separation of unrealized valuation changes from the results of operations;
7. a change in net debt/net financial assets; and
8. the sources and uses of cash.

The remainder of the accountabilities that are expected to be demonstrated through recognition and presentation in the financial statements (i.e., those not related to financial performance but required to be demonstrated in a set of financial statements) relate primarily to providing information about financial position and, thus, about one aspect of the state of financial condition (i.e., broad accountability (c)). They are:

9. all assets and liabilities of the entity;
10. the net assets/net liabilities indicator of financial position;
11. the net debt/net financial assets indicator;
12. cash and cash equivalents;
13. issued debt and other liabilities;
14. tangible capital assets (balances, acquisitions, disposals, etc.);
15. financial assets, including financial instruments; and

\(^4\) Presentation/disclosure will vary depending on the accounting basis and reporting entity used in the budget as compared to the accounting basis and reporting entity used in measuring the actual financial performance in the financial statements.

\(^5\) How the annual surplus/deficit is measured will be a function of the reporting alternative chosen.
16. other public sector resources (balances, acquisitions, disposals, etc.).

Not all accountability requirements that can be met through the provision of financial statements will be dealt with through financial statement recognition and presentation. Notes and schedules are integral to the financial statements. They report information that augments and supports fair presentation of a public sector entity’s financial performance and financial position. Notes and schedules to the financial statements are not to be used as a substitute for proper accounting treatment. However, the disclosures that supplement, clarify and further explain the items given financial statement recognition are fundamental to meeting the accountability objective. They have the same significance as information or explanations set forth in the body of the statements themselves.

Question 5: Do you agree with the 16 proposed financial statement accountabilities? Are there any missing? Are there any that should not be included? Please explain your reasoning.

Alternatives for measuring financial performance in financial statements

Three alternative financial statement presentation models are set out in this Consultation Paper. Each is described and then evaluated to determine the extent to which they will demonstrate the financial statement accountabilities set out in the immediately preceding section and described in more detail in Appendix B.

First, models based on the two primary conceptual views of financial performance are described and evaluated against these accountabilities. Then, a hybrid alternative is described and evaluated against the accountabilities. Ideally, the model chosen would:
(a) help to resolve issues regarding the measurement of financial performance in the public sector that gave rise to the project;
(b) increase the degree of accountability demonstrated in public sector financial statements through meeting the identified financial statement accountabilities; and
(c) increase the clarity of presentation and understanding of the financial performance and financial position of a public sector entity.

A summary comparison of the three financial statement presentation models is set out in Appendix C. In the mock financial statements in Appendices D through F, the locations where the financial statement accountabilities are demonstrated in the model are
indicated by the numbers of the accountabilities (as assigned on pages 15-16 above – see ❶ to ❱ in appendices) beside the reported item.

**Conceptual views of financial performance**

For the purposes of measuring financial performance in financial statements, there are two primary underlying conceptual views:

(a) The asset and liability view focuses on the changes in assets and liabilities in the period. Under this view, if a change in asset or liability occurs, then it is recognized in the statement of financial performance in the period the change occurs.

(b) The revenue and expense view focuses on flows of resources that are applicable to a particular period. Under this view, an item not meeting the definition of a revenue or expense of the period would be recognized in the statement of financial performance at some future date.

A third view is a hybrid view that focuses both on changes in assets and liabilities as well as flows of resources that are applicable to a particular period. That is, it does not take a particular view of financial performance except to note that the measure of financial performance would be determined independently from the measure of financial position.

Each of these three approaches to financial performance:
(a) supports the importance of the statement of financial performance in meeting the objective of financial statements;
(b) excludes transactions with owners, and
(c) assumes no direct association with particular measurement choices.

**Asset and liability view**

The existing model in the PSA Handbook (“status quo” model) takes predominantly an asset and liability view.

For the purposes of measuring financial performance in financial statements, an asset and liability view focuses on the changes in assets and liabilities (economic resources and obligations) in the period. Assets are considered the starting point for determining all of
the other elements. Liabilities are defined with reference to being claims on existing or future assets. This approach uses the rigour of
the definitions of assets and liabilities to determine revenue and expenses, as increases and decreases in net assets/liabilities. In a
model based on economic resources and obligations (assets and liabilities), the measure of financial performance is grounded in real
economic phenomena. This type of model may sometimes be characterized as a valuation model focused primarily on the value of
assets and liabilities.

In a model based on the asset and liability view, if a change in asset or liability occurs, then it is recognized in the calculation of
financial performance in the period the change occurs. The status quo model has two financial performance statements (statement of
operations and statement of remeasurement gains and losses) that together explain the change in financial position of the entity. The
financial position of the entity is measured as its net assets/liabilities position. Under this model, no judgment is required to determine
which transactions and events that affect financial position are included or excluded from the financial performance of the reporting
entity. No judgment is required to ascertain if an inflow or outflow is appropriately attributable to the current or future periods. All
items that represent increases or decreases in the net resources of the entity between the financial reporting dates are included and,
therefore, are part of financial performance, ensuring a level of consistency and comparability by reducing the amount of judgment
needed to determine in which period an item should appear. Artificial smoothing of reported results is not possible. The status quo
model divides the financial performance into two aspects — the annual operating surplus/deficit and the remeasurement gains and
losses of the accounting period. All changes in assets and liabilities in the period are reflected in one of these two financial
performance categories.

This view asserts that it is not possible to give meaning to financial performance without first giving meaning to assets. It stipulates
that any definitions of revenue and expenses without reference to assets and liabilities are primarily conventional, not conceptual, and
make periodic measurement of financial performance largely a matter of individual judgment and personal opinion. The choice of
using the asset and liability definitions as the anchor imposes limits or restraints not only on what can be included in assets and
liabilities but also what can be included in financial performance.

An outcome of this view is that it introduces gains and losses, such as those arising from peripheral or incidental events and
remeasurement (if recognized), into the measurement of surplus/deficit. Given the importance of the budget in the public sector as a
key piece of accountability information, making budget to actual comparisons becomes more difficult as the budget is unlikely to
include sufficient buffers to cover all unforeseen events or changes in the value of financial instruments.
This approach does permit allocation in certain circumstances. For example, the consumption of property, plant and equipment is allocated to the period when the asset is used (amortization). However, such allocations do not allow the recognition of items in the statement of financial position that do not meet the definitions of assets or liabilities. From this perspective, inflows of resources, where the intent is to use those resources in a future period, but where there is no obligation to do so, are recognized in revenue and are not deferred. Financial statement standards based on an asset and liability view may allow volatility in the operating statement and, therefore, have the potential to cause a government/entity’s management to make different decisions. However, this view is based on a premise that if stability or volatility of financial results is an important consideration in evaluating accountability, then the degree of stability or volatility should be faithfully reflected in the financial statements.

The need to focus on a public sector entity’s resources such as its infrastructure available to provide future services, and obligations such as certain social policy obligations, the extent of borrowing, and employee future benefits supports taking an asset and liability view. For example, because public sector entities function to provide public goods and services, it could be argued that the focus of the financial statements should be on those resources available to provide those services, obligations to transfer those resources to others and those net resources available to finance future operations. From this point of view, it is important to determine whether the extent of the resources available for future periods or the obligations arising from past periods have increased or decreased. Measuring financial performance on this basis provides such an indication.

However, this approach can, among other things, introduce gains and losses peripheral or incidental to the on-going normal operations of the entity and those gains and losses associated with market value adjustments into the determination of surplus/deficit. Including these gains and losses detracts from understanding the operations of the entity, and certain remeasurement gains and losses may never be realized and, therefore, should be excluded from the calculation. Thus, this approach does not reflect the long-term and going concern nature of government.

A financial statement presentation model that is based on the asset and liability view (i.e., the status quo model in the PSA Handbook for federal, provincial and territorial governments), is described in detail in Appendix C and illustrated with mock financial statements in Appendix D.
Evaluation against the identified financial statement accountabilities

The status quo model does not meet all of the financial statement accountabilities set out in Appendix B that are numbered and summarized on pages 15-16 above.

- It meets accountabilities #2, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, and 16.
- It may meet accountability #1, which requires an actual-to-budget comparison, only through reconciliations. The existing PSA Handbook reporting model requires an actual-to-budget comparison on the statement of operations and on the statement of change in net debt. However, some governments in Canada do not budget using the same accounting basis and/or for the same reporting entity as used in preparing the financial statements. Thus, budget to actual comparisons are often the result of reconciliations. It is often contended that a revenue and expense view is more in line with how public sector entities budget.
- It does not meet accountability #3, which would require reporting the extent to which the revenue and other inflows of the period were sufficient to cover the cost of service provision in the period — a measure that is described by one standard setter as a measure of the extent to which current resource providers bear the burden of the cost of services provided in the current period — or “inter-period equity”. Reporting on this accountability tends to be more consistent with a revenue and expense view. The revenue expense model and the hybrid model define revenue and expenses in relation to the applicability of inflows and outflows to the current and future periods and calculate the annual surplus/deficit in a manner that assists in the evaluation of the extent to which the results of period contribute to inter-period equity.

Revenue and expense view

For the purposes of measuring financial performance in financial statements, a model that takes a revenue and expense view focuses on flows of resources that are applicable to a particular period. The model would determine annual surplus/deficit based on the definitions of revenue and expense and would include all items not meeting these definitions in the statement of financial position. Such items would be recognized on the statement of financial position as assets and liabilities when appropriate, or in new deferred inflow and deferred outflow elements. Items recognized in the deferral categories would be recognized in revenue and expense in some future period when it can be objectively determined that the item relates to that period.

The predominant thinking behind this view is that accounting is a process of allocating inflows and outflows to particular periods rather than a process of measuring changes in assets and liabilities. Allocating transactions and events to appropriate time periods is
more critical than the uncertainties relating to measuring changes in assets and liabilities. The building blocks of such a system are not assets and liabilities but rather the definitions of revenues and expenses. The definition of revenue would not include all increases in net assets as it would back out flows arising in the current period but related to future periods and would include increases in net assets arising in past periods that are applicable to the current period. The definition of expenses would not include all decreases in net assets as it would back out flows arising in the current period but related to future periods and would include decreases in net assets arising in past periods that are applicable to the current period.

Determining when a revenue or expense is of the current period is sometimes referred to as applying the concept of inter-period equity. Inter-period equity is often explained in the context of laws, such as those requiring balanced budgets and those placing limitations on debt issuance. The intention is to provide information to help assess the extent to which the current generation of citizens shifts the burden of paying for current-year services to future-year taxpayers.

This concept is generally interpreted to mean that resource providers of future periods should not have to pay for benefits received by the service recipients of the current period and this would be achieved when current period revenues equal current period expenses. Inter-period equity is proposed as a relevant metric to assess accountability, rather than a goal that is expected to be met for any particular period of time. For example, governments may, for fiscal policy reasons, decide to defer the expenses related to economic shocks or the revenues related to economic surprises to be borne by future resource providers. The revenue and expense view asserts that reporting on the extent to which inter-period equity has occurred should be a primary objective of reporting financial performance.

The concept of inter-period equity and the traditional matching concept both associate accounting events with periods. However, the introduction of deferral accounting for the purposes of measuring financial performance is not equivalent to matching. The matching concept attributes costs to the revenues recognized during a period for the purpose of measuring financial performance. In contrast, inter-period equity attributes costs of services to the period in which those services were provided and attributes revenues to the appropriate period for the purpose of assessing whether those revenues were sufficient to finance the costs of providing services during that period. Therefore, the term inter-period equity is considered more appropriate for use in the public sector than the matching concept as means of associating events with periods, particularly given the volume and significance of non-exchange transactions in the public sector.
A critical issue with this approach is the difficulty of developing a solid, objective basis for deferring revenue and expenses. Judgment would be required to ascertain if an inflow or outflow is appropriately attributable to the current or future periods. A revenue or expense that occurs during a year is more clearly and obviously applicable to that year than any alternative definition, which is more likely to produce arbitrary results. In addition, it may not be possible to reasonably attribute all revenue of a public sector entity to particular periods. The primary source of revenue for most governments is tax revenue. Tax revenue tends to be raised generally rather than for specific individual purposes. In theory, tax revenue is raised in the period it is needed to finance the provision of current services, except in the case of taxation specifically levied to finance capital, as is done by local governments. And in reality, association of tax revenue with a particular period or financing of particular services may not be straightforward. Other revenue of a public sector entity may have more of an objective, identifiable relationship with particular periods or service provision in particular periods and attribution to accounting periods may therefore be possible and justifiable.

A financial statement presentation model that is based on the revenue and expense view is described in detail in Appendix C and illustrated with mock financial statements in Appendix E.

The Governmental Accounting Standards Board (GASB), the U.S. standard setter for state and local governments, requires a financial statement presentation model based on the revenue and expense view although it is not exactly as illustrated in Appendix E. Deferred inflows and outflows are defined as separate elements of financial statements. However, these categories are not available for general use. GASB prescribes through standards the only transactions, events and items that are allowed to be recognized in these categories. It is possible, however, that over time the allowed transactions/events/items will come to be viewed as precedents to be analogized from rather than absolute rules to be adhered to and that auditors will find it difficult to qualify in such circumstances. Establishing parameters for inclusion in the deferral categories might ultimately provide more consistency in application if a revenue/expense approach were to be adopted in Canada.

**Evaluation against the identified financial statement accountabilities**

The revenue and expense view model does not meet all of the financial statement accountabilities set out in Appendix B and numbered and summarized on pages 15-16 above.

- It meets accountabilities #1, 2, 3, 5, 8, 9, 10, 11, 12, 13, 14, 15, and 16.
Accountability #1 may be met through reconciliations if the entity does not budget using the same accounting basis and/or for the same reporting entity as used in preparing the financial statements.

It does not meet accountability #4, which would require reporting the change in net assets/liabilities, an indicator that measures the extent of change in the items included in the financial position of the entity that are real economic resources and obligations.

It does not meet accountability #6, which would require the reporting of unrealized remeasurement gains and losses separate from realized remeasurement gains and losses as would be required by the accountability objective. Unrealized remeasurement gains and losses would be reflected in revenues and expenses and in the deferred inflows and deferred outflows balances.

It would not easily meet accountability #7, which would require reporting of the change in net debt/net liabilities. The change in net debt is calculated as the difference between revenue and expenditures for the period, when revenue and expense definitions are based only on increases and decreases in net assets/liabilities. However, in a revenue and expense model, revenues and expenses are defined to include flows from prior periods that are applicable to the current period and exclude flows of the period that are applicable to future periods and, are not based solely on increases and decreases in net assets/liabilities. Thus, a reconciliation to the change in net debt from the annual surplus/deficit would be messy and unlikely to promote understanding of the entity’s finances. Taking a direct approach to calculating the change in net debt, rather than a reconciliation approach also raises understandability concerns. A direct approach would report different revenue (calculated as increases in net assets/liabilities) from that on the statement of operations (inflows applicable to the period) and would report expenditures, rather than expenses, to calculate the change in net debt. The illustrative financial statements in Appendix E take a simpler approach and show a statement of change in net debt that reconciles from the change in net assets/liabilities, rather than the annual surplus/deficit.

Conclusions relating to the two primary conceptual views

On balance, after consideration of these alternatives, taking an asset and liability view appears marginally better suited in terms of meeting the accountability objective and addresses marginally more of the accountabilities for financial statements set out in Appendix B. Under this view, financial performance is reflective of the transactions and events that occurred in the period and the measure of financial position is not affected by items that do not meet the test of assets and liabilities. However, neither of the models based on the two primary conceptual views of financial performance meet all of the identified financial statement accountabilities.
Hybrid financial statement presentation view

The biggest issue with a financial statement presentation model that is based on the asset and liability view is the potential for the introduction of volatility into the statement of annual results. The biggest issue with a financial statement presentation model that is based on the revenue and expense view is that it requires the introduction of deferrals to remove that volatility. And, neither of the models based on these two approaches can demonstrate all of the identified financial statement accountabilities because either the financial position elements drive what must be recognized on the statement of financial performance or, alternatively, the financial performance elements determine what must be reported on the statement of financial position.

In an effort to address the budget accountability and volatility issues raised by PSAB’s stakeholders, this Consultation Paper sets out an alternative or “hybrid” financial statement presentation view for consideration. It is a hybrid in the sense that assets, liabilities, revenue and expenses are defined independently, and presentation is used to address the financial statement accountabilities.

Discussion of the merits of the hybrid approach

Articulation is an expression of how well the information on the statement of financial position mathematically corresponds with the information found on the financial performance statement. Both the asset and liability and revenue and expense views require articulation. The hybrid approach is less concerned with this degree of correspondence.

A hybrid view would not require the complete articulation of the financial position and financial performance statements, although interrelationships between all of the financial statements in the set would be explainable and reconcilable. Articulation is seen to limit the measurement of revenues and expenses in terms of changes in assets and liabilities or vice versa and, therefore, may restrict the provision of relevant information about financial performance or financial position. There are several reasons why financial performance and financial position statements might not articulate:

(a) a different attribute (for example, historical costs, replacement cost, etc.) could be used to measure financial performance than the attribute used to measure assets and liabilities;

Articulation deals with the interrelationship between financial statements. In the case of government financial statements prepared under the existing conceptual framework, one example of articulation would mean that the residual balance on the statement of operations matches and explains the change in the government’s financial position shown on the statement of financial position. With the approval of the FINANCIAL INSTRUMENTS, Section PS 3450, and the introduction of a statement of remeasurement gains and losses, it is the total of the residuals on the statement of operations and the statement of remeasurement gains and losses that together explain the change in the statement of financial position for the reporting period.
(b) the financial position statement might include or exclude items that are considered relevant in measuring financial performance; or
(c) the entity may have multiple accountabilities to address in the financial statements and articulated financial position, and financial performance statements might restrict the ability of the entity to provide the information necessary to meet those accountabilities.

A hybrid approach is based on the premise that more useful measures of financial performance and financial position can be obtained if appropriate measures of financial performance and financial position are determined independently of each other and each is oriented to meeting user needs. A hybrid approach is also based on the assertion that articulation can result in the presentation of meaningless or misleading information in one statement as a result of an attempt to improve reported information in another.

In the private sector, for which the traditional conceptual views of financial performance were developed, balance sheets have to balance out, which is why articulation of the financial performance and financial position statements is such a prevalent concept. A hybrid approach highlights this as a flaw by recognizing that accounting conventions do not necessarily represent reliable income measurements. Instead, they represent artificial impositions on the balance sheet upon which the income statement is based. A hybrid approach keeps the balance sheet and income statements separate so that each stands, and is utilized, on its own. Although this “balancing” is not required for public sector statements of financial position, the possibility that each statement could be tailored to the accountabilities required of it has merit in the public sector.

However, under a hybrid approach there is no way of knowing whether or not revenues and expenses represent changes in economic resources or merely allocations. And articulation is generally seen to make financial statement information more understandable because the information provided is internally consistent. If the statements are related and based on the same underlying data, the entire structure can be made more formal, resulting in greater logic, better consistency and a greater degree of uniformity. So there is a risk with a hybrid model that the statements might become more complex as the articulation relationships within the statements would be more complex than in a model where the annual surplus/deficit indicator explains the change in the financial position of the entity.7

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7 It should be noted, however, that the “status quo” model currently in the PSA Handbook does not have simple and complete articulation between the financial performance and financial position statements either. Two flow “financial performance” statements — a Statement of Operations and Statement of Remeasurement Gains and Losses — together explain the Change in Net Assets/Liabilities.
On the other hand, a hybrid approach might result in a model with more financial statements. This can be a positive result as long as:
(a) each statement is tailored to report the accountabilities expected by public sector financial statement users;
(b) each statement has specific and explainable messages; and
(c) the interrelationships between all of the financial statements in the set are explainable and reconcilable.

Such a model could increase the understanding of the financial statements by the public and their elected representatives.

Further, a hybrid approach may be better suited to dealing with the actual complexities and ambiguities of the economy, the environment within which public sector reporting occurs, because it does not rely strictly upon accounting conventions such as articulation. Articulation accurately reflects the nature of the economic activities of a business. Most economic decisions essentially involve choices between mutually exclusive alternatives, and economic benefits (except windfalls) require economic sacrifices. For example, in a business enterprise, producing outputs requires inputs of resources, acquiring resources requires cash payments or promises to pay, and paying dividends precludes using that cash in operations. Thus, it is stated that economic activities are more accurately portrayed by articulated rather than non-articulated financial statements. However, the economic relationships are not the same in the public sector where the vast majority of resources are provided through non-exchange transactions. Therefore, a conclusion that articulation also allows for the best representation of the economic activities of a public sector entity may not be appropriate.

A financial statement presentation model that takes a hybrid approach is summarized below, described in detail in Appendix C and illustrated with mock financial statements in Appendix F.

Hybrid model

The hybrid model can be characterized as “semi-articulated” because there would remain a fairly high degree of articulation within the set of statements. The change in financial position would equal the change in net assets/liabilities but that change would not be considered the annual operating surplus/deficit for the period. The hybrid model describes financial position in terms of assets and liabilities and financial performance in terms of flows of resources that are applicable to a particular period. That is, the measure of financial performance is determined independently from the measure of financial position. In fact, the statement of financial position would take an asset and liability view and the statement of annual operating surplus/deficit would take a revenue and expense view.
The hybrid model would measure the annual operating surplus/deficit as the difference between revenue and expenses and report this aspect of financial performance of the entity on the statement of annual operating surplus/deficit. It would:

(a) include in revenue increases in net assets in the reporting period that are applicable to the costs of providing services in the reporting period, plus inflows deferred in previous years that are applicable to the costs of providing services in the reporting period and realized remeasurement gains of the period, and exclude increases in net assets in the reporting period that are applicable to the costs of providing services in future periods;

(b) include in expenses decreases in net assets in the reporting period that are applicable to and result from the provision of services in the reporting period, plus outflows deferred in previous years that are attributable to the provision of services in the reporting period and realized remeasurement losses of the period, and exclude decreases in net assets in the reporting period that are applicable to the provision of services in future periods;

(c) include in deferred inflows increases in net assets in the reporting period that are applicable to the costs of providing services in future reporting periods;

(d) include in deferred outflows decreases in net assets in the reporting period that are applicable to the provision of services in future reporting periods; and

(e) recognize unrealized remeasurement gains and losses arising in the period solely in the statement of remeasurement gains and losses.

The statement of financial position would reflect only economic resources and obligations that meet the definitions of assets and liabilities in calculating the financial position of the entity as net assets/liabilities. Thus, the measure of financial position would continue to represent the net economic resources available to provide future services (as in the “status quo” model). However, the net financial position would be described as comprising:

(a) the accumulated operating surplus/deficit;

(b) the accumulated remeasurement gains and losses; and

(c) the accumulated deferred inflows and outflows (applicable to future periods).

Three separate flow statements, the statement of annual operating surplus/deficit, the statement of remeasurement gains and losses and the statement of deferred inflows and outflows, would be prepared to explain the changes in each of the three components of net assets/liabilities.
The existing definitions of assets and liabilities would be maintained. Deferred inflows and outflows would be defined and criteria for use of these categories developed. However, the deferral categories are a component of net assets/liabilities and, thus, would not be defined as new elements of financial statements.

One downside of adopting a hybrid reporting model that uses both an asset and liability view and a revenue and expense view is that the number of required financial statements would likely increase to six from the existing five. However, such an approach would be consistent with an accountability objective that contemplates financial statements that address multiple accountability requirements. A hybrid reporting model would also report remeasurement gains/losses separate from net cost of services (i.e., operating activities) by reporting unrealized remeasurement gains and losses arising in the period solely in the statement of remeasurement gains and losses and excluded from the measure of the annual operating surplus/deficit. This separation in the reporting is consistent with the accountability objective because it focuses primarily on realized performance and excludes anticipated performance from the measure of annual surplus/deficit.

Budget numbers would be reported on the statement of operations and on the statement of change in net debt but not on the statement of remeasurement gains and losses, similar to what is required by existing standards.

**Evaluation against the identified financial statement accountabilities**

A hybrid model should substantially meet all of the financial statement accountabilities set out in Appendix B and numbered and summarized on pages 15-16 above. The only issue is accountability #7.

- A hybrid model would not easily meet accountability #7, which would require reporting of the change in net debt/net liabilities. The change in net debt indicator is calculated as the difference between revenue and expenditures for the period, when revenue and expense definitions are based only on increases and decreases in net assets/liabilities. However, in a hybrid model, revenues and expenses are defined to include flows from prior periods that are applicable to the current period and exclude flows of the period that are applicable to future periods, and are not based solely on increases and decreases in net assets/liabilities. Thus, a reconciliation to the change in net debt from the annual surplus/deficit would be messy and unlikely to promote understanding of the entity’s finances. The reconciliation would be messy because the statement of annual operating surplus/deficit takes a revenue
and expense approach and the Statement of Financial Position, where net debt is reported, takes an asset and liability approach. The difficulties in meeting accountability #7 are a direct result of the more complicated articulation that arises in a hybrid model. Taking a direct approach to calculating the change in net debt, rather than a reconciliation approach, also raises understandability concerns. A direct approach would report different revenue (calculated as increases in net assets/liabilities) from that on the statement of annual operating surplus/deficit and would report expenditures, rather than expenses, to calculate the change in net debt. The illustrative financial statements in Appendix F take a simpler approach and show a statement of change in net debt that reconciles from the change in net assets/liabilities, rather than the annual surplus/deficit.

- In addition, accountability #1 may be met through reconciliations if the entity does not budget using the same accounting basis and/or for the same reporting entity as used in preparing the financial statements.

- The proposed hybrid model would have one more financial statement than the existing set of financial statements. And, the financial position and financial performance statements would not completely articulate. Thus, some may feel that the reporting is more complex than the status quo (asset/liability) model. However, the model contemplates that the purpose of each statement and the meaning of the messages communicated by each statement (the meaning of increases and decreases in each indicator) would be clearly articulated and disclosed as an integral part of the financial statements. Such disclosure would likely need to be mandated in the financial statement presentation standards. Separable and explainable messages for each statement have the potential to increase the understanding of the financial statements by the public and their elected representatives.

- There is some potential with the proposed hybrid model, however, that the aspects of financial performance illustrated on the statement of remeasurement gains and losses and the statement of deferred inflows and outflows may be ignored in favour of highlighting only the financial performance perspective communicated by the statement of annual operating surplus/deficit.
Question 6: Which of the three financial statement presentation alternatives do you prefer? Is a hybrid model (hybrid in the sense described in this Consultation Paper) an option that the Task Force should pursue? Please explain the reasoning for your choice and indicate why the other two alternatives were not chosen.

Question 7: If you do not like any of the three financial statement presentation alternatives set out in this Consultation Paper, do you have another preferred model that would meet the identified financial statement accountabilities? Please explain your suggested model in sufficient detail for the Task Force to evaluate the proposal.

Question 8: If new financial statement categories for deferred inflows and outflows are set up, what items would you see being accounted for in these categories (for example, endowments, general tax revenue, transfers received)? Do you have any suggestions for the criteria that should be used to determine what can/should be accounted for in those categories? For example, consider the following for inflows (and similar questions for outflows):

- Does there need to be an external restriction on an inflow, requiring it to be applied to cost of services provided in future periods (time or performance requirement) in order for the inflow to be deferred?
- Is an internally made but publicly communicated commitment to consistently use a certain type of inflow to provide future services enough to trigger deferral?
- If an internal commitment is allowed to trigger deferral, should an irrevocable designation for its application to the cost of service provision in future periods be made upon receipt of inflow/levying of taxation?
- How direct should the relationship be between the inflow and the costs of services to be provided in future periods in order for deferral of the inflow to be permitted?
- Should only items that do not meet the definitions of assets and liabilities be considered for inclusion in deferral categories?

Question 9: Should a set of general purpose financial statements of a public sector entity include other statements based on the identified accountabilities? For example, a separate (audited) statement of debt and other liabilities might respond to the financial statement accountability relating to debt and other liabilities, the sub-characteristic under “public accountability” that is “debt capacity” and provide useful information to consider in an evaluation of the financial condition of a public sector entity. Please explain your reasoning.
Accountability

Accountability normally involves the following:
(a) a responsibility conferred;
(b) an obligation to report back on the discharge of that responsibility;
(c) monitoring to ensure accountability; and
(d) possible sanctions for non-performance.

Accountability is facilitated to the degree that the task is clearly defined; the more vague and ambiguous the responsibilities, the more problematic it becomes to hold individuals or entities to account for performance. In the public sector, accountability is a broad concept that requires the entity to answer to elected officials and the public they represent to justify the raising of public resources and to explain the purposes for which they are used. It includes providing useful information for assessing the governance, performance, stewardship and sustainability of an entity.

Articulation

Articulation refers to an interrelation between a statement of financial performance (and other financial statements) and a statement of financial position stemming from a common set of accounts and measurements. Traditionally, in articulated financial statements, financial performance results from changes in net assets. If financial statements do not articulate, financial performance is measured independently of measures of assets and liabilities and changes in their attributes, and financial performance does not necessarily result from a change in net assets.

Deferred inflow

An entity’s increase or acquisition of net assets that is applicable to a future reporting period.8

Deferred outflow

An entity’s consumption or reduction of net assets that is applicable to a future reporting period.8

Financial condition

Financial condition is a broad, complex concept with both short- and long-term implications that describes an entity’s financial health in the context of the overall economic and financial environment. Financial condition is an entity’s financial health as assessed by its ability to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others. An assessment of financial condition needs to consider, at a minimum, the elements of sustainability, flexibility and vulnerability. Financial position is only one factor in determining the financial condition of an entity. [See “financial position”.]

Financial performance

Financial performance is a subjective measure of the accountability of an entity for the results of its policies, operations and activities quantified for an identified period in financial terms. In the public sector the nature of financial performance is a function of what the public sector entity is held accountable for accomplishing in financial terms in the identified period. Multiple perspectives of financial performance considered together provide a comprehensive picture of a public sector entity’s achievement in relation to the multiple accountabilities expected of it.

Financial position

Financial position is a measure of state of financial affairs of a public sector entity comprising the totality of the identifiable, measurable and recognized, present economic resources and obligations of the entity as at a specified date quantified in financial terms. In the public sector, the nature of financial position is a function of the resources and obligations the public sector entity is held accountable for managing and maintaining in order to meet its multiple public interest objectives in both the short and long terms.

General purpose financial statements

General purpose financial statements are financial statements prepared in accordance with a financial reporting framework designed to meet the common financial information needs of a wide range of users. [Contrast with “special purpose financial statements”.] The crucial distinction between general purpose and special purpose financial statements is a matter of purpose or intended audience for the statements, rather than the dissemination, publication or availability of the financial statements.
Government

A government is an institution established by Constitutional authority that exists beyond the term of the legislature or council. Except in relation to the authorization requirements in GOVERNMENT TRANSFERS, Section PS 3410, and TAX REVENUE, Section PS 3510, for the purposes of the Public Sector Accounting Handbook, the term “government” is used to represent the whole of government financial reporting entity. In relation to the authorization requirements in Section PS 3410, and Section PS 3510, the term “government” is used to refer to the legislature or council.

Government organizations

Government organizations are organizations that are controlled by the government. Government organizations are included in the reporting entity. GOVERNMENT REPORTING ENTITY, Section PS 1300, provides guidance on the interpretation and application of control. Government organizations are defined in the Introduction to Public Sector Accounting Standards. They are:

(a) government business enterprises
(b) government not-for-profit organizations
(c) other government organizations.

Net debt/net financial assets

Net debt is an indicator of financial position of an entity, calculated as the difference between liabilities and financial assets. It may be termed “future revenue requirements”, as an entity’s net debt burden is a measure that focuses on accountability for spending decisions when they are made. The net debt burden also gives some indication of the affordability of future spending because it represents a lien on the ability to provide future services. Therefore, this indicator would provide some information relevant to evaluating the sustainability of policies and programs.

Public sector

The public sector refers to the federal, provincial, territorial and local governments and government organizations.

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9 A 2011 PSAB Exposure Draft proposed that the definition of the public sector in paragraph .03 of the Introduction to Public Sector Accounting Standards be amended to delete government partnerships and school boards from specific mention. School boards are considered government organizations, so their separate mention is not required. Government partnerships are not controlled by a government and the basis of GAAP to be used is not dictated by the PSA Handbook but would instead be determined by the partners.
Public sector entity

Public sector entities are governments and government organizations.\(^{10}\)

Special purpose financial statements

Special purpose financial statements are financial statements prepared in accordance with a financial reporting framework that is designed to meet the financial information needs of specific users. An example of special purpose financial statements would be financial statements prepared to comply with legislative reporting requirements. [Contrast with “general purpose financial statements”.]
1. PUBLIC ACCOUNTABILITY
(a) Powers, rights and responsibilities granted to governments demand public accountability because they are applied to serve and protect the public interest. They are:
   (i) Sovereignty of federal and provincial governments;
   (ii) Sharing of responsibilities/accountability for some service provision or activities;
   (iii) Powers and rights to:
      – tax;
      – penalize and fine;
      – issue licenses to act/use/access, etc.;
      – make and enforce laws and regulations;
      – employ unique resources (see Characteristic 5);
      – issue debt as a function of the tax base;
      – set monetary policy; and
      – set fiscal policy
   (iv) Responsibilities to:
      – meet Constitutional or devolved duties;
      – set policies to manage the issues of the jurisdiction in an efficient, effective, sustainable and transparent manner through stewardship and application of entrusted public resources;
      – deliver services and reallocate resources to meet identified policy objectives that have been subject to democratic scrutiny;
      – bear risks of significant breadth and scope and thus act as residual risk holder in the jurisdiction in extraordinary circumstances or where a risk to the public is otherwise un-assumed or uninsured, regardless of whether there is a contractual requirement to bear the risk;
   – be accountable for the efficient, effective, sustainable and transparent management, stewardship and application of the public resources entrusted to them; and
   – be good, ongoing and perpetual managers of the economy and the business of government.

(b) The budget facilitates and is a crucial component of the public accountability cycle;

(c) Operating and financial frameworks set by legislation help to document the entity’s public accountability for serving and protecting the public interest; and

(d) Debt capacity is only limited by the ability of the tax base to bear the debt burden and the financial community’s assessment of that ability, thus public accountability for the level of debt is paramount given its potential impact on the sustainability of future services and programs.

2. MULTIPLE OBJECTIVES
(a) Service provision;
(b) Resource allocation;
(c) Long-term stewardship of public resources — financial, social, economic (including non-financial resources such as capital assets), and environmental; and
(d) Peace, order and good government.
Policy development and implementation is the tool through which these are accomplished and the public interest served.

3. GOVERNANCE STRUCTURES
(a) There is a political dimension to governance as governance is provided by elected officials, which reinforces the need for public accountability;
(b) Lack of, or minimal, equity ownership;
(c) Monopolistic environment that may lack some of the checks and balances of a competitive environment, including a lack of competition for, and thus no independent indication of value for, many government outputs;
(d) Constitutional structure of Canada:
   (i) Multi-party, democratic, Westminster parliamentary system of government, which includes the potential for majority or minority governments as well as election calls in jurisdictions without a fixed election date, and prorogation of Parliament;
   (ii) Sovereignty of federal and provincial governments (i.e., sovereign in the areas assigned to them in the Canadian Constitution rather than generally sovereign in all matters);
   (iii) Distinct division of Constitutional responsibilities between federal and provincial governments; and
   (iv) Federal-provincial relations and areas not covered by the Constitution, including matters of national importance versus local significance and overlapping responsibilities.

4. NATURE OF RESOURCES
(a) Generally held for service provision rather than cash flows;
(b) Resources inherited in right of the Crown;
(c) Heritage and cultural resources, including those in collections;
(d) Complex infrastructure systems; and
(e) Intangible resources.

5. SIGNIFICANCE AND VOLUME OF NON-EXCHANGE TRANSACTIONS
(a) Taxes;
(b) Transfers;
(c) Fines and penalties;
(d) License and regulatory fees;
(e) Social benefits;
(f) Goods and services provided at less than cost; and
(g) Funding accessed directly under the authority of an appropriation.
### Appendix B

#### Broad Accountabilities Compared to Financial Statement Accountabilities

<table>
<thead>
<tr>
<th>#</th>
<th>BROAD ACCOUNTABILITIES EXPECTED REGARDING THE FINANCIAL AFFAIRS OF A PUBLIC SECTOR ENTITY</th>
<th>EXTENT TO WHICH FINANCIAL STATEMENTS (F/S) CAN PROVIDE INFORMATION TO ADDRESS THE BROAD ACCOUNTABILITIES</th>
</tr>
</thead>
</table>
| (a) | The extent to which the entity performed in accordance with its financial plan. | ▪ Report details and totals of actual versus budgetary results on same accounting basis and for same reporting entity.  
▪ If not on same basis, report “original budget numbers plus adjustments to calculate budget numbers to be shown on full accrual financial performance statement.  
▪ If not for same reporting entity, disclose comparison of actual and budgeted results in the notes and schedules to the F/S.  
▪ Disclose information to explain the nature (not amounts) of the high level differences between the actual and budget ways of measuring periodic financial performance.  
▪ Disclose summary details of fiscal policy framework, including balanced budget legislation and explain how F/S fit within that framework.  
▪ Prepare a report on the financial performance of the entity in the period.  
▪ The annual surplus/deficit is one measure of the financial performance of the entity in the period.  
▪ The comparison of actual-to-budgeted annual results is an important part of the description the F/S provide about the financial performance of the entity in the period. |
<table>
<thead>
<tr>
<th>#</th>
<th>BROAD ACCOUNTABILITIES EXPECTED REGARDING THE FINANCIAL AFFAIRS OF A PUBLIC SECTOR ENTITY</th>
<th>EXTENT TO WHICH FINANCIAL STATEMENTS (F/S) CAN PROVIDE INFORMATION TO ADDRESS THE BROAD ACCOUNTABILITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>(b)</td>
<td>The extent to which current activities/results have an effect on the activities/results of future periods, including:</td>
<td>▪ Reporting of inter-generational equity information goes beyond the scope of F/S; however, information populating the accounting system as a result of audited full accrual F/S may be useful in evaluating the extent to which inter-generational equity has been achieved, if such equity is a policy of the government or other public sector entity.</td>
</tr>
<tr>
<td></td>
<td>(i) Inter-period equity;</td>
<td>▪ “Inter-period equity” — Public sector entities are long term in nature and, thus, expecting to achieve “equity” in terms of the financial burden increased or decreased from period to period may not be realistic or appropriate in relation to the longer term economic cycle that affects the financial performance of public sector entities. However, a model (or financial performance statement) based on the revenue and expense view would provide a simple measure of inter-period equity as the measure of annual surplus/deficit.</td>
</tr>
<tr>
<td></td>
<td>(ii) Sustainability of policies and programs;</td>
<td>▪ <strong>The extent to which revenues of the period are sufficient to cover the cost of services provided in the period is one measure of the financial performance of the entity in the period.</strong></td>
</tr>
<tr>
<td></td>
<td>(iii) Annual and accumulated surplus/deficit; and</td>
<td>▪ At a summary level, F/S can display the extent to which total revenue of the period was sufficient to cover the total costs of providing services in the period (expenses). Costs of the period may include those related to past periods if a “burden” has been passed on from prior periods.</td>
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<tr>
<td></td>
<td>(iv) Risks associated with the entity.</td>
<td>▪ Cost recovery is more meaningfully evaluated at a program or policy level.</td>
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<td></td>
<td>▪ Segmented disclosures may better assist in making cost recovery evaluations.</td>
</tr>
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<td></td>
<td></td>
<td>▪ <strong>The annual surplus/deficit is one measure of the financial performance of the entity in the period.</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ <strong>The accumulated surplus/deficit provides cumulative information about the financial performance history of the entity.</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Sustainability reporting generally projects the financial effects of current policies for some extended future period. It is beyond the scope of F/S, as they do not include prospective information. The most that would be reported in F/S that has relevance for evaluating the sustainability of policies and programs would be the net assets and net debt financial position indicators.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Disclose in the notes and schedules to the F/S summarized information about the risks inherent in the affairs of the entity that may have implications for the finances of the entity.</td>
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<td></td>
<td>▪ Disclose information about measurement uncertainty in the amounts reported in F/S.</td>
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<tr>
<td>#</td>
<td>BROAD ACCOUNTABILITIES EXPECTED REGARDING THE FINANCIAL AFFAIRS OF A PUBLIC SECTOR ENTITY</td>
<td>EXTENT TO WHICH FINANCIAL STATEMENTS (F/S) CAN PROVIDE INFORMATION TO ADDRESS THE BROAD ACCOUNTABILITIES</td>
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</tr>
</tbody>
</table>
| (c) | The state of the financial condition of the entity, including:  
(i) Aspects and indicators of financial position, including:  
- The entity’s investment in net assets;  
- The net financial resources available to discharge liabilities or finance future services;  
- Cash and cash flows;  
- Debt and other liabilities;  
- Tangible capital assets (TCA); and  
- Public sector specific resources.  
(ii) Sustainability of the entity and its policies and programs;  
(iii) Risks associated with the entity; and  
(iv) Annual and accumulated surplus/deficit. |  
- Prepare a report on financial position.  
- *Report the change in net assets/net liabilities as one measure of financial performance of the entity in the period.*  
- The net assets/net liabilities measure is a maintenance concept in that whether the net asset position has gotten worse or better in the accounting period is an indicator of the entity’s ability to maintain its capacity for service provision in the future.  
- F/S should capture all of the assets and liabilities of the entity (i.e., completeness).  
- Report Financial Assets — Liabilities = Net Debt/Net Financial Assets as an indicator of financial position. Financial assets are more flexible in application than non-financial assets as they can be used to discharge liabilities or finance future service provision, while non-financial assets would normally only be available for use in future service provision (unless they are designated to be sold and thus considered to be financial assets).  
- Report cash and cash equivalents balances.  
- *Report the change in net debt as one measure of financial performance of the entity in the period.*  
- Prepare a report on the sources and uses of cash.  
- Report cash flows in these categories: operating, financing, capital and investing activities.  
- Report sources and uses of cash on a direct rather than indirect basis as this approach would more fully illustrate the types of cash flows related to operating activities.  
- Report the issued debt position.  
- Report cash flows related to financing activities in the report on sources and uses of cash.  
- Disclose debt composition, terms, expected future cash flows related to debt repayments (servicing obligations), debt capacity limits, key debt statistics, risks related to the debt, the segregation of debt for capital versus operating purposes, and any other information critical to an analysis of the entity’s debt.  
- Report other liabilities, such as those related to employee future benefits and other post-employment benefits and recognize changes in these balances. These balances provide additional information about the entity’s debt management strategies/effectiveness. They are an additional source of debt that must be considered in conjunction with issued debt.  
- Consider preparing a report on debt and other liabilities as part of the F/S.  
- Report the inventory and use of TCA.  
- Include consumption of TCA in measuring financial performance of the entity for the period.  
- Report cash flows related to capital activities.  
- Report capital expenditures. |
<table>
<thead>
<tr>
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<th>BROAD ACCOUNTABILITIES EXPECTED REGARDING THE FINANCIAL AFFAIRS OF A PUBLIC SECTOR ENTITY</th>
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<tbody>
<tr>
<td></td>
<td>Prepare a reconciliation identifying by major category of TCA: depreciation, impairments, purchases and disposals.</td>
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</tr>
<tr>
<td></td>
<td>Asset condition assessments are beyond the scope of F/S.</td>
<td>▪ Asset condition assessments are beyond the scope of F/S.</td>
</tr>
<tr>
<td></td>
<td>Asset replacement and management plans are beyond the scope of F/S.</td>
<td>▪ Asset replacement and management plans are beyond the scope of F/S.</td>
</tr>
<tr>
<td></td>
<td>Report financial asset balances by main classification, including financial instruments.</td>
<td>▪ Report financial asset balances by main classification, including financial instruments.</td>
</tr>
<tr>
<td></td>
<td>Recognize valuation changes in financial instruments as one aspect of the financial performance of the entity in the period.</td>
<td>▪ Recognize valuation changes in financial instruments as one aspect of the financial performance of the entity in the period.</td>
</tr>
<tr>
<td></td>
<td>Report unrealized remeasurement G/L separate from annual surplus/deficit for the period. This separation in the reporting is consistent with the accountability objective because it focuses primarily on realized performance and excludes anticipated performance from the measure of annual surplus/deficit.</td>
<td>▪ Report unrealized remeasurement G/L separate from annual surplus/deficit for the period. This separation in the reporting is consistent with the accountability objective because it focuses primarily on realized performance and excludes anticipated performance from the measure of annual surplus/deficit.</td>
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<td></td>
<td>Report cash flows related to investing activities.</td>
<td>▪ Report cash flows related to investing activities.</td>
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<td></td>
<td>Recognize valuation allowances in F/S.</td>
<td>▪ Recognize valuation allowances in F/S.</td>
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<td></td>
<td>Disclose the nature of financial assets, the basis of valuation of financial assets as well as any terms and conditions and the extent of any valuation allowances and write-offs in the period.</td>
<td>▪ Disclose the nature of financial assets, the basis of valuation of financial assets as well as any terms and conditions and the extent of any valuation allowances and write-offs in the period.</td>
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<td></td>
<td>Provide risk disclosures relating to financial instruments.</td>
<td>▪ Provide risk disclosures relating to financial instruments.</td>
</tr>
<tr>
<td></td>
<td>Report balances for unique public sector resources when they meet the definition of an asset and can be measured.</td>
<td>▪ Report balances for unique public sector resources when they meet the definition of an asset and can be measured.</td>
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<tr>
<td></td>
<td>Report changes in the balances for unique public sector resources and include those changes in measuring financial performance of the entity for the period.</td>
<td>▪ Report changes in the balances for unique public sector resources and include those changes in measuring financial performance of the entity for the period.</td>
</tr>
<tr>
<td></td>
<td>Disclose the nature of unique public sector resources, their basis of valuation as well as any terms and conditions and the extent of any valuation allowances and write-offs in the period.</td>
<td>▪ Disclose the nature of unique public sector resources, their basis of valuation as well as any terms and conditions and the extent of any valuation allowances and write-offs in the period.</td>
</tr>
<tr>
<td></td>
<td>Provide risk disclosures relating to any unique public sector resources.</td>
<td>▪ Provide risk disclosures relating to any unique public sector resources.</td>
</tr>
<tr>
<td></td>
<td>Sustainability reporting generally projects the financial effects of current policies for some extended future period. It is beyond the scope of F/S, as they do not include prospective information. The most that would be reported in F/S that has relevance for evaluating the sustainability of policies and programs would be the net assets and net debt financial position indicators.</td>
<td>▪ Sustainability reporting generally projects the financial effects of current policies for some extended future period. It is beyond the scope of F/S, as they do not include prospective information. The most that would be reported in F/S that has relevance for evaluating the sustainability of policies and programs would be the net assets and net debt financial position indicators.</td>
</tr>
<tr>
<td></td>
<td>Disclose in the notes and schedules to F/S summarized information about the risks inherent in the affairs of the entity that may have implications for the finances of the entity.</td>
<td>▪ Disclose in the notes and schedules to F/S summarized information about the risks inherent in the affairs of the entity that may have implications for the finances of the entity.</td>
</tr>
<tr>
<td></td>
<td>Disclose information about measurement uncertainty in the amounts reported in F/S.</td>
<td>▪ Disclose information about measurement uncertainty in the amounts reported in F/S.</td>
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</tbody>
</table>
### Appendix C

#### Summary Comparison of Financial Statement (F/S) Presentation Alternatives

<table>
<thead>
<tr>
<th>Illustrative F/S</th>
<th>STATUS QUO (ASSET/LIABILITY) MODEL Appendix D</th>
<th>REVENUE/EXPENSE MODEL Appendix E</th>
<th>HYBRID MODEL Appendix F</th>
</tr>
</thead>
</table>
| **Objective(s)** | To show how the financial and operating capacity (net economic resources) of the entity has changed over the period, and the financial and operating capacity (net economic resources) of the entity at the end of the period. | To show whether current resource providers have provided sufficient revenue to meet the costs incurred in the delivery of benefits and services in the period (including realized and unrealized remeasurement gains and losses (G/L)). | To show whether current resource providers have provided sufficient revenue to meet the costs incurred in the delivery of benefits and services in the period (including realized, but excluding unrealized, remeasurement G/L); and  
To show the financial and operating capacity (net economic resources) of the entity at the end of the period. |
| **View**         | Asset and Liability                        | Revenue and Expense             | Employs aspects of both an Asset and Liability View (in calculating net financial position) and a Revenue and Expense View (in measuring the annual operating surplus/deficit (S/D)), in order to address multiple accountabilities. |
| **Approach**     | Pure model has a single Comprehensive Financial Performance Statement.  
PSA Handbook’s existing model is an example of this approach but it uses more than one statement of financial performance. Two flow “financial performance” statements — a Stmt. of Operations and Stmt. of Remeasurement G/L — together explain the Change in Net Assets/Liabilities.  
Only assets and liabilities are reported on the Stmt. of Financial Position and net assets/liabilities is the indicator of net financial position. | One financial performance statement that explains the change in net financial position.  
Deferred inflows and outflows are defined as elements, and reported along with but not as part of assets and liabilities on the Stmt. of Financial Position and are included in addition to assets and liabilities in calculating the net financial position. | Three flow “financial performance” statements – a Stmt. of Annual Operating S/D that reports net cost of services after realized remeasurement G/L as the annual operating S/D, Stmt. of Remeasurement G/L that reports all remeasurement G/L of the year – both realized and unrealized, and a Stmt. of Deferred Inflows and Outflows that reports the changes in the deferrals.  
Position statement reports assets and liabilities and net assets/liabilities is the indicator of net financial position.  
The three components that comprise the net financial position are reported on the Stmt. of Financial Position: accumulated operating S/D, accumulated remeasurement G/L, and accumulated deferred inflows and outflows (applicable to future periods). |
### Key differences

<table>
<thead>
<tr>
<th>STATUS QUO (ASSET/LIABILITY) MODEL</th>
<th>REVENUE/EXPENSE MODEL</th>
<th>HYBRID MODEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues and expenses defined in terms of changes in assets and liabilities.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized remeasurement G/L are included in asset and liability balances but are not recognized as part of the annual S/D. Unrealized remeasurement G/L arising in the period are recognized on the Statement of Remeasurement Gains and Losses.</td>
<td></td>
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<tr>
<td>Only transfers received that meet the definition of a liability are excluded from annual S/D of the period.</td>
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</tr>
<tr>
<td>Net financial position includes only assets and liabilities.</td>
<td></td>
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<tr>
<td>Revenues and expenses defined in terms of applicability of inflows and outflows of resources to the period – (i.e., revenues in terms of relationship to cost of services delivered in the period and expenses in relation to services delivered in the period).</td>
<td></td>
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</tr>
<tr>
<td>Realized and unrealized remeasurement gains and losses arising in the period are recognized in revenues and expenses in determining the annual S/D.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Only those transfers received that are applicable to the period are recognized in the annual S/D.</td>
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<tr>
<td>Net financial position includes assets, liabilities, deferred inflows and deferred outflows.</td>
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</tr>
<tr>
<td>Deferred inflows and outflows are defined as elements and included in the measure of net financial position.</td>
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<td></td>
</tr>
<tr>
<td>Revenues and expenses defined in terms of applicability to the period (i.e., revenues in terms of relationship of inflows to cost of services delivered in the period and expenses in relation to outflows applicable to services delivered in the period).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized remeasurement G/L are included in asset and liability balances but are not recognized as part of the annual operating S/D. Unrealized remeasurement G/L arising in the period are recognized on the Statement of Remeasurement Gains and Losses.</td>
<td></td>
<td></td>
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<tr>
<td>Only those transfers received that are applicable to the period are recognized in the annual S/D.</td>
<td></td>
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<tr>
<td>Deferred inflows and outflows are defined as components of net assets/liabilities rather than elements.</td>
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<tr>
<td>Net financial position includes only assets and liabilities but is broken down into three components: accumulated operating S/D; accumulated remeasurement G/L; and accumulated deferred inflows and outflows (applicable to future periods).</td>
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</tr>
</tbody>
</table>
### STATUS QUO (ASSET/LIABILITY) MODEL

Results comprise increases or decreases in net assets/liabilities, excluding unrealized remeasurement G/L arising in the period.

- **Annual operating S/D = revenue less expenses (excluding those revenue and expenses that are unrealized remeasurement G/L arising in the period).**
- **Annual S/D = change in net asset/liabilities – unrealized remeasurement G/L arising in the period.**
- **Revenue and expenses are defined to include respectively, all increases and decreases in net assets/liabilities.**
- **As a result, revenue and expenses are considered as gains and losses, including realized and unrealized remeasurement G/L.**
- **Thus, the calculation of annual S/D does not include all revenue and expenses. The revenue and expenses that are unrealized remeasurement G/L arising in the period are recognized on the Stmt. of Remeasurement G/L, not in the Stmt. of Operations.**

### REVENUE/EXPENSE MODEL

Results comprise the extent to which the burden of the current-year cost of services (including both realized and unrealized remeasurement G/L) is borne by current, past or future-year resource providers.

- **Annual S/D = revenue less expenses.**
- **Annual S/D = change in net financial position.**
- **Net financial position = assets - liabilities +/- deferred outflows and inflows.**
- **Revenue would be defined in terms of inflows that are applicable to the period.**
- **Expenses would be defined in terms of outflows that are applicable to the period.**
- **Revenue and expenses would include remeasurement G/L realized in and thus applicable to the period as well as unrealized G/L arising in the period.**

### HYBRID MODEL

Results comprise the extent to which the burden of the current-year cost of services is borne by current, past or future-year resource providers (including only realized remeasurement G/L).

- **Annual operating S/D = revenue less expenses = net cost of services.**
- **Annual operating S/D ≠ change in net assets/liabilities.**
- **Annual operating S/D provides information for the evaluation of the extent to which inter-period equity has been affected by the results of the period.**
- **Unrealized remeasurement G/L arising in the period are excluded from annual operating S/D and reported only on the Stmt. of Remeasurement G/L.**
- **Revenue excludes increases in net assets/liabilities in the period that are not applicable to the costs of services provided in the period, and includes increases in net assets/liabilities deferred in previous periods that are applicable to the costs of providing services in the period. Revenue includes realized and unrealized remeasurement gains. However, only realized remeasurement gains are included in revenue in the Stmt. of Operations. Revenue that is unrealized remeasurement gains is reported only on the Stmt. of Remeasurement G/L.**
- **Expenses exclude decreases in net assets/liabilities in the period that are not applicable to service provision in the period and include decreases in net assets/liabilities deferred in previous periods that are applicable to services provided in the period. Expenses include realized and unrealized remeasurement losses. However, only realized remeasurement losses are included in expenses in the Stmt. of Operations. Expenses that are unrealized remeasurement losses are reported only on the Stmt. of Remeasurement G/L.**
<table>
<thead>
<tr>
<th>Description</th>
<th>STATUS QUO (ASSET/LIABILITY) MODEL</th>
<th>REVENUE/EXPENSE MODEL</th>
<th>HYBRID MODEL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
<td>All transactions and other events, such as revaluation, exchange rate and fair value changes are considered aspects of financial performance but not all aspects are presented in the same financial performance statement. Thus, it distinguishes between different types of performance. Division of the change in net assets/liabilities into various sub-components (for example, separate statement of remeasurement G/L) is considered a matter of presentation rather than of elements.</td>
<td>Focuses on presenting information to assist users in determining whether or not the burden of the current-year cost of services is borne by current, past or future-year taxpayers and revenue providers. It defines net position as the residual difference between assets, liabilities and deferred inflows and outflows. Under this approach, S/D is determined from all changes in net position, thus requiring only one performance statement.</td>
<td>All transactions and other events, such as revaluation, exchange rate and fair value changes are considered aspects of financial performance but not all aspects are presented in the same financial performance statement. Three financial performance statements explain different aspects of financial performance for the entity. Thus, it distinguishes between different types of performance. Division of the change in net assets/liabilities into various sub-components, one of which is considered the annual operating S/D for the period is considered a matter of presentation rather than of elements, although new deferral categories are added as components of net assets/liabilities.</td>
</tr>
</tbody>
</table>
| **Implications and issues** | • N/A as this would not be a change to a new model. The existing PSA Handbook model takes this approach. | • Requires definition of new F/S elements – deferred inflows and outflows.  
• Distinguishing deferred inflows from liabilities and revenue, and distinguishing deferred outflows from assets and expenses will be required.  
• Requires development of objective criteria for use of the new element categories.  
• No need for Stmt. of Remeasurement G/L as realized and unrealized remeasurement G/L would be dealt with in the deferral categories.  
• Financial position now includes more than A/L, so what does accumulated S/D (net financial position) represent?  
• Definitions of revenue and expenses would need to change – see “annual S/D” above.  
• May prompt reconsideration of transfers standard with respect to recognition of transfers received (i.e., in liabilities or deferred inflows?).  
• If a Stmt. of Change in Net Debt is included, it would need to reconcile from the change in net assets/liabilities to the change in net debt. The change in net assets/liabilities and the change in net debt would only be reported on the Stmt. of Change in Net Debt. | • Requires definition of new F/S categories – deferred inflows and outflows – but not as elements, as these deferrals are only reported only as a subcomponent of net assets/liabilities.  
• Distinguishing deferred inflows from liabilities and revenue, and distinguishing deferred outflows from assets and expenses will be required.  
• Requires development of objective criteria for use of the new deferral categories.  
• Unrealized remeasurement G/L are excluded from annual operating S/D and reported only on the Stmt. of Remeasurement G/L.  
• A/L definitions remain the same and Net Financial Position = net assets/liabilities indicator.  
• Deferral balances would be presented as a component of net assets/liabilities (other two components would be accumulated operating S/D and accumulated remeasurement G/L).  
• Definitions of revenue and expenses would need to change – see “annual S/D” above.  
• May prompt reconsideration of transfers standard with respect to recognition of transfers received (i.e., in liabilities or deferred inflows?). |
<table>
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<tr>
<th></th>
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</tr>
</thead>
</table>
| **Accountabilities not met** | • #1 – the comparison of actual-to-budgeted results: may only be accomplished through reconciliations if budget uses a different accounting basis and/or a different reporting entity than the F/S. The extent to which reconciliations are required will vary with the budget practices of a jurisdiction.  
  • #3 – inter-period equity: Inflows of resources, where the intent is to use those resources in a future period, but where there is no obligation to do so (i.e., liability), are recognized in revenue and are not deferred for recognition in future periods.  
  • #4 – change in net assets/liabilities: This change is not specifically reported. The change in net assets/liabilities is the sum of the annual operating S/D from the Stmt. of Operations and the change in remeasurement G/L from the Stmt. of Remeasurement G/L. | • #1 – the comparison of actual-to-budgeted results: may be met through reconciliations if the entity does not budget using the same accounting basis and/or for the same reporting entity as used in preparing the F/S.  
  • #4 – change in net assets/liabilities: It is possible to report this change (and details of the change) but only through confusing reconciliations.  
  • #6 – separation of unrealized from realized valuation changes: All valuation changes are included in revenues and expenses and included in the calculation of annual S/D.  
  • #7 – change in net debt/net financial assets: It is possible to report this change (and details of the change) but only through confusing reconciliations if one starts with the annual S/D. Reconciliation from the change in net assets/liabilities rather than the annual S/D may reduce the complexity. | • #1 – the comparison of actual-to-budgeted results: may be met through reconciliations if the entity does not budget using the same accounting basis and/or for the same reporting entity as used in preparing the F/S.  
  • #7 – change in net debt/net financial assets: It is possible to report this change (and details of the change) but only through confusing reconciliations if one starts with the annual S/D. Reconciliation from the change in net assets/liabilities rather than the annual S/D may reduce the complexity.  
  • It has one more F/S than the status quo set of F/S and the financial position and financial performance statements don’t completely articulate. So, the reporting may be seen to be more complex than the other models.  
  • There is some potential that the aspects of financial performance illustrated on the Stmt. of Remeasurement G/L and the Stmt. of Deferred Inflows and Outflows may be ignored in favour of highlighting only the financial performance perspective communicated by the Stmt. of Operations. |

- Requires the preparation of six F/S (Appendix F).  
- New F/S is added and more complicated articulation of financial statements may reduce understandability unless the messages conveyed by each statement are clear and unambiguous and disclosure of such messages is required.  
- If a Stmt. of Change in Net Debt is included, it would need to reconcile from the change in net assets/liabilities to the change in net debt. The change in net assets/liabilities and the change in net debt would only be reported on the Stmt. of Change in Net Debt.
Appendix D

Illustration of Asset and Liability View Model (Existing PSA Handbook Model)

GOVERNMENT OF X
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 20X4

<table>
<thead>
<tr>
<th></th>
<th>20X4</th>
<th>20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial assets</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Liabilities</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Net debt</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>20X4</th>
<th>20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-financial assets</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Accumulated surplus/(deficit)</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
</tbody>
</table>

Accumulated surplus/(deficit) comprising:

<table>
<thead>
<tr>
<th></th>
<th>20X4</th>
<th>20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>XXXX</td>
<td>XXXX</td>
<td></td>
</tr>
</tbody>
</table>

Accumulated operating surplus/(deficit)

<table>
<thead>
<tr>
<th></th>
<th>20X4</th>
<th>20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>XXXX</td>
<td>XXXX</td>
<td></td>
</tr>
</tbody>
</table>

Accumulated remeasurement gains/(losses)

<table>
<thead>
<tr>
<th></th>
<th>20X4</th>
<th>20X3</th>
</tr>
</thead>
<tbody>
<tr>
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<td>XXXX</td>
<td></td>
</tr>
</tbody>
</table>

GOVERNMENT OF X
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 20X4

<table>
<thead>
<tr>
<th></th>
<th>20X4</th>
<th>20X4</th>
<th>20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>Budget</td>
<td>Actual</td>
<td>Actual</td>
</tr>
<tr>
<td></td>
<td>XXXX</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Expenses</td>
<td>XXXX</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Annual operating surplus/(deficit)</td>
<td>XXXX</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
</tbody>
</table>

Opening accumulated operating surplus/(deficit)

<table>
<thead>
<tr>
<th></th>
<th>20X4</th>
<th>20X4</th>
<th>20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>XXXX</td>
<td>XXXX</td>
<td>XXXX</td>
<td></td>
</tr>
</tbody>
</table>

Closing accumulated operating surplus/(deficit)

<table>
<thead>
<tr>
<th></th>
<th>20X4</th>
<th>20X4</th>
<th>20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>XXXX</td>
<td>XXXX</td>
<td>XXXX</td>
<td></td>
</tr>
</tbody>
</table>

Note: By definition, revenues include gains and expenses include losses. However, on the Statement of Operations, the revenues and expenses reported exclude unrealized gains and losses arising in the period in relation to items recognized at fair value. In this model, revenue and expenses that are unrealized remeasurement G/L are instead reflected on the Statement of Remeasurement G/L. This is consistent with the accountability objective which would require that unrealized remeasurement G/L be reported separately (from realized valuation changes and from operations).

Note: ❶ to ❶ shows where the accountabilities identified on pages 15-16 are met.

GOVERNMENT OF X
CONSOLIDATED STATEMENT OF REMEASUREMENT GAINS AND LOSSES
AS AT MARCH 31, 20X4

<table>
<thead>
<tr>
<th></th>
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<th>20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening accumulated remeasurement G/(L)</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
</tbody>
</table>

Unrealized G/(L) attributable to:

<table>
<thead>
<tr>
<th></th>
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<th>20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign exchange</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Derivatives</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Portfolio investments</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
</tbody>
</table>

Amounts reclassified to statement of operations:

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Portfolio investments</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
</tbody>
</table>

Net remeasurement G/(L) for the year

<table>
<thead>
<tr>
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<th>20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>XXXX</td>
<td>XXXX</td>
<td></td>
</tr>
</tbody>
</table>

Closing accumulated remeasurement G/(L)

<table>
<thead>
<tr>
<th></th>
<th>20X4</th>
<th>20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>XXXX</td>
<td>XXXX</td>
<td></td>
</tr>
</tbody>
</table>

GOVERNMENT OF X
CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT
FOR THE YEAR ENDED MARCH 31, 20X4

<table>
<thead>
<tr>
<th></th>
<th>20X4</th>
<th>20X4</th>
<th>20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual surplus/(deficit)</td>
<td>Budget</td>
<td>Actual</td>
<td>Actual</td>
</tr>
<tr>
<td></td>
<td>XXXX</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Acquisition of capital assets</td>
<td>XXXX</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Other changes in capital assets</td>
<td>XXXX</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Change in other non-financial assets</td>
<td>XXXX</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
</tbody>
</table>

(Increase) decrease, in net debt

<table>
<thead>
<tr>
<th></th>
<th>20X4</th>
<th>20X4</th>
<th>20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>XXXX</td>
<td>XXXX</td>
<td>XXXX</td>
<td></td>
</tr>
</tbody>
</table>

Net debt — opening

<table>
<thead>
<tr>
<th></th>
<th>20X4</th>
<th>20X4</th>
<th>20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>XXXX</td>
<td>XXXX</td>
<td>XXXX</td>
<td></td>
</tr>
</tbody>
</table>

Net debt at end of year

<table>
<thead>
<tr>
<th></th>
<th>20X4</th>
<th>20X4</th>
<th>20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>XXXX</td>
<td>XXXX</td>
<td>XXXX</td>
<td></td>
</tr>
</tbody>
</table>

Note: 11 The spending to acquire capital assets must be reported here.
# Measuring Financial Performance in Public Sector Financial Statements

## Consolidated Statement of Cash Flow

<table>
<thead>
<tr>
<th>Description</th>
<th>20X4</th>
<th>20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash provided by operating transactions</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Cash applied to capital transactions</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Cash provided by (applied to) investing transactions</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Cash applied to financing transactions</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Increase in cash</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Cash at beginning of year</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Cash at end of year</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
</tbody>
</table>

---

12 Two presentation formats are permitted for operating cash flows — the direct and indirect methods.

13 The cash used to acquire capital assets must be reported here.
### Appendix E

**Illustration of Revenue and Expense View Model**

#### GOVERNMENT OF X

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**AS AT MARCH 31, 20X4**

<table>
<thead>
<tr>
<th></th>
<th>20X4</th>
<th>20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial assets</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Liabilities</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Net debt</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Non-financial assets</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Net assets/ liabilities</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Deferred outflows</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Deferred inflows</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Accumulated surplus/(deficit)</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
</tbody>
</table>

#### GOVERNMENT OF X

**CONSOLIDATED STATEMENT OF OPERATIONS**

**FOR THE YEAR ENDED MARCH 31, 20X4**

<table>
<thead>
<tr>
<th></th>
<th>20X4</th>
<th>20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Expenses</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Annual surplus/(deficit)</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Opening accumulated surplus/(deficit)</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Closing accumulated surplus/(deficit)</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
</tbody>
</table>

#### GOVERNMENT OF X

**CONSOLIDATED STATEMENT OF CASH FLOW**

**FOR THE YEAR ENDED MARCH 31, 20X4**

<table>
<thead>
<tr>
<th></th>
<th>20X4</th>
<th>20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash provided by operating transactions 14</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Cash applied to capital transactions 15</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Cash provided by (applied to) investing transactions</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Cash applied to financing transactions</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Increase in cash</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Cash at beginning of year</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Cash at end of year</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>20X4</th>
<th>20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in net assets/liabilities</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Acquisition of capital assets 16</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Other changes in capital assets</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Change in other non-financial assets</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>(Increase) decrease in net debt</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Net debt — opening</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Net debt at end of year</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
</tbody>
</table>

---

Note: ❶ to ❽ shows where the accountabilities identified on pages 15-16 are met.

---

14 Two presentation formats are permitted for operating cash flows — the direct and indirect methods.
15 The cash used to acquire capital assets must be reported here.
16 The spending to acquire capital assets must be reported here.
The page contains financial statements of Government of X for the years 20X4 and 20X3. The statements include:

1. **Consolidated Statement of Financial Position** as at March 31, 20X4
2. **Consolidated Statement of Remeasurement Gains and Losses** as at March 31, 20X4
3. **Consolidated Statement of Change in Net Debt** for the year ended March 31, 20X4
4. **Consolidated Statement of Annual Operating Surplus/(Deficit)** for the year ended March 31, 20X4

Each statement includes columns for Budget, Actual, and Actual. The financial assets, liabilities, net debt, non-financial assets, net assets/liabilities, revenues, expenses, and other financial details are documented. The statements are presented in a tabular format with detailed financial figures for each category.

**Note:** The spending to acquire capital assets must be reported here.
### GOVERNMENT OF X

#### CONSOLIDATED STATEMENT OF CASH FLOW

**FOR THE YEAR ENDED MARCH 31, 20X4**

<table>
<thead>
<tr>
<th></th>
<th>20X4</th>
<th>20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash provided by operating transactions</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Cash applied to capital transactions</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Cash provided by (applied to) investing transactions</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Cash applied to financing transactions</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Increase in cash</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td><strong>Cash at beginning of year</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cash at end of year</strong></td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
</tbody>
</table>

### GOVERNMENT OF X

#### CONSOLIDATED STATEMENT OF DEFERRED INFLOWS AND OUTFLOWS

**AS AT MARCH 31, 20X4**

<table>
<thead>
<tr>
<th></th>
<th>20X4</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Opening accumulated deferred inflows</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Past inflows applicable to current period</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Inflows received but applicable to future periods</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td><strong>Closing accumulated deferred inflows</strong></td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
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<th>20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening accumulated deferred outflows</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Past outflows applicable to current period</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td>Outflows applicable to future periods</td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
<tr>
<td><strong>Closing accumulated deferred outflows</strong></td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>20X4</th>
<th>20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Closing accumulated deferred inflows and outflows</strong></td>
<td>XXXX</td>
<td>XXXX</td>
</tr>
</tbody>
</table>

---

18 Two presentation formats are permitted for operating cash flows — the direct and indirect methods.

19 The cash used to acquire capital assets must be reported here.