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Presentation of Financial Statements According to IPSAS - a Challenge for Professional Accountants

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Abstract: The International Public Sector Accounting Standards (IPSAS) is an important step in public sector accounting reform. Problems arising in the context of adopting a common language through IPSAS are multiple and not easy to prove their usefulness, advantages and disadvantages of using them, so aim will be the countries' agreement to accept and adopt these regulations. The preparation of financial statements is a complex process of aggregating data to form economic and financial indicators. Content and preparation of the financial statements differ by type of institution, according to their kinds, depending on how their funding and business profile. The financial statements of public institutions are particularly broad, complex and lengthy, and the information it provides can often be interpreted only by the professional accountant. The professional accountant is the only one capable of ensuring providing appropriate information to users that they base their decisions on the allocation of funds.

Keywords: normalization; standardization; International Public Sector Accounting Standards; public accounting

1. Introduction

Transparency in public sector reporting is crucial in presenting the implications of the measures on the economic crisis, both in the financial statements and the notes. The accrual accounting, including the presentation of various commitments, it is essential to ensure transparency. „People" believes that these statements taken from the IAS framework refers only to private enterprises, since they have fundamental mission to generate revenue, and, hence, economic benefits, but it's not like that. A public institution is more interesting and become more attractive if it knows how to base the budget, to substantiate the request for funds; if it dared to request and obtain financing programs; if it offers legal and scientific support for dimensioning and collecting its revenue from taxes, related activities, collateral resources; if it knows how to manage costs, properly balancing between needs and resources - and all in a context in which efficiency and perspective are not omitted (Drăgan, 2008).

The accuracy, which must be scientifically dissected such a generous topic, has invited many experts in international accounting to such a task (Bogdan, 2004). Accounting literature abounds with similar studies conducted by researchers in public accounting, which deals with the theme of convergence/harmonization of accounting, very useful to demonstrate the advantages, disadvantages and prospects of this complex phenomenon, derived from economic globalization, which has stirred much controversy and debate. The complexity of the process of harmonization with IPSAS, but also beneficial consequences on the global economy, determines the pros and cons of views among large normalized around the world, causing many concerns and disputes among experts: the professional accountants. World experience on the implementation of IPSAS is relevant and inspiring for our work: about 30 countries are adopting accrual basis IPSAS, including France, South Africa, Switzerland, Russia, Israel, Slovakia, Brazil; some adopt IPSAS directly (e.g. Switzerland, Slovakia, Austria), some adopt IPSAS through national standards (e.g. South Africa, Brazil). Also sub-national governments are adopting IPSAS when the decentralized structure allows them to move independently – e.g. Prefecture of Tokyo, State of Hesse, and State of Zurich. Entire UN system, OECD[1], NATO, Interpol[2] and EC has already adopted IPSAS. A group of 10 countries are using IPSAS as a reference: some with a long tradition in standard setting (Australia apply IPSAS-IAS mix named Australian Accounting Standards, New Zealand, United States, UK) and Indonesia, Chile.

Also, IPSAS is based on IFRS and therefore a transition from IFRS to IPSAS wouldn't be very difficult respectively wouldn't be an expensive project. And this even more as Romania has already made the most important step by adopting the accruals basis of accounting, including some of the IPSAS, notably IPSAS 1 *Presentation of Financial Statements*, IPSAS 2 *Cash Flow Statements*, IPSAS 12 *Inventories*, IPSAS 17 *Property, Plant and Equipment* and IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*. Most transitional work is probably needed to harmonize budgeting and accounting. Public accounting reform measures in Romania fits into the international public accounting regulations. Adoption of IPSAS is a measure of international accounting harmonization, so as the objective is uniformity of public systems of member countries IFAC with beneficial consequences for the global economy. In our country the implementation of IPSAS was performed by applying selective the international standards as an interim step until the completion of the entire process of accounting harmonization, due to the complexity of standards, vocabulary and communication problems (English language standards), but especially concerned the cultural incompatibilities (economic system, socio-political environment, legal system, accounting profession).

IPSAS are highly complex, with a considerable volume (currently exceeding 1200 pages) and difficult to interpret, given the economic and financial nature which does not correspond directly to each country's own legal terminology. In addition, IPSAS not treat all transactions that occur in specific public sector. Each public institution - the state, university or hospital, public international organization or locality - has a system adapted to its own characteristics, while the IPSAS are uniform, not flexible depending on the particularities of each public institution (Ristea & Jianu, 2010). Adaptation of IPSAS to the specific Romanian public sector particularities, namely the various public institutions, and preparation of financial statements so treated, is an extremely complex activity, requiring a lot of patience and rigor.

Annual financial statements prepared by public institutions should be characterized by simplicity and clarity in order to be accessible to a broader sphere of users. They should be composed of a smaller number of forms, which include indicators only strictly necessary, but with high information content. However we appreciate that the financial statements of public institutions are particularly broad,

[1] OECD Organisation for Economic Co-operation and Development (2010). *www.oecd.org*. Retrieved from http://www.oecd.org/officialdocuments/display documentpdf/ ?cote=BC(2010)29&doclanguage=en

[2] ICPO - International Criminal Police Organization (2010). *www.interpol.int*. Retrieved from http://www.interpol.int/Public /ICPO/InterpolAtWork/FinancialStatements2009.pdf

complex and lengthy, and the information it provides can often be interpreted only by a professional accountant - the only one capable of ensuring providing appropriate information to users that they base their decisions on the allocation of funds.

On the other hand, there are certain limitations of IPSAS: IPSAS, as currently conceived, can make only limited contribution to improving financial management in developing countries. The reasons are (Chan, 2010):

- No clear road map for „*reverse engineering*” from financial statements to accounting systems;
- Capacity to decide the future (budgeting) is a higher priority than to look back at the past (financial accounting);
- Capacity to manage parts of a government throughout the year (special purpose reports) is more urgent than to monitor the whole government at year-end (annual consolidated financial statements).

The accounting information provided by financial statements prepared in accordance with a national referential as such can not be used in decision making than in a national context, they lose their immediate relevance and international comparability. „Progressive harmonization of accounting rules could greatly reduce costs occasioned by the presentation of information by divergent accounting systems, because it will facilitate mutual recognition of financial statements from one country to another” (Geiger, 1990).

2. Pertinent Differences between IAS and IPSAS

IPSAS is converged with IFRS by adopting them to a public sector context when appropriate. The IPSAS-Board has been attempting, wherever possible, to maintain the accounting treatment and original text of the IFRS unless there is a significant public sector issue which warrants a departure and deals with public sector financial reporting issues that are not dealt with in existing IFRS. Table 1 show that all IPSAS, with the exception of the autonomous IPSAS 22, 23 and 24, are based on corresponding IAS/IFRS.

Table 1. Sources of IPSAS

IPSAS 1	IAS 1	IPSAS 16	IAS 40
IPSAS 2	IAS 7	IPSAS 17	IAS 16
IPSAS 3	IAS 8	IPSAS 18	IAS 14
IPSAS 4	IAS 21	IPSAS 19	IAS 37
IPSAS 5	IAS 23	IPSAS 20	IAS 24
IPSAS 6	IAS 27	IPSAS 21	IAS 36
IPSAS 7	IAS 28	IPSAS 22	-
IPSAS 8	IAS 31	IPSAS 23	-
IPSAS 9	IAS 18	IPSAS 24	-
IPSAS 10	IAS 29	IPSAS 25	IAS 19
IPSAS 11	IAS 11	IPSAS 26	IAS 36
IPSAS 12	IAS 2	IPSAS 27	IAS 41

IPSAS 13	IAS 17
IPSAS 14	IAS 10
IPSAS 15	IAS 32

IPSAS 28	IAS 32
IPSAS 29	IAS 39
IPSAS 30	IFRS 7
IPSAS 31	IAS 38

Currently there are 26 IPSASs applicable from the date of February 15, 2009: standards inspired by IAS/FRS (IPSAS 1- IPSAS 21), standards for their particular area of public sector (IPSAS 22 - IPSAS 26) and one standard created after the cash accounting method to introduce accrual accounting method.

At the practical challenge in implementing IPSAS has obviously found that the two categories of standards do not match, because of major differences between public and private sector, and there have been criticisms of the relevance of IAS in IPSAS's construction: there were areas not covered by IPSAS (pensions, IAS 39), certain IPSAS were not considered relevant to public sector (IPSAS 10 *Financial Reporting in Hyperinflationary Economies*, IPSAS 16 *Investment Property*), other standards should be changed and reformulated (IPSAS 15 *Financial Instruments: Disclosure and Presentation*).

„*Financial reporting in the public sector is dynamic*", said Andreas Bergmann, IPSASB Chair. „*The IPSASB must continually reassess the IPSASs to ensure that they are relevant and up to date and that they are easy to use by preparers of public sector financial statements*" (IFAC, 2010). In this respect IPSASB has an improvements project, an annual undertaking intended to enhance the usability of IPSAS and thus facilitate global convergence. The project includes proposed improvements to existing IPSAS to maintain alignment with IFRS, as well as new standards. IPSASB has issued five **new standards** that cover all aspects of accounting for and disclosure of financial instruments. These standards are drawn primarily from IFRS and address many public sector-specific issues:

- IPSAS 27 *Agriculture* prescribes the accounting treatment and disclosures related to agricultural activity, a matter not covered in other standards;
- IPSAS 28 *Financial Instruments: Presentation* will replace IPSAS 15 and establishes principles for presenting financial instruments as liabilities or equity, and for offsetting financial assets and liabilities;
- IPSAS 29 *Financial Instruments: Recognition and Measurement* establishes principles for recognizing and measuring financial assets, financial liabilities, and some contracts to buy or sell non-financial items;
- IPSAS 30 *Financial Instruments: Disclosures* supersedes the disclosure requirements of IPSAS 15 and enables users to evaluate significance of the financial instruments in the entity's financial position and performance, the nature and extent of risks and how those risks are managed;
- IPSAS 31 *Intangible Assets* prescribe the accounting treatment for intangible assets and requires an entity to recognize an intangible asset if, and only if, specified criteria are met.

IPSAS 27 & 31 will apply for annual financial statements covering periods beginning on or after April 1, 2011. IPSAS 28, 29 & 30 are effective for annual financial statements beginning January 1, 2013. IPSASB encourages earlier application.

The objective of **IPSAS 1** is to prescribe the manner in which general purpose financial statements should be presented to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities (IFAC, 2009). To achieve this objective, this Standard sets out overall considerations for the presentation of financial statements, guidance for their structure, and minimum requirements for the content of financial statements prepared under the accrual basis of accounting. IPSAS 1 is drawn primarily from IAS 1 and has some improvements and adjustments to specific public entities, namely:

- IPSAS 1 expands the application of the going concern concept;
- IPSAS 1 requires the presentation of a statement showing all changes in net assets/equity, while IAS 1 allows the presentation of either a statement showing all changes in net assets/equity, or a statement showing changes in net assets/equity other than those arising from capital transactions with owners and distributions to owners in their capacity as owners;
- IPSAS 1 uses different terminology **-** *entity*, *statement of financial performance*, *statement of financial position*, *net assets/equity* to *economic entity*, *income statement*, *balance sheet*, *profit and loss account*, *equity*;
- IPSAS 1 defines certain technical terms in different ways from IAS 1 (*accrual basis*, *economic entity*, *impracticable*, *material* etc.);
- IPSAS 1 contains commentary on the responsibility for the preparation of financial statements;
- IPSAS 1 does not explicitly preclude the presentation of items of revenue and expense as extraordinary items either on the face of the statement of financial performance or in the notes, while IAS 1 prohibits the presentations of any such extraordinary items;
- IPSAS 1 contains an authoritative summary of qualitative characteristics based on the IASB framework.

IPSAS 2 is drawn primarily from IAS 7 and has some improvements and adjustments to specific public entities, namely:

- IPSAS 2 introduces additional comments to clarify the applicability of the standards to accounting by public sector entities;
- IPSAS 2 uses different terminology *entity*, *revenue*, *statement of financial performance*, *statement of financial position* and *net assets/equity* to *enterprise*, *income*, *income statement*, *balance sheet* and *equity*;
- IPSAS 2 defines certain technical terms in different ways from IAS 7 (*accrual basis*, *economic entity*, *control*, *Government Business Enterprise* etc.);
- Although both standards allows either the direct or indirect method to be used to present cash flows from operating activities, when using the indirect method, IPSAS 2 encourages disclosure of a reconciliation of net surplus from ordinary activities to operating cash flows in the notes to the financial statements;
- IPSAS 2 does not include an illustration of a Cash Flow Statement for a financial institution.

A complete set of financial statements in the sense IPSAS 1, includes: a statement of financial position; a statement of financial performance; a statement of changes in net assets/equity; a cash flow statement; when the entity makes publicly available its approved budget, includes a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements; and notes, comprising a summary of significant accounting policies and other explanatory notes.

Romanian accounting rules, approved by orders of the minister of public finances, provided that the financial statements of public institutions have the following structure: balance sheet; economic result account; cash flows; statement of changes in the structure of assets/equity; annexes to the financial statements, including: accounting policies and explanatory notes; budget execution account (OMPF, 2005). From the analysis of the two standards, we appreciate that national standard converges to the IPSAS. However, IPSAS 1 agree with several names for the components of financial statements and in addition, unlike the Romanian accounting standards, does not consider the budget execution account as a component of the financial statements of public institutions. Public sector entities are generally subject to budgetary limits in the form of appropriations or budget authorizations, which may be given effect through authorizing legislation. Financial reporting for public sector entities can provide information about obtaining and using resources in accordance with legally approved budget. Unlike in private sector enterprises, the budget in the public sector is not only a tool to deploy strategic plans, but also part of a formal, legal authorization of any expenditure.

IPSAS 1 states that when a public sector organization makes its approved budget public, the organization must also provide a comparison of budgeted and actual amounts, either as a separate statement or included as a column in the budget itself. The requirements for budget reporting are detailed in IPSAS 24 *Presentation of Budget Information in Financial Statements*, which has no counterpart in IAS. Therefore, entities that make public their budgets approved must comply with the requirements of IPSAS 24. For other entities, this standard encourages the inclusion in the financial statements of a comparison with the budgeted amounts for the reporting period, providing information on variations between the budget and appropriations, budget overruns, making expenditures without authorization or allocation. Therefore, the standard encourages entities to present additional information to assist users in assessing the performance of the entity, and its stewardship of assets, as well as making and evaluating decisions about the allocation of resources. This additional information may include details about the entity’s outputs and outcomes in the form of performance indicators, statements of service performance, program reviews and other reports by management about the entity’s achievements over the reporting period. By adopting IPSAS 24, transparency and comparability of the financial reporting would be enhanced substantially.

3. Presentation of Financial Statements

3.1 Statement of Financial Position

Regarding the statement of financial position (correspondent *balance sheet* in national norms) the Standard offers the option of a separate classification of current and non-current assets and current liabilities and long-term ones, according to the nature of the business. If distinction *current/non-current* is not possible, assets and liabilities will be presented according to their degree of liquidity.

Entities can choose how to present only if the used option provides reliable and more relevant information. Thus, if an entity acting as a supplier of goods and/or service, within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. In this way users of financial statements can distinguish assets that are expected to be realized within the current operating cycle, and liabilities that are due for settlement within the same period. For other entities, financial institutions category, which does not provide goods or services within a clearly identifiable operating cycle, the presentation of assets and liabilities will be in ascending or descending order of liquidity, because it provides information that is reliable and is more relevant than a current/non-current presentation. It is possible that the public sector entities, with diverse operations may need arises for a mixed basis of presentation.

Depending on the differentiation of assets and liabilities into current and non-current, according to IPSAS 1, the minimum content of Statement of Financial Position is presented in Table 2:

Table 2 Statement of Financial Position as at December 31, 20X2 (IFAC, 2009)

(in thousands of currency units)	**20X2**	**20X1**
ASSETS		
Current assets		
Cash and cash equivalents	X	X
Receivables	X	X
Inventories	X	X
Prepayments	X	X
Other current assets	X	X
	X	**X**
Non-current assets		
Receivables	X	X
Investments in associates	X	X
Other financial assets	X	X
Infrastructure, plant and equipment	X	X
Land and buildings	X	X
Intangible assets	X	X
Other non-financial assets	X	X
	X	**X**
Total assets	**X**	**X**
LIABILITIES		
Current liabilities		
Payables	X	X
Short-term borrowings	X	X
Current portion of long-term borrowings	X	X
Short-term provisions	X	X
Employee benefits	X	X
Superannuation	X	X
	X	**X**
Non-current liabilities		
Payables	X	X
Long-term borrowings	X	X
Long-term provisions	X	X
Employee benefits	X	X
Superannuation	X	X
	X	**X**
Total liabilities	**X**	**X**
Net assets	X	X
NET ASSETS/EQUITY		

(in thousands of currency units)	**20X2**	**20X1**
Capital contributed by other government entities	X	X
Reserves	X	X
Accumulated surpluses/(deficits)	X	X
Minority interests	X	X
Total net assets/equity	X	X

According to IPSAS 1, *equity* are also called *net assets*, because of the deductive determination of the balance sheet format list:

Net assets / equity = Total assets - Total liabilities

The item *Investments in Associates*, covered by IPSAS 7, consider only those investments that leads to the holding of an ownership interest in the form of a shareholding or other formal equity structure, in which investor interest can be measured reliably (capital or units in a fund securities ownership). The investment is included in the separate financial statements, the associate and the investor, the investor will issue consolidated financial statements under IPSAS 6 treatment. Investment in associate is accounted for using the equity method in accordance with IPSAS 7, whereby he investment is initially recorded at cost and subsequently adjusted (increased or decreased) to recognize the investor's share of net surpluses or deficits of the investee after the date of acquisition.

Position *Employee Benefits* is structured into four categories according to IPSAS 25 (IFAC, 2009):

- Short-term employee benefits, such as wages, salaries and social securitycontributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees of the entity;
- Post-employment benefits such as pensions, other retirement benefits, postemployment life insurance and post-employment medical care;
- Long-term employee benefits, which may include long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are payable twelve months or more after the end of the period, performance related bonuses, profit-sharing bonuses and deferred compensation; and
- Termination benefits, as a result of an entity's decision to terminate an employee's contract before the normal retirement date or an employee's decision to accept voluntary departure of the unemployed in exchange for those benefits.

3.2 Statement of Financial Performance

Regarding the statement of financial performance (correspondent economic result account in national norms), again, the standard allow freedom entity in the classification of expenses that can be presented either by destination (function) in the entity, whether by nature. The choice of method of presentation of expenses depends on both the historical and regulatory factors and the nature of the organization, so management of the institution chooses the most credible and relevant.

Although both methods indicate those costs that vary, directly or indirectly, depending on the entity's results, when using the classification of expenditure by function, the standard requests for additional presentations, since this information are useful to users for proper predictions of future cash flows.

Depending on the method chosen for classifying expenditure by function or by nature, IPSAS 1 establishes the content of statement of financial performance in the Tables 3 and 4.

Table 3 Statement of Financial Performance for the year ended December 31, 20X2 - illustrating the classification of expenses by function (IFAC, 2009)

	20X2	**20X1**
Revenue		
Taxes	X	X
Fees, fines, penalties and licenses	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
Other revenue	X	X
Total revenue	**X**	**X**
Expenses		
General public services	(X)	(X)
Defense	(X)	(X)
Public order and safety	(X)	(X)
Education	(X)	(X)
Health	(X)	(X)
Social protection	(X)	(X)
Housing and community amenities	(X)	(X)
Recreational, cultural and religion	(X)	(X)
Economic affairs	(X)	(X)
Environmental protection	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
Total expenses	**(X)**	**(X)**
Share of surplus of associates	**X**	**X**
Surplus/(deficit) for the period	**X**	**X**
Attributable to:		
Owners of the controlling entity	X	X
Minority interests	X	X
	X	**X**

The item *Share of surplus of associates* means the share of associates' surplus attributable to owners of the associates, i.e., it is after tax and minority interests in the associates.

The item *Revenue from exchange transactions*, covered by IPSAS 9, refers to those revenues from transactions and events involving the exchange: rendering of services, sale of goods and use by others of entity assets yielding interest, royalties and dividends. By comparison, revenues generated by public sector entities in transactions and events not involving exchange refers to income from direct and indirect taxes, fees and fines, grants and donations. Method for classifying expenses by function (destination) depending on the program or purpose for which they were made, provides more relevant information to users than the classification of expenses by nature. However, it should be considered the difficulty of allocating expenses by functions (destinations), since it may require arbitrary allocations and thus imply considerable professional judgment. Therefore, entities that choose this method should disclose additional information on the nature of expenses, including depreciation and amortization expense, salaries and employee benefits, and finance costs.

Table 4 Statement of Financial Performance for the year ended December 31, 20X2 - illustrating the classification of expenses by nature (IFAC, 2009)

	20X2	**20X1**
Revenue		
Taxes	X	X
Fees, fines, penalties and licenses	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
Other revenue	X	X
Total Revenue	**X**	**X**
Expenses		
Wages, salaries and employee benefits	(X)	(X)
Grants and other transfer payments	(X)	(X)
Supplies and consumables used	(X)	(X)
Depreciation and amortization expense	(X)	(X)
Impairment of property, plant and equipment	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
Total Expenses	**(X)**	**(X)**
Share of surplus of associates	**X**	**X**
Surplus/(deficit) for the period	**X**	**X**
Attributable to:		
Owners of the controlling entity	X	X
Minority interest	X	X
	X	**X**

In a statement of financial performance in which expenses are classified by nature, an impairment of property, plant and equipment is shown as a separate line item. By contrast, if expenses are classified by function, the impairment is included in the function(s) to which it relates.Expenditure aggregation method in the statement of financial performance by their nature is simple to apply in many smaller entities because no allocations of operating expenses between functional classifications are necessary.

3.3 Statement of Changes in Net Assets/Equity

Regarding the statement of changes in net assets/equity (correspondent *changes in the structure of assets/equity* in national norms) the standard requires that it should highlight the surplus or deficit for the period, and each item of revenue and expense in the period recognized directly in net assets/equity **-** showing separately the amounts attributable to owners of the controlling entity and minority interests, and the effect of changes in accounting policy and the correction of fundamental errors dealt with under the benchmark treatments in IPSAS 3. The structure established by standard for statement of changes in net assets/equity is presented in Table 5.

Table 5 Statement of Changes in Net Assets/Equity for the year ended December 31, 20X2 (IFAC, 2009)

	Attributable to owners of the controlling entity						
	Contributed Capital	Other Reserves	Translation Reserve	Surpluses/ (Deficits)	Total	Minority interest	Total net assets/equity
Balance at December 31, 20X0	X	X	(X)	X	X	X	X
Changes in accounting policy				(X)	(X)	(X)	(X)
Restated balance	X	X	(X)	X	X	X	X
Changes in net assets/equity for 20X1							
Gain on property revaluation		X			X	X	X
Loss on revaluation of investments		(X)			(X)	(X)	(X)
Exchange differences on translating foreign operations			(X)		(X)	(X)	(X)
Net revenue recognized directly in net assets/equity		X	(X)		X	X	X
Surplus for the period				X	X	X	X
Total recognized revenue and expense for period		X	(X)	X	X	X	X
Balance at December 31, 20X1 carried forward	X	X	(X)	X	X	X	X
Balance at December 31, 20X1 brought forward	X	X	(X)	X	X	X	
Changes in net assets/equity for 20X2							
Loss on property revaluation		(X)			(X)	(X)	(X)
Gain on revaluation of investments		X			X	X	X
Exchange differences on translating foreign operations			(X)		(X)	(X)	(X)
Net revenue recognized directly in net assets/equity		(X)	(X)		(X)	(X)	(X)
Deficit for the period				(X)	(X)	(X)	(X)
Total recognized revenue and expense for period		(X)	(X)	(X)	(X)	(X)	(X)
Balance at December 31, 20X2	X	X	(X)	X	X	X	X

4. Presentation of Cash Flow Statements

IPSAS 2 calls for an organization to provide information regarding historical changes in the organization's cash and cash equivalents. The required information must identify the sources of cash inflows, the items on which cash was expended during the period, and the cash balance as of the reporting date. This cash flow information reveals how the public sector entity raised cash to fund activities and how, specifically, the cash was spent. Information about the cash flows of an entity is useful in providing users of financial statements with information for both accountability and decision making purposes. Cash flow information allows users to ascertain how a public sector entity raised the cash it required to fund its activities and the manner in which that cash was used. In making and evaluating decisions about the allocation of resources, such as the sustainability of the entity's activities, users require an understanding of the timing and certainty of cash flows (IFAC, 2009).

The cash flow statement should report cash flows during the period classified by operating, investing and financing activities.

The amount of net cash flows arising from **operating activities** is a key indicator of the extent to which the operations of the entity are funded by way of taxes (directly and indirectly) or from the recipients of goods and services provided by the entity. The amount of the net cash flows also assists in showing the ability of the entity to maintain its operating capability, repay obligations, pay a dividend to its owner and make new investments without recourse to external sources of financing. Cash flows from investing activities shows the movements of cash (receipts and payments) arising from current activity, derived from the principal cash-generating activities of the entity, namely: cash receipts from taxes, levies and fines, insurance contributions and other revenue budgets; cash receipts from economic activities (charges for goods and services provided by the entity); cash receipts from grants, subsidies or transfers made by central government or other public sector entities; cash receipts from other operating revenue (royalties, fees, commissions); cash payments to suppliers for goods and services; cash payments to and on behalf of employees (including salaries and related contributions); cash receipts and payments of an insurance entity for premiums and claims, annuities and other policy benefits; cash receipts or payments in relation to litigation settlements etc.

The separate disclosure of cash flows arising from **investing activities** is important because the cash flows represent the extent to which cash outflows have been made for resources which are intended to contribute to the entity's future service delivery. Examples of cash flows arising from investing activities are: cash receipts and payments results from sales or acquisitions of property, plant and equipment, intangibles and other long-term assets; cash receipts and payments results from sales or acquisitions of equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes); cash receipts and payments in relation to advances and loans made to other parties (other than advances and loans made by a public financial institution); cash receipts and payments in relation to futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities.

The separate disclosure of cash flows arising from **financing activities** is important because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are: cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings; cash repayments of amounts borrowed; and cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

To clarify the application of IPSAS 2 supplementary, the Handbook of International Public Sector Accounting Standards illustrates the preparation way of Cash Flow Statement as is shown in Table 6.

Table 6 Direct Method - Consolidated Cash Flow Statement for year ended December 31, 20X2 (IFAC, 2009)

	20X2	**20X1**
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts		
Taxation	X	X
Sales of goods and services	X	X
Grants	X	X
Interest received	X	X
Other receipts	X	X
Payments		
Employee costs	(X)	(X)
Superannuation	(X)	(X)
Suppliers	(X)	(X)
Interest paid	(X)	(X)
Other payments	(X)	(X)
Net cash flows from operating activities	**X**	**X**

	20X2	20X1
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(X)	(X)
Proceeds from sale of plant and equipment	X	X
Proceeds from sale of investments	X	X
Purchase of foreign currency securities	(X)	(X)
Net cash flows from investing activities	**(X)**	**(X)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	X	X
Repayment of borrowings	(X)	(X)
Distribution/dividend to government	(X)	(X)
Net cash flows from financing activities	**X**	**X**
Net increase/(decrease) in cash and cash equivalents	**X**	**X**
Cash and cash equivalents at beginning of period	**X**	**X**
Cash and cash equivalents at end of period	**X**	**X**

5. Conclusions

The global financial and economic crisis has been affecting the implementation of IPSAS in several ways:

- It has made funding for IPSAS transition, which is already modest and sometimes too modest to be fully effective, even harder to obtain and more contingent on the understanding and goodwill of senior management and the legislative bodies, especially in the context of a simultaneous adoption of several competing management initiatives and increasing demands of Member States, ever reluctant to approve additional expenditure and human resources;
- It has shown how important it is to have better information on the financial strength of the organizations and the related risks they faced. The credit crisis has increased the need for accountability in the public sector and transparency in its financial transactions;
- It has created controversies among accountants regarding the pro-cyclical impact of international financial reporting standards and how fair value should be measured in times of crisis.

IPSAS adoption is, therefore a complex and comprehensive change management process. While it offers numerous benefits over the medium and long term, it also entails short-term costs and challenges that need to be seriously addressed by the executive heads of all the organizations concerned. The full potential of using accrual-based information can be realized only if managers are convinced of the value of accrual-based data and are able to act on it so as to improve management processes. The accrual-based accounting should not be an end in itself.

IPSAS is time and money consuming. The adoption of IPSAS compliant accounting methods requires additional commitment of time and effort from staff. During the transition phase, depending on their available resources, the organizations will have either to rely for an extended period of time on support from existing staff working in addition to their regular duties or recruit many additional staff.

Undoubtedly, presentation of financial statements according to IPSAS claims professional expertise as accountants and auditors, it requires the availability of professional accounting skills framework. According to the Federation of European Accountants, the representative organization for the accountancy profession in Europe, the involvement of the profession in the setting of accounting standards on its own is insufficient to achieve success in the application of accounting standards to the public sector. Where the profession is not involved, then the only source of training is the universities and whilst that may be adequate, it is unusual for university courses to focus on the accounting needs of the public sector and in many countries it is also unusual for the public service to regard an accountancy degree as a route to preferment with priority being given to law and economics graduates. Where government decide to introduce accrual based IPSAS, the profession should be prepared to open a dialogue with government about the total process and particularly about the availability of professional accountancy skills. The profession should encourage government to give at least equal weight to accountancy degrees and/or to professional accountancy qualifications as a preferred discipline and it should point to the need for a skilled cadre of accountants within the public sector able to interpret and apply IPSAS and exercise appropriate financial control.

The number of professional accountants in Romania has increased tremendously over the years in both the private and public sector. However the IPSAS is a new concept which is not understood by many. The Government as the leading user of these standards will therefore require undertaking massive capacity building to enlighten its accountants on IPSAS. This is going to be a challenge both in terms of capacity building costs and the required change management issues from the traditional cash accounting to a more business like accounting under accrual basis IPSAS.

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