

International Summary Comparison – PSAB’s Proposed Reporting Model and the IPSASB’s Existing Reporting Model

Introduction

In May 2020, the Public Sector Accounting Board (PSAB) committed to continue developing future Public Sector Accounting Standards (PSAS) that serve the public interest. When developing future standards, PSAB will now use the principles of International Public Sector Accounting Standards (IPSAS) if an IPSAS equivalent standard already exists and the Board determines that a modification of those principles is not required.

The document entitled “[Criteria for modifying and reviewing IPSAS Principles](#)” states that “PSAB will amend a principle in an IPSAS standard if it is contrary to PSAB’s conceptual framework.” The Board’s proposed Conceptual Framework in Exposure Draft, “[The Conceptual Framework for Financial Reporting in the Public Sector](#),” includes the financial [statement](#) objectives that provide the basis for determining the principles for the reporting model and the focus of each statement, or “indicators” to be reported on each statement.

This international summary comparison provides stakeholders with an overview of the differences between PSAB’s proposed reporting model and the International Public Sector Accounting Board’s (IPSASB) existing reporting model.

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

Summary Comparison

The reporting model comparison was based on the key concepts proposed in PSAB’s Exposure Draft, “[Financial Statement Presentation, Proposed Section PS 1202](#).”

The following table identifies the differences between PSAB’s proposed reporting model and the IPSASB’s existing reporting model found in:

- the IPSASB’s Conceptual Framework;
 - IPSAS 1, *Presentation of Financial Statements*;
 - IPSAS 2, *Cash Flow Statements*; and
 - IPSAS 24, *Presentation of Budget Information in Financial Statements*.
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The comparison has been based on the following classifications:

Similar/Consistent

Staff thinks that the principles are similar.

Minor Differences Noted

Staff thinks that the differences would not have significant implications for setting future standards.

Difference Noted

Staff thinks that the principles are different and may have a significant impact on setting future standards.

Subject	Comparison
Statement of financial position	Minor Differences Noted
Statement of operations	Minor Differences Noted
Statement of changes in net assets or net liabilities	Similar/Consistent
Statement of cash flow	Minor Differences Noted
Statement of net financial assets or net financial liabilities	Minor Differences Noted
Presentation of the approved budget	Minor Differences Noted
Disclosing non-compliance with financial authorities	Minor Differences Noted
Disclosing risks and uncertainties	Similar/Consistent

Comparison and Implications of Differences Noted

Statement of financial position

Presentation of assets and liabilities

PSAB's Exposure Draft	Handbook of International Public Sector Accounting Pronouncements, Volume 1
The statement of financial position should report financial assets, non-financial assets, financial liabilities and non-financial liabilities. (Proposed paragraph PS 1202.044)	An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement of financial position, in accordance with paragraphs 76-87, except when a presentation based on liquidity provides information that is faithfully representative and is more relevant. (Paragraph 70 of IPSAS 1)

PSAB considered whether assets and liabilities should be presented as current and non-current. PSAB believes that, given the characteristics of public sector entities, it is more important to present the nature of the assets as financial and non-financial on the statement of financial position. Presenting financial and non-financial assets and liabilities helps to calculate the net financial assets or net financial liabilities indicator. If an entity wants to present assets and liabilities as current and non-current, this can be done in the notes to the financial statements. The Board believes that attempting to show this breakdown – in addition to the financial and non-financial asset presentation on the statement of financial position – would make the statement visually complex.



What does this difference mean for setting future standards?

When PSAB sets future standards for specific assets or liabilities by using the principles in an IPSAS, the Board would need to provide additional guidance as to whether such assets or liabilities are financial or non-financial.

Net financial position

PSAB's Exposure Draft	Handbook of International Public Sector Accounting Pronouncements, Volume 1
The statement of financial position should account for net assets or net liabilities as the indicator of net financial position. (Proposed paragraph PS 1202.044)	Net financial position is the difference between assets and liabilities after adding other resources and deducting other obligations recognized in the

PSAB's Exposure Draft	Handbook of International Public Sector Accounting Pronouncements, Volume 1
	statement of financial position. (Paragraph 5.28 of the Conceptual Framework)

In its net financial position indicator, the IPSASB includes other resources and other obligations. PSAB does not.



What does this difference mean for setting future standards?

Since the IPSASB has not yet identified any transactions that would fall into the “other resources” or “other obligations” categories, the net financial position indicator of both standard setters is currently the same.

If the IPSASB decides to use “other resources” and “other obligations” in a standard that PSAB wishes to adapt, PSAB will need to determine an alternative accounting treatment that meets the financial reporting objective of providing accountability information. This alternative accounting treatment may or may not lead to the same impact on the net financial position indicator.

PSAB may consider the use of the “accumulated other” component of net assets or net liabilities. The “accumulated other” component may be used to recognize certain revenue and expense that PSAB feels should be recognized outside of surplus or deficit when they arise, to better serve the accountability objective. For a comparable item, transaction or other event, using this component may possibly lead to the same effect on the net financial position indicator as IPSASB using the “other resources” and “other obligations” categories.

Components of net assets or net liabilities

PSAB's Exposure Draft	Handbook of International Public Sector Accounting Pronouncements, Volume 1
When reporting on changes in financial position, certain revenues or expenses are required to be initially recognized directly in a component of net assets or net liabilities rather than the surplus or deficit of the period in which they arise. When these requirements apply to an entity, it should report the composition of its net assets or net liabilities at the financial statement date segregated by the following main components:	When an entity has no share capital, it shall disclose net assets/equity, either on the face of the statement of financial position or in the notes, showing separately: <ul style="list-style-type: none"> (a) Contributed capital, being cumulative total at the reporting date from owners less distributions to owners; (b) Accumulated surpluses or deficits;

PSAB's Exposure Draft	Handbook of International Public Sector Accounting Pronouncements, Volume 1
(a) accumulated surplus or deficit; (b) accumulated remeasurement gains and losses; and, if applicable (c) accumulated other. (Proposed paragraph PS 1202.095)	(c) Reserves, including a description of the nature and purpose of a reserve within net assets/equity; and (d) Non-controlling interest. (Paragraph 95 of IPSAS 1)

Both the IPSASB and PSAB have a component that accumulates past surpluses and deficits and components that accumulate gains and losses related to revaluations. The differences in the components of net assets or net liabilities relate to the contributed capital and non-controlling interest components. PSAB does not have the contributed capital component or the non-controlling interest component.



What do these differences mean for setting future standards?

Contributed capital: Contributed capital is expected to be rare or minimal in the Canadian public sector. As a result, this difference is not expected to have significant implications for setting future standards. If the IPSASB determines that an item, transaction or other event is to be reflected as an ownership contribution or ownership distribution, PSAB will need to determine an alternative accounting treatment that meets the financial reporting objective of providing accountability information.

Non-controlling interest: In PSAB's reporting model, a non-controlling interest component is not required because, unlike IPSAS, PSAS requires proportionate consolidation accounting when a non-controlling interest exists. When developing future standards by using IPSAS that have non-controlling interest, PSAB would need to amend the accounting to be consistent with the proportionate consolidation approach.

Statement of operations

PSAB's proposals	Handbook of International Public Sector Accounting Pronouncements, Volume 1
<p>An entity should recognize all revenue and expense arising in a period in the statement of operations unless a standard requires otherwise. (Proposed paragraph PS 1202.115)</p>	<p>All items of revenue and expense recognized in a period shall be included in surplus or deficit, unless an IPSAS requires otherwise.¹ (Paragraph 99 of IPSAS 1)</p> <p>The entity's surplus or deficit for the period is the difference between revenue and expense reported on the statement of financial performance. (Paragraph 5.32 of the Conceptual Framework)</p>
<p>The statement of operations should:</p> <ul style="list-style-type: none"> • report revenues recognized in this statement segregated by significant types; • report expenses recognized in this statement by function or major program; and • account for the surplus or deficit for the period, which is the difference between the revenues and expenses recognized in the statement of operations. (Proposed paragraph PS 1202.117) 	<p>An entity shall present...a subclassification of total revenue, classified in a manner appropriate to the entity's operations. (Paragraph 108 of IPSAS 1)</p> <p>An entity shall present...an analysis of expenses using a classification based on either the nature of the expenses or their function within the entity, whichever provides information that is faithfully representative and more relevant. (Paragraph 109 of IPSAS 1)</p> <p>Entities classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortization and employee benefits expense. (Paragraph 115 of IPSAS 1)</p>

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

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

Name of the statement

PSAB prefers the name "statement of operations" over "statement of financial performance" because financial performance is a broad concept, the reporting of which is beyond the scope of financial

¹ Some IPSASs deal with items that may meet the definitions of revenue or expense but are excluded from surplus or deficit. These IPSASs require that these items be recognized directly in net assets or net liabilities.

statements. Surplus or deficit is only one aspect of financial performance and is the bottom-line indicator on the statement of operations.

Presentation of expenses

PSAB decided to retain the requirements for presentation of expenses by function on the statement of operations and disclosure of the nature (object) of the expenses in the notes for the following reasons:

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



What do these differences mean for setting future standards?

Name of the statement: It is not expected that the difference in the name of the statement will have an impact on setting future standards.

Presentation of expenses: The difference in the presentation of expenses may require PSAB to amend the presentation requirements in future standards it develops, to be consistent with the requirement in proposed FINANCIAL STATEMENT PRESENTATION, Section PS 1202, (i.e., to present expenses by function or major program).

Statement of cash flow

PSAB's Exposure Draft	Handbook of International Public Sector Accounting Pronouncements, Volume 1
<p>The statement of cash flow should report cash flows during the period classified by operating, capital, investing and financing activities. (Proposed paragraph PS 1202.159)</p> <p>If an entity enters into financing activities, the statement of cash flow should account for the net cash available to be used for financing activities or the net cash needed to be generated by financing activities. (Proposed paragraph PS 1202.176)</p>	<p>The cash flow statement shall report cash flows during the period classified by operating, investing, and financing activities. (Paragraph 18 of IPSAS 2)</p>

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

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

Presentation of capital activities

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

Isolation of financing activities

Highlighting net cash before financing activities after all other categories of inflows and outflows of cash for the period are presented makes the cash flow statement more understandable to users. This presentation would show whether all of an entity's other activities combined resulted in the need for cash to be raised through financing activities.

The proposed presentation highlights one aspect of the entity's sustainability. Reporting sustainability is an important dimension of accountability reporting and it is important to many of the respondents to Consultation Paper 1, "Characteristics of Public Sector Entities," and Consultation Paper 2, "Measuring Financial Performance in Public Sector Financial Statements."



What do these differences mean for setting future standards?

Presentation of capital activities: This difference may require PSAB to amend the presentation requirements in future standards it develops to be consistent with the requirement in proposed Section PS 1202 (i.e., present capital activities within the cash flow statement) if cash flow presentation requirements are included in an individual IPSAS being used as the basis for a new PSAS.

Isolation of financing activities: It is not expected that this difference will have an impact on setting future standards as this cash flow presentation requirement in proposed Section PS 1202 affects only the ordering of the categories of cash flow activities, not the items recognized in each category.

Statement of net financial assets or net financial liabilities

The IPSASB does not require a statement of net financial assets or net financial liabilities to present the net financial assets or net financial liabilities indicator (currently known as “net debt”). PSAB does. PSAB feels that the net financial assets or net financial liabilities indicator is an important indicator. However, nothing in the IPSASB’s Handbook prohibits a preparer from calculating and presenting the indicator.



What does this difference mean for setting future standards?

When PSAB sets future standards for specific assets or liabilities by using the principles in an IPSAS, PSAB will need to provide additional guidance as to their impact on the net financial assets or net financial liabilities indicator.

Presentation of the approved budget

Requirement to present the budget

PSAB's Exposure Draft	Handbook of International Public Sector Accounting Pronouncements, Volume 1
All public sector entities should be held accountable for compliance with, and performance against, their budget. (Proposed paragraph BC6.20 of the Exposure Draft, " The Conceptual Framework for Financial Reporting in the Public Sector. ")	[IPSAS 24] applies to public sector entities which are required or elect to make their approved budget(s) publicly available. (Paragraph 3 of IPSAS 24)

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



What does this difference mean for setting future standards?

It is not expected that this difference will have an impact on setting future standards, as the budget requirements in proposed Section PS 1202 would be retained.

Presentation of multiple budgets

PSAB's Exposure Draft	Handbook of International Public Sector Accounting Pronouncements, Volume 1
<p>The statement of operations should present a comparison of the actual financial performance of the accounting period with that originally budgeted. (Proposed paragraph PS 1202.186)</p> <p>The budget amounts on the financial statements should be presented using the same basis of accounting, following the same accounting principles, for the same scope of activities and using the same classifications as the actual amounts. (Proposed paragraph PS 1202.192)</p>	<p>...An entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts, either as a separate additional financial statement or as additional budget columns in the financial statements...The comparison of budget and actual amounts shall present...</p> <p>(a) The original and final budget amounts...(Paragraph 14 of IPSAS 24)</p>

PSAB's Exposure Draft	Handbook of International Public Sector Accounting Pronouncements, Volume 1
	All comparisons of budget and actual amounts shall be presented on a comparable basis to the budget. (Paragraph 31 of IPSAS 24)

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

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

Having more than one budget column on the statement of operations may complicate the actual-to-budget comparison and reduce the accountability provided by the comparison as a result.



What does this difference mean for setting future standards?

It is not expected that this difference will have an impact on setting future standards, as the budget requirements in proposed Section PS 1202 would be retained.

Restating actuals versus budget figures

PSAB's Exposure Draft	Handbook of International Public Sector Accounting Pronouncements, Volume 1
When the basis of accounting, scope, principles or classification used in the budget is different than that used for the financial statements, the budget amounts would need to be restated and the restated amounts would be identified and reported as such on the face of the statement of operations. Note disclosure or a schedule would reconcile the restated budget numbers back to those approved in the original budget. (Proposed paragraph PS 1202.194)	<p>An entity shall present a comparison of budget and actual amounts as additional budget columns in the financial statements only where the financial statements and the budget are prepared on a comparable basis. (Paragraph 21 of IPSAS 24)</p> <p>When the budget and the financial statements are not prepared on a comparable basis, a separate Statement of Comparison of Budget and Actual Amounts is presented. In these cases, ...the Statement of Comparison of Budget and Actual Amounts is prepared on the budget basis. (Paragraph 23 of IPSAS 24)</p>

² In its Exposure Draft, "[Financial Statement Presentation, Proposed Section PS 1202](#)," PSAB recognizes exceptions to this requirement.

PSAB's Exposure Draft	Handbook of International Public Sector Accounting Pronouncements, Volume 1
	<p>The reconciliation [between the actual amounts prepared on a comparable basis to the budget and the actual amounts presented in the financial statements] shall be disclosed on the face of the statement of comparison of budget and actual amount, or in the notes to the financial statements. (Paragraph 47 of IPSAS 24)</p> <p>By way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, [is required,] unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes. (Paragraph 14(c) of IPSAS 24).</p>

If the budget and the actuals are not prepared in the same manner, PSAB requires a restatement of the budget figures. However, the IPSASB requires the actual numbers to be restated in accordance with how the budget is prepared.

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



What does this difference mean for setting future standards?

It is not expected that this difference will have an impact on setting future standards, as the budget requirements in proposed Section PS 1202 would be retained.

Disclosing non-compliance with financial authorities

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



What does this difference mean for setting future standards?

It is not expected that this difference will have an impact on setting future standards, as the disclosure requirements in proposed Section PS 1202 would be retained.

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