Financial Reporting (IPSAS)

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Financial Reporting (IPSAS)
Centre for Financial and Management Studies

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Module Introduction and Overview

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1 Introduction to the Module

Welcome to the *Financial Reporting (IPSAS)* module. Accounting for public sector organisations is a vital yet complex task. Like businesses, public organisations need to keep accurate records of their income and spending. This information is needed both for internal decision making and to demonstrate accountability to their stakeholders. This module is designed to give you sufficient knowledge of public sector financial reporting practices to use the information produced and to contribute to debates on the development of reporting policy. The module concentrates on financial reporting using International Public Sector Accounting Standards (IPSAS). Although these standards have now been adopted in some countries, many other countries are in the process of adoption or have implemented systems similar to IPSAS.

The module will use a range of examples and case studies to illustrate the theoretical principles and assist you in understanding and applying financial reporting in the international context. There are also many review questions and exercises incorporated into the module to facilitate your learning.

After completing this module, you should be able to discuss the international theoretical framework of financial reporting and evaluate the application of the IPSAS to public sector organisations in a variety of countries and contexts.

2 The Module Author

Dr Alexa Simm is an Accountancy Consultant specialising in accountancy education. As a professionally qualified Chartered Public Financial Accountant, she has extensive experience throughout the public sector, working for many years as an external auditor. Academically, she has previously worked as a professional trainer for the Chartered Institute of Public Finance and Accountancy and as a University Senior Lecturer. She is also a Fellow of the Higher Education Authority.

3 Study Materials

This Study Guide is your main learning resource for the module as it directs your study through eight study units. Each unit has recommended reading either from the textbooks or from supplementary readings which are included in the Module Reader. The guides also include a range of case studies.

Textbooks

You will be provided with two textbooks for this module:

Aggestam-Pontoppidan C and I Andernack (2016) *Interpretation and Application of IPSAS*. Chichester UK, Wiley.

Bandy G (2015) *Financial Management and Accounting in the Public Sector*. Oxford UK. Routledge.

These are comprehensive and useful textbooks covering financial reporting in the public sector and the international financial reporting standards. Bandy's text is a good introduction to financial management and budgeting issues in public sector accounts, and the volume by Aggestam-Pontoppidan and Andernack provides a detailed account of the nature and use of International Public Sector Accounting Standards.

Where there are gaps in the textbook coverage, these will be supplemented by articles and extracts from other texts reprinted in the Module Reader.

Module Reader

You are provided with a range of academic journal articles, extracts from supplementary text books and other reports or material. These comprise the Module Reader, which forms an essential part of this module.

Case Studies

The theoretical concepts examined in the module material will be supplemented by case studies looking at actual examples in the public sector and how their own accounting standards relate to international standards. The Case Studies form part of the Module Reader contents.

4 Module Overview

This module introduces the core accounting concepts and explores the financial reporting framework and guidelines currently available for public sector organisations.

Units 1 and 2 set the scene for the module. Unit 1 introduces you to the need for public sector organisations to produce financial reports, and considers why it would be useful for such financial reporting to be consistent worldwide. The unit explores the differences between the private and public sectors, as well as identifying key users of financial information. Importantly, the unit also introduces *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) which establishes the concepts that underpin financial reporting in the public sector.

Unit 2 explores the International Public Sector Accounting Standards Board (IPSASB) and their work, including the development of International Public Sector Accounting Standards (IPSAS) and the extent to which IPSAS are adopted globally. The unit goes onto consider alternative accounting bases that may be applied by public sector entities in their financial reporting. The unit defines both cash and accruals bases, with specific focus on external financial reporting. Benefits, limitations and modifications to cash and accruals bases are also considered. The adoption of these accounting bases is explored in the public sector, as well as in relation to the IPSAS. A case study explores the experiences of one country moving from cash to accruals bases.

Unit 3 considers a range of alternative approaches to budget setting, before moving on to see how budgets may be reported, including the requirements of International Public Sector Accounting Standard (IPSAS) 24. In particular, it looks at programme budgeting and performance budgeting – where funds are allocated to specific programmes or linked to results, respectively. The case studies present real-life examples of the adoption of programme and performance budgeting.

Unit 4 builds specifically on the accruals concept by exploring how to account for assets. In particular, the unit will focus on inventories, the non-current assets of property, plant and equipment (PPE) and heritage assets. The case study explores accounting for non-current assets.

While Unit 4 explains how to account for assets, **Unit 5** explores accounting for liabilities. The distinction between liabilities, provisions and contingent liabilities is clarified and the relevant accounting standards are reviewed. The analysis specifically focuses on government liabilities which are, of course, unique to the public sector, considering pension liabilities in particular. The case study considers the application of the theory on liabilities to a real-life organisation.

The accounting treatment of assets and liabilities are studied in Units 4 and 5. **Unit 6** builds on this by considering how public sector entities may gain access to the use of assets through methods other than purchasing the asset upfront. The two methods considered are leases and a particular type of partnership between public and private sector organisations, known as Public/Private Partnerships or PPPs. The unit explores what both leases and PPPs are, as well as their respective accounting treatments. Two case studies consider the use of PPPs in a developed and a developing country.

A variety of financial reporting aspects, including assets and liabilities, have been studied in previous units. **Unit 7** builds on these previous studies by exploring how governments or certain public sector organisations may be grouped together and merge their financial statements into what is known as 'consolidated financial statements'. The unit explains how entities to be consolidated are identified, before looking at the consolidation process itself. A case study is also used to explore the use of consolidated financial statements for the Federal Government in Switzerland.

Unit 8 considers what governance in the public sector actually is, and the best practice principles that public sector entities globally are recommended to follow. Examples are considered throughout the unit to demonstrate how the principles are applied in real life. The unit also compares national guidance on governance for a range of example countries and considers the application of the good governance principles to PPPs.

Unit 1 Context of Public Sector Financial Reporting (1)

1.1 Introduction
1.2 Rationale for Financial Reporting Standards
1.3 International Conceptual Framework

Unit 2 Context of Public Sector Financial Reporting (2)
2.1 The IPSASB and IPSAS
2.2 Cash- versus Accruals-Based Accounting
2.3 Application in the Public Sector
2.4 Cash-Basis IPSAS
2.5 Accruals-Based Accounting and IPSAS
2.6 Case Study
2.7 Feedback on Case Study

Unit 3 Budgeting and Performance Reporting
3.1 Budgeting in the Public Sector
3.2 Budgets and Outturn Reporting (IPSAS 24)
3.3 Performance Budgeting and Reporting
3.4 Programme Budgeting
3.5 Case Studies
3.6 Feedback on Case Studies

Unit 4 Accounting for Public Assets under IPSAS
4.1 Current Assets
4.2 Non-Current Assets
4.3 Case Study
4.4 Feedback on Case Study

Unit 5 Accounting for Liabilities
5.1 Current and Non-Current Liabilities
5.2 Provisions and Contingent Liabilities
5.3 The Special Case of Government Liabilities
5.4 Case Study
5.5 Feedback on Case Study

Unit 6 Leases and Public/Private Partnerships (PPP)
6.1 Leases
6.2 What are Public/Private Partnerships?
6.3 Use of PPP
6.4 Accounting for PPP
6.5 Case Studies
6.6 Feedback on Case Studies

Unit 7 Whole of Government Accounts (WGA)
7.1 Consolidated Financial Statements
7.2 The Consolidation Process
7.3 Users and Uses of Consolidated Financial Statements
7.4 Case Study
7.5 Feedback on Case Study

Unit 8 Governance of Public Bodies
8.1 Definitions
8.2 International Framework: Good Governance in the Public Sector
8.3 International Comparisons
8.4 Governance in Public/Private Partnerships

8.5 Summary
8.6 The Examination

5 Learning Outcomes

When you have completed your study of this module, you will be able to:

- discuss the conceptual framework for public sector accounting and the development of International Public Sector Accounting Standards (IPSAS)
- evaluate the adoption of the International Public Sector Accounting Standards (IPSAS)
- explain and contrast the differences in external reporting on a cash and accruals basis
- discuss alternative approaches to budgeting in the public sector and the IPSAS requirements
- discuss the accounting treatment for specific assets and liabilities in accordance with the IPSAS
- discuss the process of consolidation for public sector financial reports and evaluate the usefulness of the reports produced
- discuss the application of governance principles in public sector entities and compare national governance guidance.

6 Assessment

Your performance on each module is assessed through two written assignments and one examination. The assignments are written after Unit 4 and Unit 8 of the module session. Please see the VLE for submission deadlines. The examination is taken at a local examination centre in September/October.

Preparing for assignments and exams

There is good advice on preparing for assignments and exams and writing them in Chapter 8 of *Studying at a Distance* by Christine Talbot. We recommend that you follow this advice.

The examinations you will sit are designed to evaluate your knowledge and skills in the subjects you have studied: they are not designed to trick you. If you have studied the module thoroughly, you will pass the exam.

Understanding assessment questions

Examination and assignment questions are set to test your knowledge and skills. Sometimes a question will contain more than one part, each part testing a different aspect of your skills and knowledge. You need to spot the key words to know what is being asked of you. Here we categorise the types of things that are asked for in assignments and exams, and the words used. All the examples are from the Centre for Financial and Management Studies examination papers and assignment questions.

Definitions

Some questions mainly require you to show that you have learned some concepts, by setting out their precise meanings. Such questions are likely to be preliminary and be supplemented by more analytical questions. Generally, 'Pass marks' are awarded if the answer only contains definitions. They will contain words such as:

- Describe
- Define
- Examine
- Distinguish between
- Compare
- Contrast
- Write notes on
- Outline
- What is meant by
- List

Reasoning

Other questions are designed to test your reasoning, by explaining cause and effect. Convincing explanations generally carry additional marks to basic definitions. They will include words such as:

- Interpret
- Explain
- What conditions influence
- What are the consequences of
- What are the implications of

Judgement

Others ask you to make a judgement, perhaps of a policy or of a course of action. They will include words like:

- Evaluate
- Critically examine
- Assess
- Do you agree that
- To what extent does

Calculation

Sometimes, you are asked to make a calculation, using a specified technique, where the question begins:

- Use indifference curve analysis to
- Using any economic model you know
- Calculate the standard deviation
- Test whether

It is most likely that questions that ask you to make a calculation will also ask for an application of the result, or an interpretation.

Advice

Other questions ask you to provide advice in a particular situation. This applies to law questions and to policy papers where advice is asked in relation to a policy problem. Your advice should be based on relevant law, principles and evidence of what actions are likely to be effective. The questions may begin:

- Advise
- Provide advice on

- Explain how you would advise

Critique

In many cases the question will include the word 'critically'. This means that you are expected to look at the question from at least two points of view, offering a critique of each view and your judgement. You are expected to be critical of what you have read.

The questions may begin:

- Critically analyse
- Critically consider
- Critically assess
- Critically discuss the argument that

Examine by argument

Questions that begin with 'discuss' are similar – they ask you to examine by argument, to debate and give reasons for and against a variety of options, for example

- Discuss the advantages and disadvantages of
- Discuss this statement
- Discuss the view that
- Discuss the arguments and debates concerning

The grading scheme: Assignments

The assignment questions contain fairly detailed guidance about what is required. All assignments are marked using marking guidelines. When you receive your grade it is accompanied by comments on your paper, including advice about how you might improve, and any clarifications about matters you may not have understood. These comments are designed to help you master the subject and to improve your skills as you progress through your programme.

Postgraduate assignment marking criteria

The marking criteria for your programme draws upon these minimum core criteria, which are applicable to the assessment of all assignments:

- understanding of the subject
- utilisation of proper academic [or other] style (e.g. citation of references, or use of proper legal style for court reports, etc.)
- relevance of material selected and of the arguments proposed
- planning and organisation
- logical coherence
- critical evaluation
- comprehensiveness of research
- evidence of synthesis
- innovation / creativity / originality.

The language used must be of a sufficient standard to permit assessment of these.

The guidelines below reflect the standards of work expected at postgraduate level. All assessed work is marked by your Tutor or a member of academic staff, and a sample is then moderated by another member of academic staff. Any assignment may be made available to the external examiner(s).

80+ (Distinction). A mark of 80+ will fulfil the following criteria:

- very significant ability to plan, organise and execute independently a research project or coursework assignment
- very significant ability to evaluate literature and theory critically and make informed judgements
- very high levels of creativity, originality and independence of thought
- very significant ability to evaluate critically existing methodologies and suggest new approaches to current research or professional practice
- very significant ability to analyse data critically
- outstanding levels of accuracy, technical competence, organisation, expression.

70–79 (Distinction). A mark in the range 70–79 will fulfil the following criteria:

- significant ability to plan, organise and execute independently a research project or coursework assignment
- clear evidence of wide and relevant reading, referencing and an engagement with the conceptual issues
- capacity to develop a sophisticated and intelligent argument
- rigorous use and a sophisticated understanding of relevant source materials, balancing appropriately between factual detail and key theoretical issues. Materials are evaluated directly and their assumptions and arguments challenged and/or appraised
- correct referencing
- significant ability to analyse data critically
- original thinking and a willingness to take risks.

60–69 (Merit). A mark in the 60–69 range will fulfil the following criteria:

- ability to plan, organise and execute independently a research project or coursework assignment
- strong evidence of critical insight and thinking
- a detailed understanding of the major factual and/or theoretical issues and directly engages with the relevant literature on the topic
- clear evidence of planning and appropriate choice of sources and methodology with correct referencing
- ability to analyse data critically
- capacity to develop a focussed and clear argument and articulate clearly and convincingly a sustained train of logical thought.

50–59 (Pass). A mark in the range 50–59 will fulfil the following criteria:

- ability to plan, organise and execute a research project or coursework assignment

- a reasonable understanding of the major factual and/or theoretical issues involved
- evidence of some knowledge of the literature with correct referencing
- ability to analyse data
- examples of a clear train of thought or argument
- the text is introduced and concludes appropriately.

40–49 (Fail). A Fail will be awarded in cases in which there is:

- limited ability to plan, organise and execute a research project or coursework assignment
- some awareness and understanding of the literature and of factual or theoretical issues, but with little development
- limited ability to analyse data
- incomplete referencing
- limited ability to present a clear and coherent argument.

20–39 (Fail). A Fail will be awarded in cases in which there is:

- very limited ability to plan, organise and execute a research project or coursework assignment
- failure to develop a coherent argument that relates to the research project or assignment
- no engagement with the relevant literature or demonstrable knowledge of the key issues
- incomplete referencing
- clear conceptual or factual errors or misunderstandings
- only fragmentary evidence of critical thought or data analysis.

0–19 (Fail). A Fail will be awarded in cases in which there is:

- no demonstrable ability to plan, organise and execute a research project or coursework assignment
- little or no knowledge or understanding related to the research project or assignment
- little or no knowledge of the relevant literature
- major errors in referencing
- no evidence of critical thought or data analysis
- incoherent argument.

The grading scheme: Examinations

The written examinations are 'unseen' (you will only see the paper in the exam centre) and written by hand, over a three-hour period. We advise that you practise writing exams in these conditions as part of your examination preparation, as it is not something you would normally do.

You are not allowed to take in books or notes to the exam room. This means that you need to revise thoroughly in preparation for each exam. This is especially important if you have completed the module in the early part of the year, or in a previous year.

Details of the general definitions of what is expected in order to obtain a particular grade are shown below. These guidelines take account of the fact that examination conditions are less conducive to polished work than the conditions in which you write your assignments. Note that as the criteria of each grade rises, it accumulates the elements of the grade below. Assignments awarded better marks will therefore have become comprehensive in both their depth of core skills and advanced skills.

Postgraduate unseen written examinations marking criteria

80+ (Distinction). A mark of 80+ will fulfil the following criteria:

- very significant ability to evaluate literature and theory critically and make informed judgements
- very high levels of creativity, originality and independence of thought
- outstanding levels of accuracy, technical competence, organisation, expression
- outstanding ability of synthesis under exam pressure.

70–79 (Distinction). A mark in the 70–79 range will fulfil the following criteria:

- clear evidence of wide and relevant reading and an engagement with the conceptual issues
- develops a sophisticated and intelligent argument
- rigorous use and a sophisticated understanding of relevant source materials, balancing appropriately between factual detail and key theoretical issues
- direct evaluation of materials and their assumptions and arguments challenged and/or appraised;
- original thinking and a willingness to take risks
- significant ability of synthesis under exam pressure.

60–69 (Merit). A mark in the 60–69 range will fulfil the following criteria:

- strong evidence of critical insight and critical thinking
- a detailed understanding of the major factual and/or theoretical issues and directly engages with the relevant literature on the topic
- develops a focussed and clear argument and articulates clearly and convincingly a sustained train of logical thought
- clear evidence of planning and appropriate choice of sources and methodology, and ability of synthesis under exam pressure.

50–59 (Pass). A mark in the 50–59 range will fulfil the following criteria:

- a reasonable understanding of the major factual and/or theoretical issues involved
- evidence of planning and selection from appropriate sources
- some demonstrable knowledge of the literature
- the text shows, in places, examples of a clear train of thought or argument
- the text is introduced and concludes appropriately.

40–49 (Fail). A Fail will be awarded in cases in which:

- there is some awareness and understanding of the factual or theoretical issues, but with little development
- misunderstandings are evident
- there is some evidence of planning, although irrelevant/unrelated material or arguments are included.

20–39 (Fail). A Fail will be awarded in cases which:

- fail to answer the question or to develop an argument that relates to the question set
- do not engage with the relevant literature or demonstrate a knowledge of the key issues
- contain clear conceptual or factual errors or misunderstandings.

0–19 (Fail). A Fail will be awarded in cases which:

- show no knowledge or understanding related to the question set
- show no evidence of critical thought or analysis
- contain short answers and incoherent argument.

[2015–16: Learning & Teaching Quality Committee]

Specimen exam papers

CeFiMS does not provide past papers or model answers to papers. Modules are continuously updated, and past papers will not be a reliable guide to current and future examinations. The specimen exam paper is designed to be relevant and to reflect the exam that will be set on this module.

Your final examination will have the same structure and style and the range of question will be comparable to those in the Specimen Exam. The number of questions will be the same, but the wording and the requirements of each question will be different.

Good luck on your final examination.

Further information

Online you will find documentation and information on each year's examination registration and administration process. If you still have questions, both academics and administrators are available to answer queries.

The Regulations are also available at www.cefims.ac.uk/regulations/, setting out the rules by which exams are governed.

DO NOT REMOVE THE QUESTION PAPER FROM THE EXAMINATION HALL

UNIVERSITY OF LONDON

CENTRE FOR FINANCIAL AND MANAGEMENT STUDIES

MSc Examination
Postgraduate Diploma Examination
for External Students

91DFMC374
FMM374

PUBLIC FINANCIAL MANAGEMENT
PUBLIC POLICY AND MANAGEMENT

Financial Reporting (IPSAS)

Specimen Examination

*This is a specimen examination paper designed to show you the type of examination you will have at the end of the year for the module **Financial Reporting (IPSAS)**. The number of questions and the structure of the examination will be the same but the wording and the requirements of each question will be different. Best wishes for success in your final examination.*

The examination must be completed in THREE hours.

Answer **THREE** questions. You must answer **Question 1**, plus **ONE** question from **Section A** and **ONE** question from **Section B**.

The examiners give equal weight to each question and you are advised to distribute your time approximately equally between the three questions.
The examiners wish to see evidence of your ability to use technical models and of your ability to critically discuss their mechanisms and application.

PLEASE TURN OVER

Answer **THREE** questions and answer **ALL** parts of multi-part questions.

You must answer **Question 1**, plus **ONE** question from **Section A** and **ONE** question from **Section B**.

All students must answer ***THIS*** *question.*

1. The new Chief Executive Officer (CEO) of a central government department is taking an interest in the preparation of the accounts, particularly with alternative accounting methods that can be chosen, and how the International Public Sector Accounting Standards (IPSAS) apply.
The CEO has queried the timing taken for transactions to be recognised in the accounts. As an example, the CEO is concerned that the purchase of 20 new computers is accounted for in the Department's 2016/2017 financial statements rather than the following financial year. The Department's financial year runs from 1st April to 31st March.

Activity	Date
Departmental Manager authorises the purchase of 20 new computers	23.03.2017
Department's Purchasing Officer orders 20 computers from external supplier	26.03.2017
Invoice dated 26.03.2017 is received by the Department requesting payment by 26.04.2017 (30 days from order)	27.03.2017
Computers received by Department from supplier	04.04.2017
Payment is made by the Department to the supplier for the 20 new computers	20.04.2017

One of the Department's refuse collection vehicles was recently involved in a road traffic accident. The refuse collection vehicle's driver has admitted responsibility for driving into a family car and the Department is expecting their insurance company to cover the car's repair costs which are estimated to be £4,800. One of the conditions of the Department's vehicle insurance is that all claims will be less the excess of £200. The owner of the car has confirmed that the repairs will all be completed prior to 31 March 2017 but the insurance company has not yet formally agreed to pay.
The Department's central offices are classed as a non-cash-generating asset. The following values are available for this asset:

Carrying amount of central offices building as at 31 March 2016	£2.65 million
Depreciation for central offices building for 2016/2017 financial year	£0.25 million
Fair value of central offices building	£2.35 million
Value in use of central offices building	£1.98 million
Estimated costs to sell central offices building	£0.20 million

a) The Department applies accruals accounting but the CEO is only familiar with cash accounting. Contrast the accounting treatment for the purchase of the 20 new computers under cash and accruals bases, clearly stating when the items should be recognised in the Department's accounts. ***(30% of marks)***

b) Determine the accounting treatment in the Department's accounts for the road traffic accident, referring to relevant IPSAS where appropriate. ***(25% of marks)***

c) Determine the value of the Department's central offices that should be shown in the 2016/2017 financial statements, referring to relevant IPSAS where appropriate. ***(45% of marks)***

Section A

*Answer **ONE** question from this section.*

2. Explain the alternative approaches to budgeting that may be adopted by public sector entities to set their budget, including their various advantages and disadvantages.

3. Evaluate the use of performance budgeting in public sector entities.

4. Critically discuss the use of cash and accruals-based financial reporting by public sector entities.

5. Discuss the accounting of heritage assets by public sector entities.

PLEASE TURN OVER

Section B

*Answer **ONE** question from this section.*

6. Discuss the use of consolidated financial reports in the public sector.

7. Critically discuss the use of Public/Private Partnerships (PPP).

8. Discuss how key governance principles may be applied by public sector entities.

[END OF EXAMINATION]

Financial Reporting (IPSAS)

Unit 1 Context of Public Sector Financial Reporting (1)

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Unit Content

Units 1 and 2 set the scene for the module. Unit 1 introduces you to the need for public sector organisations to produce financial reports, and considers why it would be useful for such financial reporting to be consistent worldwide. The unit explores the differences between the private and public sectors, as well as identifying key users of financial information and the context for developing financial reporting standards which are further explored in Unit 2.

Understanding this financial reporting context is crucial for the rest of the module. In later units you will look in more detail at specific elements of financial reporting and the requirements of individual international standards.

Learning Outcomes

When you have completed your study of this unit, including the recommended readings and activities, you will be able to:

- argue for and against the need for financial reporting standards
- discuss the unique characteristics of the public sector in comparison with the private sector
- discuss the conceptual framework for public sector accounting and the development of International Public Sector Accounting Standards (IPSAS), including users, qualitative characteristics, reporting entity, elements, recognition and measurement.

Reading for Unit 1

Textbook

Bandy G (2015) *Financial Management and Accounting in the Public Sector*. 2nd Edition. Oxford, Routledge. Chapters 1 and 8.

Aggestam-Pontoppidan C and I Andernack (2016) *Interpretation and Application of IPSAS*. Chichester, UK, Wiley. Chapter 4 and Annex 2.

Module Reader

McLaney E and P Atrill (2016) *Accounting and Finance: An Introduction*. 8th Edition. Pearson. Chapter 1.

Elliott B and J Elliott (2017) *Financial Accounting and Reporting.* 18th Edition. Harlow, UK, Pearson Education Ltd. Chapter 6.

IPSASB (2014) 'Information needs of service recipients and resource providers'. In: *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities'*. International Public Sector Accounting Standards Board (IPSASB).

1.1 Introduction

In this module you will study financial reporting in public sector entities in a range of countries. Before this, though, it is essential that you understand what accountancy actually is and what financial reporting means. Whether you have studied accounting before or this is a totally new topic for you, it is crucial that you are clear on the context for the remainder of the module.

Accounting may be defined as '...the process of identifying, measuring and communicating financial information about an entity to permit informed judgements and decisions by users of the information' (Weetman, 2015: p. 6).

Financial information communicated by accountants to users outside an organisation is by financial reports. It is this financial reporting outside public sector entities that is the focus of this module.

Readings

Please now study McLaney and Atrill's account of the meaning of these terms, providing an overview of what accountancy is and the distinction with finance.

McLaney & Atrill (2016) Chapter 1 'What are accounting and finance?' Reproduced in the Module Reader from *Accounting and Finance: An Introduction.*

As you work through this reading, make brief notes to ensure you would be able to explain accounting.

Next, turn to your Bandy textbook and study the section 'Key concepts of public sector accounting' on pages 25 to 34, excluding the 'A brief history of accounting in the UK public sector' sub-section.

Bandy (2015) Extract from Chapter 1 'Key concepts of public sector accounting' in *Financial Management and Accounting in the Public Sector*.

Your notes here should summarise the key elements of accounting in the public sector.

The above readings provide an introductory overview of elements in public sector accounting. Although focusing primarily on the United Kingdom, the contents of these readings are applicable globally. During the rest of this module you will study many of these elements in more detail, so do not be too concerned if you do not fully understand certain items at this point. You will also explore the application of such accounting in a range of countries.

Exercise

Using your notes from the earlier readings as reference, answer the following questions:

- What is the difference between capital and revenue expenditure? Provide examples of each.
- Define both cash accounting and accrual accounting, explaining the difference between these two methods.

Your answers should have been similar to these:

- *Capital expenditure* relates to payments on items that have long-term benefit to an organisation. Examples include buildings and motor vehicles.
- *Revenue expenditure* relates to payments on items that do not have a long-term benefit to an organisation (that is, not capital expenditure). Examples include everyday expenses such as fuel costs.
- *Cash accounting* is where accounts are prepared recognising transactions occurring when cash exchanges hands.
- *Accrual accounting* is where accounts are prepared recognising transactions at the time they occur, not when cash actually is exchanged.
- The key difference between cash accounting and accrual accounting is therefore one of *timing*.

You will return to study these concepts in more detail later in the module, but it is helpful to have a basic understanding at this stage.

1.2 Rationale for Financial Reporting Standards

Financial reports are prepared by organisations to show external users, such as the public, how the organisation is performing and to summarise its financial position. This external financial reporting is important for how a public entity is viewed and how its use of public money is demonstrated. For example, has the organisation wasted public money? The media and general public will be keen to know the answers to such questions.

However, accounting is not an exact science. There is not necessarily one single way of presenting financial information. The danger is that an organisation's managers or accountants will be trying to show as positive a picture as possible. How, then, can external users such as members of the public rely on the information included in the financial reports?

One such way is through auditors. External auditors are accountants, independent from the organisation, who inspect the financial reports and provide an opinion on whether they give a true and fair view of the organisation's performance and financial position. However, what guides the auditors on how the financial reports should be presented? Each auditor could make a different judgement.

In this rather circular argument, the need for some sort of guidance on how entities should prepare their financial reports is being highlighted.

Reading

Now, please read Section 6.2 'Why do we need financial reporting standards?' and Section 6.3 'Why do we need standards to be mandatory?' by Elliott and Elliott. The development of accounting standards began in the private sector before moving into the public sector. However, the arguments for accounting standards apply to both sectors, though from different perspectives.

Elliott & Elliott (2017) Extract from Chapter 6 'Financial reporting – evolution of global standards'. Reproduced in the Module Reader from *Financial Accounting and Reporting*.

This reading focuses on the private sector, so as you read these sections try to suggest in your notes some reasons why financial reporting standards are needed from the public sector perspective.

You may have come up with a range of suggestions on why financial reporting standards are needed, such as to provide confidence in the information being reported and consistency between public sector entities. However, although there are strong arguments for having financial reporting standards there are also arguments against them!

Reading

Elliott and Elliott summarise some of the arguments both for and against financial reporting standards. Read Section 6.4 'Arguments in support of standards' and Section 6.5 'Arguments against standards'.

Elliott & Elliott (2017) Extract from Chapter 6 'Financial reporting – evolution of global standards'. Reproduced in the Module Reader from *Financial Accounting and Reporting*.

Make notes of the key arguments put forward. Again, try to think of these arguments from the public sector perspective.

- How do Elliott and Elliott's arguments in support of financial reporting standards compare to your suggestions?
- Which argument (for or against standards) do you find most convincing?

Whether you support the argument for financial reporting standards or not will be an individual viewpoint. However, for now at least, financial reporting standards are here and look like they are here to stay.

1.2.1 Financial reporting standards

There is a variety of alternative financial reporting standards that public sector entities may choose or have to adopt. Some countries develop their own national standards, which may apply to the private and/or public sector. There are also international standards that countries may adopt rather than developing their own individual standards. Indeed, international standards are being encouraged as a means to establish global consistency in financial reporting.

There are two types of international standards:

- International Financial Reporting Standards (IFRS) – developed by the International Accounting Standards Board (IASB)
- International Public Sector Accounting Standards (IPSAS) – developed by the International Public Sector Accounting Standards Board (IPSASB).

It is the IPSAS that are the focus of this module. You will study the IPSASB later in Unit 2. You will also go on to study how the IPSAS are developed and will see that they are often based on the existing and more widely established IFRS. Firstly, though, for the rest of this unit you will explore the basis for the development of IPSAS.

1.3 International Conceptual Framework

You have seen in the previous section that there is an argument for having financial reporting standards. As you will learn over the rest of this module there is a range of standards in place, each setting out guidance for specific aspects of external financial reporting. Now, you can imagine setting these accounting standards to be adopted globally is quite a big job. Indeed it will involve countless people across many countries and different organisations. How, then, can it be ensured that each of the standards is based on the same underlying core principles? Well, this is the purpose of the IPSASB's conceptual framework which is the focus of this section.

The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (referred to here as the conceptual framework) aims to establish the concepts that underpin financial reporting by public sector entities and the development of IPSAS. The following reading explains this further.

Reading

Please turn to your Aggestam-Pontoppidan and Andernack (2016) textbook and read the sections 'Background and purpose of the IPSASB conceptual framework' and 'The content of the conceptual framework' up to and including the 'Chapter 1. Role and authority of the conceptual framework' subsection (pages 36 to 39).

Aggestam-Pontoppidan & Andernack (2016) Chapter 4 'The IPSASB conceptual framework and key accrual accounting concepts' in *Interpretation and Application of IPSAS*.

As you study this reading, make notes on the development and content of the conceptual framework. However, you should note that this is very much an introductory reading and you will go on to look at the various chapters concerning the conceptual framework later in the unit.

Some of the terms mentioned and issues covered in the conceptual framework are important and you will come back to look at them in more detail during the rest of this module. However, it might be helpful to clarify a couple of terms here, before we move on.

General Purpose Financial Reports (GPFR) are financial statements that are published for users, such as members of the public, who do not have the right to demand financial information to meet their needs (Müller-Marqués Berger & Ernst & Young, 2012). You will explore some of the users of GPFR in more detail in the next subsection of this unit (section 1.3.1). You will also come back to consider the financial statements that are included within GPFR later in the module.

Recommended Practice Guidelines (RPG) are publications, produced by the IPSASB, to provide guidance on aspects of financial reporting that are outside the financial statements (IFAC, 2013).

It might be useful to ask the question as to whom the conceptual framework applies. Well, the conceptual framework applies to financial reporting by public sector entities that apply IPSAS. This may include national, regional and local governments, as well as other public sector entities including international governmental organisations. We will come back to consider the extent and examples of IPSAS adoption in Unit 2, as well as public sector reporting entities later in this unit (section 1.3.3).

Now, though, we look the content of the conceptual framework in more detail.

1.3.1 Objectives and users

As mentioned in the earlier reading, Chapter 2 of the 'Conceptual Framework' covers the objectives and users of GPFR. In this section we explore these in more detail. Firstly, objectives.

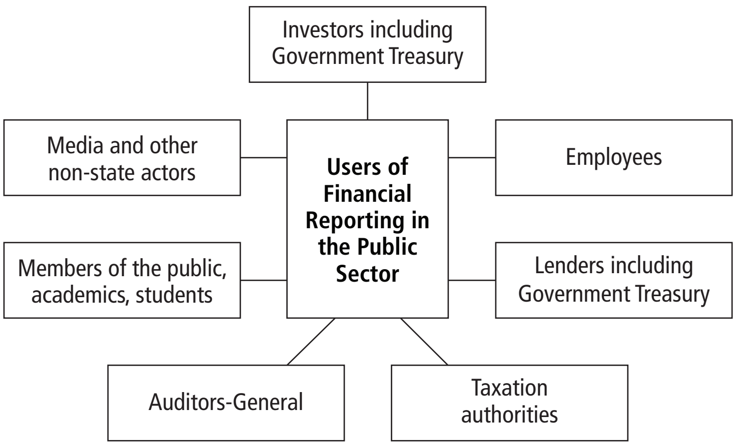
Objectives

According to the conceptual framework, the objectives of financial reporting by public sector entities are to 'provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes' (IPSASB, 2014: p. 13). The purpose of financial reporting is not simply for financial reports to be produced but rather to provide information useful to the users of GPFRs (IPSASB, 2014). Consequently, the conceptual framework concludes that the objectives of financial reporting are determined by the information needs of its users (IPSASB, 2014). So, who are these users?

Users

Financial reports are produced by organisations for a range of potentially interested parties. As the IPSASB (2014) state, the purpose of financial reporting is to provide information for its users. It is important to recognise the various users, as well as how their needs for information may differ. So, who are the users of the financial reports? Well, some potential users are summarised in Figure 1.1.

Figure 1.1 Users of financial reporting in the public sector



The following reading explores some of these users and potential information needs in more detail.

Reading

Please turn to your Module Reader and study paragraphs 2.3 to 2.28 (pages 13 to 19) in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.

As you study this section of the conceptual framework, make note of the key users and what information they require.

IPSASB (2014) Sections from *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. Reproduced in the Module Reader.

Public sector entities have a range of stakeholders who may be interested in their financial reports. Each of these potential users may want to study the financial reports for a variety of reasons and, therefore, require different pieces of information within the financial reports. The following exercise helps you to think through potential users and their needs.

Exercise

For a public sector entity of your choice, identify its key users and briefly explain what information these users may need from the financial reports.

Share your answer to this exercise on the VLE and discuss your findings with your tutor and other students.

1.3.2 Qualitative characteristics

In order for the financial reports produced by public entities to meet the needs of the users, it is crucial that the information has certain characteristics. For example, can members of the public understand the information included in the financial reports and can lenders rely on the information being accurate?

The IPSASB (2014) suggest that the qualitative characteristics of GPFR of public sector entities are:

- relevance
- faithful representation
- understandability
- timeliness
- comparability
- verifiability.

These are important concepts and the following reading helps to explain what they actually mean.

Reading

Please turn to your Module Reader and read paragraphs 3.1 to 3.42 in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (pp. 28–34).

As you study this reading please make notes on the meaning of each of the qualitative characteristics put forward by the IPSASB.

IPSASB (2014) Sections from *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. Reproduced in the Module Reader.

The following reading, in your textbook by Aggestam-Pontoppidan and Andernack, provides a useful application of relevance and faithful representation to public sector organisations.

Reading

Please turn to Aggestam-Pontoppidan and Andernack and study Examples 4.1 and 4.2 on pages 40 to 41.

As you study these examples, try to relate them back to your earlier readings to ensure that you understand how the characteristics put forward by the IPSASB may be applied by public sector entities.

Aggestam-Pontoppidan & Andernack (2016) Extracts from Chapter 4 'The IPSASB conceptual framework and key accrual accounting concepts' in *Interpretation and Application of IPSAS*.

So, we have considered the objectives and users of financial reports as well as the qualitative characteristics that such reports should possess. Now, we will turn our attention to the actual public sector entity that produces the financial reports.

1.3.3 Reporting entity

According to the 'Conceptual Framework' (IPSASB, 2014), a public sector reporting entity is basically a government or other public sector organisation, programme or identifiable area of activity that prepares GPFR. Examples of such public sector reporting entities might include a Ministry of Finance at central government level and United Nations system organisations, such as UNICEF. You will return to consider more public sector reporting entities who have adopted IPSAS in greater detail in Unit 2. For now, let's consider the reporting entity more generically.

As this module focuses specifically on public sector entities, it might be useful to firstly explore their unique characteristics and how they differ from the private sector.

Private sector versus public sector

The private sector and public sector are fundamentally different. Organisations within the private sector also differ from those in the public sector. It is these differences which form the basis of the argument that financial reporting should also be specific to the target sector – the foundation for the remainder of this module.

Firstly, you will explore the unique characteristics of the public sector before then considering how this differs to the private sector.

Readings

Please read the section 'What is public money?' pages 4 to 14, from your Bandy textbook.

As you study this reading, make notes to identify what you consider to be the key characteristics of the public sector and how it is different to the private sector.

Bandy (2015) Extract from Chapter 1 'The context of managing public money' in *Financial Management and Accounting in the Public Sector.*

Make sure you have noted the features of public benefit entities, the overall size of the public sector and various services that make up this sector. As noted by Bandy, it is important to recognise that services in the public sector will differ by country.

Next, turn to your Aggestam-Pontoppidan and Andernack textbook and study 'Annex 2: Key characteristics of public sector entities' on pages on 413 to 414.

Aggestam-Pontoppidan & Andernack (2016) Annex 2 'Key characteristics of public sector entities' in *Interpretation and Application of IPSAS*.

Supplement your previous notes on the key characteristics of public sector entities and ensure that you are clear on the differences to the private sector.

You should now appreciate the unique characteristics of the public sector. What does the public sector look like in your own country? The next exercise helps you to consider this.

Exercise

Taking your own country, or a country of interest, identify the following:

- services included in the public sector
- the overall size of the public sector, using public sector expenses as a per cent of gross domestic product (GDP).

Share your answer to the above exercise on the VLE and discuss the similarities or differences between countries with your tutor and other students.

It should be noted that the public sector has become increasingly complex with some of the boundaries between the public and private sectors becoming merged. Consider, for example, state-owned enterprises and public private partnerships (PPP). PPP are partnerships between public and private sector organisations to deliver public sector projects, assets or services. You will study PPP in more detail later in the module (Unit 6).

Now, the IPSASB is also very aware of the unique nature of public sector entities and has taken care to try to take such characteristics into consideration when developing the conceptual framework. The next reading explains their findings.

Reading

Please read the preface to *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* on pages 4 to 7.

IPSASB (2014) Extract from *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. Reproduced in the Module Reader.

Make notes on the key points from this reading and ensure that you are able to summarise the key characteristics of the public sector that are argued to have implications on financial reporting.

PSASB (2014) *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. Reproduced in the Module Reader.

Having explored what characteristics of the public sector and how it differs from the private sector, we return in the next section to the conceptual framework and its coverage of reporting entities.

1.3.4 Public sector reporting entities

As you will recall from earlier in this unit, Chapter 4 of the Conceptual Framework focuses on the reporting entity. This section of the Conceptual Framework is basically trying to bring some consensus about what a reporting entity in the public sector actually is and which entities should produce GPFR. The next reading is taken from Chapter 4 of the Conceptual Framework.

IPSASB (2014) Chapter 4 'Reporting entity'. Reproduced in the Module Reader from *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.*

Reading

Please read 'Chapter 4: Reporting Entity' on pages 43 to 45 of the IPSASB's *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.

Make notes on the key points from this reading and ensure that you are able to summarise the key characteristics of a public sector reporting entity. How do these characteristics compare with those characteristics of the public sector you looked at earlier?

This section has covered quite a lot of material about public sector entities, their characteristics and how this impacts on financial reporting. The following exercise aims to help you review some of this material covered.

Exercise

From your reading so far, you should be able to answer the following questions:

- What are the characteristics of public sector entities, and how do they differ from private sector organisations?
- Briefly explain the main sources of revenue for entities in the public and private sectors.
- What are the characteristics of public goods?

My suggested answers are below, but I trust that you have fully attempted the questions yourself before reading on.

- Characteristics of the public sector include the following:
  - Public accountability, such as governments being elected through a democratic process and information being available to demonstrate their accountability
  - Multiple objectives, compared to the overriding aim of private sector organisations to generate profit.
  - Rights and responsibilities, which provide governments with the ability to affect the economy and society.
  - Lack of equity ownership where public sector entities do not act to enhance the economic position of the entity for the benefit of the owners, as would be the case in the private sector.
  - Operating within financial frameworks set by legislation.
  - Preparation and public availability of their financial budgets.
  - Compliance with governance structures laid down by legislation.

- Resources such as property, plant and equipment, which are usually held for service provision rather than to generate future cash flows as would be the case in the private sector.
- Large amount of non-exchange transactions, such as taxes, social benefits or fines.

- Taxation is the main source of revenue for governments and many other public sector entities, where taxation is a legally mandated involuntary transaction between individuals or business entities and the government.
  - The main source of revenue in private sector entities is from voluntary exchange transactions, where assets or services are exchanged for liabilities or equivalent.
- Public goods have the following characteristics:
  - Consumption of public goods by one individual does not reduce their availability for consumption by others.
  - Individuals cannot be excluded from consuming the goods.
  - The main reason for private sector entities to hold property, plant and equipment is to generate cash flows that contribute to the profits of the entity.

Having considered the reporting entity, the next section explores the issues surrounding what items should be included in the financial reports.

1.3.5 Elements and recognition

As you may recall from earlier in the unit, Chapter 5 of the Conceptual Framework covers 'Elements in Financial Statements' with Chapter 6 entitled 'Recognition in Financial Statements'. In this section you will look at each of these related topics in turn. Firstly, elements.

Elements

Elements are essentially the 'building blocks' that make up the financial statements. The Conceptual Framework aims to group items (or *elements*) together that share common economic characteristics. The core elements are:

- Assets
- Liabilities
- Revenues
- Expenses
- Ownership contributions
- Ownership distributions.

It is essential that you have a good understanding of the first four elements, in particular. The following readings help provide definitions for these elements.

Readings

Please turn to your Reader and study 'Chapter 5: Elements in Financial Statements' on pages 49 to 56 of the IPSASB's *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.

IPSASB (2014) Chapter 5 'Elements in financial statements' in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. Reproduced in the Module Reader.

Make notes on the definitions of each of the elements, ensuring that you understand the various terms used within the definitions, such as resource and present obligation.

Next, please turn to your Aggestam-Pontoppidan and Adnernack textbook and study Table 4.2 'Elements of GPFRs' on page 42. This table provides a useful summary of each of the elements.

Aggestam-Pontoppidan & Andernack (2016) Chapter 4 'The IPSASB conceptual framework and key accrual accounting concepts' in *Interpretation and Application of IPSAS*.

Supplement your earlier notes on each of the elements. You may also find it useful to bookmark this page in your text book to refer to during the rest of the module.

These elements are important concepts and you will come back to consider and apply some of these elements later in the module. For example, assets are studied in Unit 4 and liabilities are covered in Unit 5.

For now, though, you should know the definitions of the elements included in the conceptual framework. The next step is to know when such elements should be included in the financial statements; this is known as *recognition* and is covered in the next chapter of the *Conceptual Framework* and the following section.

Recognition

Recognition is all about knowing which items should actually be included in the financial statements. Now, in simple terms, an item that meets the definition of an element (which you have just studied above) and can be measured in a way that achieves the Conceptual Framework's qualitative characteristics (which you studied earlier in section 1.3.2) should be recognised in the financial statements. These can, therefore, be summarised as the two key criteria for an item to be recognised in the financial statements:

1. it meets the definition of an element
2. it can be measured in a way that achieves the qualitative characteristics.

The next reading looks at what the conceptual framework says about recognition in more detail.

Reading

Please read 'Chapter 6: Recognition in Financial Statements' on pages 72 to 74 of the IPSASB's *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.

IPSASB (2014) Extracts from 'The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities'. Reproduced in the Module Reader.

Make notes on the key points from this reading, ensuring that you understand the conditions for recognition in the financial statements. Also, note the specific circumstances for disclosure and de-recognition.

In practice, there may be complexities in identifying whether an item meets the definition of an element or should be recognised in the financial statements. At this point, it should be remembered that these chapters in the Conceptual Framework lay down the underlying principles on which the IPSAS are developed. Individual IPSAS then set out the details on how to prepare the financial statements. For example, there is an IPSAS on assets that sets out considerably more details than simply the definition studied so far, as you will see as you go through the rest of this module.

If an item is going to be recognised in the financial statements, though, the next step is to determine how to measure the value to be included.

1.3.6 Measurement

The measurement section of the Conceptual Framework is concerned with how items within the financial statements or report should be valued. For example, if you bought a brand new car for £30,000 five years ago, how much do you think that car would be worth today? Unless it is a rare classic car, then it is likely to have reduced in value.

As another example, if a public sector entity bought some land and buildings ten years ago for £200,000, do you think they will be worth more, less or the same today? Well, it is likely to depend on the individual circumstances such as whether the buildings have been refurbished or are dilapidated. However, quite often property actually increases in value over time.

These questions on how an item should be valued are crucial for the preparation and review of financial reports. You will remember that the definitions of assets and liabilities were covered above (section 1.3.5). Chapter 7 of the Conceptual Framework focuses on the Measurement of Assets of Liabilities in the Financial Statements.

Reading

Please read the 'Chapter 7: Measurement of Assets and Liabilities in Financial Statements' section on pages 43 to 49 in your Aggestam-Pontoppidan and Andernack textbook and study Table 4.3 'Summary of measurement bases for assets and liabilities' on page 50.

Aggestam-Pontoppidan & Andernack (2016) *Interpretation and*

Aggestam-Pontoppidan & Andernack (2016) Chapter 7: 'Measurement of assets and liabilities in financial statements' in *Interpretation and Application of IPSAS*.

Make notes on the key points from this reading, ensuring that you understand alternative methods for measuring assets and liabilities. In particular, note the following terms:

- Entry value
- Exit value
- Historical cost
- Current value measurements

- Market value
- Replacement cost
- Net selling price
- Value in use
- Cost of fulfilment
- Cost of release
- Assumption price.

Measurement is a complex subject and this reading only provides an introduction. Again, it may be useful to reiterate that the conceptual framework sets out underlying principles on which individual IPSAS are developed. So, the IPSAS covering assets, for example, will go into additional detail on measurement bases. For now, you are expected to have an overview of the key bases and their meanings.

Later in the module, you will come back to apply these underlying elements, recognition and measurement principles set out in the conceptual framework.

1.4 Conclusion

This unit has been about setting the scene before you study the specifics of public sector financial reporting in more detail in the rest of this module.

You have seen that there are arguments both for and against having standards that set out how financial reporting should be undertaken. The IPSASB has developed a conceptual framework which covers financial reporting by public sector entities, as well as providing the foundation for the development of individual IPSAS. Within the conceptual framework you have explored the users of public sector financial reports, qualitative characteristics and the public sector reporting entity, including how the public sector differs from private sector organisations. The conceptual framework has also introduced you to elements of the financial statements and how they are recognised and measured.

In the following units you will study specific IPSAS in more detail. First, though, you will continue to set the context for financial reporting in Unit 2 by looking at the development of IPSAS and some further accounting concepts.

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