

EURO PEAN

PUBLIC SECTOR ACCOUNTING

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CONCLUSION

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This book presents a general overview about PSA in Europe. However, it is not intended to provide a full overview about the PSA systems in each member state in the European Union. Instead, the objective is to provide insights into different views of PSA in Europe focusing on the DiEPSAm project partner countries (Austria, Germany, Finland, Portugal, UK). Therefore, this book is not particularly about EPSAS. Nevertheless, these final remarks open up the possibility of drawing conclusions for the EPSAS project.

The book demonstrates that PSA has a long history and did not only evolve since the 1980s together with the reforms of the ‘New Public Management’ movement. This also includes the evolution of different accounting systems (such as cash *versus* accrual accounting) and accounting techniques (such as single *versus* double entry bookkeeping). Each of the systems and techniques has its advantages and disadvantages. The

idea of the book is to sensitise the reader to existing differences and (dis-)advantages.

In addition, each EU member state does have a specific accounting tradition (may it be, e.g., rather neutral or prudent valuation of assets and liabilities) as well as its own accounting standards in place. All of these facts make harmonization of PSA in the EU member states a very challenging task. This book also discusses reasons for and against harmonisation within the EU, in particular with respect to the EPSAS project.

Nevertheless, the aim is to show that the reference of PSA to private sector accounting standards is not naturally given, as there are indeed some specificities of the public sector to be considered. Therefore, according to the view of some of the chapters' authors, the adoption of IFRS or the IFRS-based IPSAS needs to be carefully evaluated.

A further issue to be considered is the high relevance of budgeting and budgetary accounting and reporting for PSA. Currently, the EPSAS project does not foresee to change any budgetary accounting rules of its EU member states – as such, the EU PSA harmonisation project does not cover an essential part of the public sector reporting. In consequence, this could mean that EU member states would run their financial reporting systems with accrual-based EPSAS and their budgetary systems with their own systems, be they cash, modified cash, modified accrual, or accrual-based. This could possibly lead to frictions in the delivery of data for statistical purposes and contradict the starting point of the EPSAS project.

Presently (as of June 2019), regarding the future of EU PSA harmonization, one needs to wait for the further steps to be taken by the EPSAS project. To date, the EC (via the Eurostat) is conducting an impact assessment in order to assess four different scenarios:¹

- 1) Binding European Conceptual Framework (CF) and binding EPSAS;
- 2) Binding European CF with recommended, but voluntary EPSAS;

¹ EC (2017), p. 5.

- 3) Recommended but voluntary European CF with recommended but voluntary EPSAS; and
- 4) Discontinue completely the work on EPSAS.

Interestingly, on common scenario (as the IPSAS setting) is missing (binding standards coming along with a non-binding CF). Obviously, scenario one leads to the highest degree of comparability between the member states, although its practicability could fail due to legal barriers. Scenario one avoids problems that could arise under scenarios two and three, as a non-binding CF can lead to problems in the development and interpretation of EPSAS. An indication that scenario four will not come to happen could be the fact that the EPSAS working group has now become a regular part of Eurostat. Also according to the EPSAS progress report, the second phase of the EPSAS project is now entered with the objective to “address comparability within and between Member States by implementing EPSAS.”²

Last but not least, it has to be stated, that for some countries with very heterogeneous accounting systems in the public sector, such as Germany, the EPSAS project could offer a unique chance for a country-wide and all government level encompassing harmonisation, as there are different accounting systems in place, not only differing between government levels (central, state and local), but also differing at the same level of government, such as municipalities within one state (Bundesland).

Against this backdrop, it will be interesting to see the future development of the EPSAS project and its consequences (e.g. for Germany, the last eager opponent of accrual accounting among all EU member states at least at central level), which might even lead to a second edition of this book. Until then, any feedback and suggestions for improvement are very welcome.

² EC (2019), p. 2.

Bibliographic references

EC (2017) – EPSAS Working Group: EPSAS impact assessment considerations, Luxembourg, 8.11.2017, EPSAS WG 17/16.

EC (2019) – Reporting on the progress as regards the European Public Sector Accounting Standards (EPSAS), Brussels, 5.6.2019, SWD(2019) 204 final.

ADDITIONAL MATERIAL:

1. Questions

Chapter 1

Multiple-choice questions (always select the option that is *true*)

1) According to the European System of Accounts (ESA), the public sector consists of:

- a) All institutional units, resident in the economy that exercise non-market activities.
- b) Those public organisations, which provide utilities and services to the community.
- c) All institutional units, resident in the economy that are not private corporations.
- d) All institutional units, resident in one economy that are controlled by the government.

2) In the public sector, budgeting and budgetary accounting is seen as the most important source of accounting information because:

- a) It relies on single entry bookkeeping and is therefore easy to understand.
- b) The approved budget is legally binding and serves as an authorization for any future expenditure.
- c) It contains the main information about the financial situation and resource consumption of a public entity.
- d) Budgetary norms are internationally equal and therefore budgets are comparable at an international level.

- 3) Conceptually, the difference between assets and liabilities is called:
- a) Net liabilities.
 - b) Revaluation surplus.
 - c) Net assets in the public sector and equity in the private sector.
 - d) Surplus in the public sector and profit in the private sector.

Open questions

- 1) Why are the DiEPSAM project countries of interest for discussing the harmonisation of public sector accounting in Europe?
- 2) Describe the difference between individual and consolidated financial statements and name reasons for setting up consolidated financial statements.

Chapter 2

Multiple-choice questions

- 1) From the sentences below select the one that is *false*:
 - a) All major civilisations have developed different approaches to public sector accounting.
 - b) Different civilisations have had different objectives for public sector accounting.
 - c) Public sector accounting has gradually become more effective over time as techniques have been refined.
 - d) Public sector accountants have used different media to record their accounts including bone, pottery, wood and papyrus.
- 2) From the sentences below select the one that is *false*:
 - a) Cameral accounting is based on the following equation: balances carried forward = balances brought forward + current dues – actuals.
 - b) The English approach to public sector accounting evolved from the French approach after the Norman invasion of 1066.

- c) The French approach is based around the segregation of duties between two sets of officials.
 - d) The English approach to public sector accounting has always been based on budgetary control in a parliamentary democracy.
- 3) From the sentences below select the one that is *true*:
- a) The movement from the feudal charge-discharge system of public sector accounting to parliamentary control of the budget was a long process that took hundreds of years to achieve.
 - b) The public sector has always attempted to follow best practices from the private sector.
 - c) There are few governments in history where public sector accounting of any degree of sophistication has been developed.
 - d) The history of public sector accounting in Europe suggests that the adoption of private sector accounting developments happened quickly after their initial adoption.

Open questions

- 1) Using one or two examples from this lecture, consider the differences between public sector accounting in historic civilisations and the current approach in Europe.
- 2) Consider the challenges involved for governments with different traditions of public sector accounting when adopting a uniform approach.

Chapter 3

Multiple-choice questions

- 1) From the sentences below select the one that is *false*:
- a) There are several major differences between the circumstances around public and private sector accounting.

- b) The ideas of New Public Management, including the adoption of private sector style financial statements, has been gradually spreading around the world over the last few decades.
- c) Taxpayers are the major users of public sector financial statements.
- d) Accountability to parliament on behalf of the wider citizens is central to public sector accounting.

2) From the sentences below select the one that is *false*:

- a) Budgets are central to the system of public sector accountability.
- b) Accounting is better developed in the private sector and so these best practices should be adopted by the public sector.
- c) Private sector balance sheets provide indications to holders of company debt that they will be able to get their money back if the company becomes insolvent.
- d) In the public sector, the audit report is central to effective accountability.

3) From the sentences below select the one that is *true*:

- a) One of the key roles of government should be to reduce inequality in society to an acceptable level.
- b) In the US all accounting standards bodies support the adoption of private sector accounting approaches by the public sector.
- c) Public sector bodies often fail due to poor financial management.
- d) The public sector is an inefficient drain on wealth production by the private sector.

Open questions

- 1) What do you think are the main reasons for governments to adopt a private sector style approach for their financial statements?
- 2) It has been argued that budgets are more important than financial statements in the public sector. What is your view?

Chapter 4

Multiple-choice questions

- 1) Which of the following claims are *more wrong than right*?
 - a) In public sector entities, the allocation principles of expenditure and income items to the budget (and budgetary accounting) and financial accounting are necessarily kept on different bases.
 - b) Cash budgeting serves money usage control and accountability purposes well.
 - c) Capital budgets as separate budget parts show investment cash flow effects but have no significant operative cost effects.
 - d) Budget rules can, practically considered, consist of only financial budget rules and not of non-financial budget rules.
 - e) Accrual-based budgeting includes more reliable data than cash-based budgeting.
- 2) Which of the following claims are *right*?
 - a) IPSAS standards do not require that actual amounts presented on a comparable basis to the budget shall, where the financial statements and the budget are not prepared on a comparable basis, be reconciled.
 - b) Examples of items that usually are not included in budgetary appropriations include the following: Provisions and depreciations.
 - c) Virement rules are a process of controlling the transfer of funds from one budget head to another.
 - d) If net budgeted revenues are more than estimated in the budget, the entity may always by its own decision increase its expenditure.
 - e) According to Schick, accrual budgeting is not ready for widespread application as a budget decision rule because of its complexities.

Open questions

- 1) What are the different functions of budgeting in the public sector and how are they different from private sector budgeting?

- 2) What is the role of financial and non-financial information in budgets and budget outturn reports? How have these two dimensions been merged in output-based budgets?

Chapter 5

Multiple-choice questions

- 1) Which of the following claims are *wrong*?
- a) Assets = Financial capital is the basic equation of the entity theory of accounting.
 - b) Fair value cannot be lower than the historical transaction-based price.
 - c) The realisation principle accepts revaluations, holding gains and holding losses in the income statement.
 - d) Current value as the basis of the valuation of an asset is the amount which it would currently cost to obtain it.
 - e) Matching in public sector accounting is not possible.
- 2) Which of the following claims are *right*?
- a) Depreciations are recognised in the private sector accrual accounting but not in the public sector accrual accounting.
 - b) Neutrality principle in the public sector means care in estimating incomes so that they are not exaggerated and care in estimating expenditures so that they are not underestimated.
 - c) The Initial measurement reflects the value at the transaction date.
 - d) The IASB assumes that financial accounting information that satisfies the needs of shareholders and creditors also satisfies the information needs of other users of the financial statements.
 - e) Holding gains are realised non-exchange transactions.

Open question

Local government X owns a school building in a rural village. It was built in 1955, and its book value after several renovations and depreciations

in the 2018 financial statement is 500,000 €. **However, later it becomes probable that the usage will end.** If the old building is taken again into governmental service use, it requires a renovation costing 200,000 €. A small school building with capacity for the same number of pupils is now estimated to cost about 650,000 €.

Local government X tried to sell the building via an estate agent but received no offers. After the competitive bidding, a local artist suddenly made an offer to buy the schoolhouse for 50,000 €.

Think about what is the historical cost, fair value, replacement cost and settlement amount of the school.

Case study question

A local government has the following transactions, events and decisions during the one-year accounting period. Money units are in 1,000 units. In its accounting, the local government obeys precisely all the accounting rules valid in the country. The example is simplified from real life: for instance, value-added-taxes are not taken into consideration. However, all obligatory financial statements (the budget statement reports excluded) are presented in the Case Appendix.

1. The opening balance includes real estate, a school, a health care centre, bank money, own capital and long- and short-term debts.
- 2a. The local government collects own tax incomes in its bank account of 10,000.
- 2b. It received a state grant into its bank account of 10,000.
3. It pays the special health care hospital 1,000 as compensation for services consumed by its inhabitants.
4. It orders materials for use in street construction and recognises a liability of 1,000.
5. It buys medicines to its own health care centre inventory for 500. It uses 450 during the accounting period. The opening balance of the inventory was 0.

6. It receives a facility from a construction company, the acquisition cost was 4,000. The depreciation plan for the facility is 40 years. The straight-line depreciation per year ($4000/40$) is 100. The facility is taken to use 1.7., and the half year depreciation is 50.
7. The local government owns real estate (opening balance) bought for 2,000 during the previous accounting period. At the book closure date, it has an external reliable assessment that the selling price would probably be 3,000. The local government would like to recognise the increase in the value in the balance sheet, but because of carefulness it recognises an appreciation of 800.
 - 8a. It pays short-term liabilities connected to wages of 1,000.
 - 8b. Furthermore, it pays salaries to wage-earners of 10,000.
 - 8c. The wage-earners have earned during the accounting period a certain amount of annual vacation days that they will use next year. The wage cost of this annual vacation will be 1,000.
 - 9a. It has borrowed 10,000 from a bank.
 - 9b. Instalments are not paid during the accounting period but at the book closing date interest has accrued of 50. This will be paid next year.
 - 9c. The interest on the old loan of 100 is paid.
 - 9d. Instalment of the old loan of 500 is paid as well.
10. It has placed surplus cash money in a stock portfolio held for active trading of a total of 1,000. At the time of book closure the value of the placement was 1,500.
11. It has an old waste water utility that has been totally depreciated but can still be used for 5 years. After 5 years it must be demolished because of new effluent regulations and a new sewage treatment plant must then be built. The estimation of the demolition works is 2,000.
12. It has taken a hedging derivative (no speculative traits) instrument for the 10,000 loan, which has a variable interest rate. It makes a Swap agreement with another bank than the bank that offered the loan. The Swap has no acquisition cost at the time of signing the agreement. The Swap changes the variable rate to a fixed rate. The bank that sold the Swap announces that the market value of the Swap agreement at the book closing date is 1,000.

- 13a. It pays 2,000 to a service company that installs equipment for leisure and play to local government parks.
- 13b. It grants 1,000 to several local non-governmental organisations in December. The organisations must show a plan and their latest annual reports in February next year to the local government in order to get the promised money.
14. The local government forbids the usage of two polluted beaches.
15. The local government school receives maintenance services from the local government facility management unit and makes an internal payment of 1,000.
16. The local government decides that it will close its industrial development office next year and buy the corresponding services of a regional joint venture. The estimated annual savings are estimated to be 500 per year.
17. Shortly before finalising the financial statement of the accounting period and closing the books in February of the next year, the local government receives a notice from the Tax Authority that it has to pay back tax revenues that it received in excess and has to return 2,000 in April (the year following the year of the accounting period).
18. It receives a financial statement of the fully municipality-owned company and decides that the CEO must be changed. The board of the company dismisses the CEO and nominates a new CEO.
19. The local government plans to sell its real estate next year and includes a selling revenue of 3,000 in the next year's budget.
20. The council decides to add 1,500 to the current budget's transferable appropriation of 5,000 for constructions. By the end of the current year, 6,300 has been consumed of this transferable appropriation, and 200 has been left over to the next year.
21. The depreciations of the school are 100 and of the health care centre 200.
22. The local government receives from an art collector a donation of valuable sculptures. The donation incorporates restrictions that the collection must be in the museum benefitting the public and that selling it is forbidden. The sculptures will inevitably increase the number

of visitors and ticket revenues in the future. On the other hand, the collection causes some conservation and maintenance costs. The museum has collections of heritage assets and donated art items.

Assignments

- a) The accounting entries and the financial statements are all shown in the Appendix. Check how the entries have been done to the T-accounts and also the financial statement calculations. There are two items that seems to be missing from the balance sheet. If you were a certified auditor, you should notice them.
- b) Earlier we stated that we can discern two different accounting methods as reference frames that have an impact upon determining the of elements of financial statements, recognition and measurement criteria. These are the revenue-expense-led approach and the asset and liability-led approach. What signs of these methods do you find in the example? In particular, what valuation methods have been used?
- c) Point out places where you find signs (or lack of signs) of the following accounting conventions/principles/concepts:

1. Accounting entity	6. Consistency
2. Money measurement	7. Prudence
3. Going concern	8. Accruals principle
4. Cost concept	9. Matching
5. Realization principle	10. Periodicity

- d) Think about the budgeting in the local government: what would the budget look like if it was made on a cash basis, a modified cash basis or an accrual basis. You do not have to write any answers, just return to Chapter 4 to review this.

Appendix to case study questions

	Opening balance		
Bank money	1,000	6,000	Own capital
Real estate	2,000	3,000	Loan (long-term)
School	3,000	1,000	Short-term liabilities
Health care centre	4,000		
Total	<u>10,000</u>	<u>10,000</u>	Total

	Bank account		
Opening balance	1,000	1,000	3.
2a.	10,000	500	5.
2b.	10,000	4,000	6.
9a.	10,000	1,000	8a.
		10,000	8b.
		500	9d.
		100	9c
		2,000	13a.
		6,300	20.
		1,000	10.
		4,600	Balance
Total	<u>31,000</u>	<u>31,000</u>	Total

	Income statement		
Health care exp.	1,000	8,000	Tax revenues
Material exp.	1,000	10,000	State grants
Medicine exp.	450		
Salaries	11,000		
Depreciations	350		
Interest	150		
Awarded grants	1,000		
Demolishing exp.	2,000		
Balance = Surplus	1,050		
Total	<u>18,000</u>	<u>18,000</u>	Total

	Balance sheet		
School	2,900	6,000	Own capital
Health care centre	3,800	800	Capital appreciation fund
Facilities	3,950	1,050	Surplus
Constructions	8,300	2,000	Reserves
Real estates	2,000	10,000	New loan
Asset appreciations	800	2,500	Old loan
Trading assets of stocks and bonds	1,000	5,050	Short term liabilities
Inventory	50		
Bank money	4,600		
Total	<u>27,400</u>	<u>27,400</u>	

Funds flow statement				
Operational activities		2a.	10,000	Tax revenues
		2b.	10,000	State grants
	Service payments	1,000		3.
	Material payments	500		5.
	Wage payments	11,000		8.
	Interest payments	100		9.
	net	7,400		
Investment activities		Facilities	4,000	6.
	Park	2,000		13.
	Other constructions	6,300		20.
	Stocks & bonds	1,000		10.
	net	-13,300		
Net cash flow after operations and investments				
			-5,900	
Financing activities		9.	10,000	New loan
			500	Installments of old loan
Change in cash money			3,600	
Check:				
Cash money; opening balance			1,000	
Change in cash money			3,600	
Cash money; ending balance			4,600	

T-accounts

Tax revenues	State grants	Health care service costs	Construction materials
2a. 10,000	2b. 10,000	1,000 3.	1,000 4.
2,000 17.			
8,000			
Medicine expenditure	Medical inventory	Salaries	Loan interest expenses
450 5b.	500 5.	10,000 8b.	50 9b.
	5b. 450	1,000 8c.	100 9c.
	50	11,000	150
Facilities	Depreciations	Real estates	Capital appreciation fund
4,000 6.	50	2,000 7., opening balance	7b. 800
6b. 50	300		
3,950	350		
Trading assets of stocks and bonds	Awarded grants	Reserves	Demolishing service expenses
1,000 10.	1,000 13b.	11. 2,000	2,000 11.
SWAP instruments	SWAP liabilities	Contracting construction costs	School
0 12.	12. 0	2,000 13a.	3,000 Opening balance
		6,300 20.	21. 100
		8,300	
Internal maintenance costs	Internal maintenance revenues	Health care center	Asset appreciations
1,000 15.	15. 1,000	4,000 Opening balance	800 7b.
		21. 200	
Short-term liabilities	Long-term liabilities (loan)	Museum art collections, heritage assets	
Opening balance 1,000	Opening balance 3,000	0 22.	
1,000 8a.	9a. 10,000		
4. 1,000	500 9d.		
8c. 1,000			
9b. 50			
13b. 1,000			
17. 2,000			
5,050			

Chapter 6

Multiple-choice questions (always select the option that is *true*)

- 1) GFS stands for ...
 - a) Government Finance Statistics.
 - b) General Fiscal Standards.
 - c) Gorgeous Fiscal Show.
- 2) The economic value of a harmonisation is....
 - a) A higher level of infrastructure budgets.
 - b) A higher level of social budgets.
 - c) Less transactions costs.
- 3) The International Financial Reporting Standards (IFRS) are standards and interpretations published by the...
 - a) International Accounting Standards Board (IASB).
 - b) International Accruals Setting Board (IASB).
 - c) International Asset Speculation Board (IASB).

Open questions

- 1) What is the conceptual difference between accrual accounting and GFS?
- 2) What is the difference between the harmonisation paths of international private sector accounting and public sector accounting?

Chapter 7

Multiple-choice questions (always select the option that is *true*)

- 1) The IPSAS standards are derived from the...
 - a) IFRS standards.
 - b) IFCS standards.
 - c) IDW standards.

- 2) The IPSAS encompass ...
 - a) Only accrual-based standards.
 - b) Only cash-based standards.
 - c) Both accrual-based and cash-based standards.
- 3) Who is expected to use IPSAS?
 - a) International companies only.
 - b) Public sector entities at a global level.
 - c) European countries only.

Open questions

- 1) Why should a state apply IPSAS? And why not?
- 2) What are challenges in adapting the national accounting system to IPSAS?

Chapter 8

Multiple-choice questions

1) According to the IPSAS CF, which of the following *better reflects* the pre-requisites for an item to be recognised as an asset in a public sector entity:

- a) To be a resource presently controlled by the entity.
- b) The control of that item by the entity must result from a past event.
- c) The item must have service potential or the ability to generate future economic benefits.
- d) All of the above pre-requisites are required.

2) In the IPSAS CF, the Net Financial Position of a public sector entity results from:

- a) The difference between ownership contributions and ownership distributions.

- b) The difference between revenue and expense.
- c) The difference between assets and other resources and liabilities and other obligations.
- d) The difference between assets and legal obligations only.

3) From the sentences below regarding measurement criteria of assets and liabilities, please select the *false* one:

- a) The net selling price may be used for assets as an exit value.
- b) The value in use may be used for assets as an observable entry value.
- c) The assumption price may be used for liabilities as an entry value.
- d) The market price may be used for assets as an observable exit value.

Open questions

- 1) Referring to the IPSASB CF, discuss who the users of GPFRs of a public sector entity might be, as well as their needs. Give examples of what type of information needs may be particularly proper to citizens at large.
- 2) Considering the financial information qualitative characteristics in the IPSAS CF, what is the difference between relevance and faithful representation? Refer also to the main concepts associated with each of those attributes.

Chapter 9

Multiple-choice questions

- 1) Which of the following is *not correct* if an entity presents a statement of financial performance by function:
 - a) Expenses are displayed considering their allocations, for example to health, housing, economic affairs, education and other programs the entity develops.

- b) Expenses are displayed considering their nature, i.e. origin, such as wages, consumables, depreciation, impairment losses, financial costs, among others the entity may have incurred.
- c) Revenues are displayed considering their nature, i.e., origin, such as taxes, transfers and grants, revenue from exchange transactions, among others.
- d) The surplus/deficit of the period is presented, highlighting the part belonging to non-controlling interest, if existent.

2) Transfers received by a local authority from the central government to cover current expenditure, according to the IPSAS 2 – Cash flow statements:

- a) Are classified as a cash flow from operating activities.
- b) Are classified as a cash flow from financing activities.
- c) Are classified as a cash flow from investing activities.
- d) Should not be included in the cash flow statement.

3) GPFER audits ensure fair presentation, financial regularity and legality of the public sector entities' accounts. Which of the following is *true*:

- a) Legality audits aim essentially at fighting exaggerating or underestimating figures in the reporting.
- b) Fair presentation audits aim essentially at assessing conformity with the law, namely the budget.
- c) Financial statements audits are generally carried out by Supreme Audit Institutions, such as Courts of Audit.
- d) Financial statement audits assess conformity with accounting and reporting standards and are based on professionals' pronouncements.

Open questions

- 1) Please identify the main components of the GPFER of a public sector entity using IPSAS, briefly describing the information each of those statements convey. In addition, please give examples of types of statements that are part of the annual accounts in some jurisdictions in the EU, namely those not adhering to IPSAS.

- 2) Please briefly explain the importance of disclosing audited GPFs to improve public sector entities' transparency and political accountability.

Chapter 10

Multiple-choice questions (always select the option that is *true*)

- 1) Which can be the consequences of applying the revaluation model for subsequent measurement of PPE?
- a) An impairment test is not necessary any more.
 - b) If the revaluation model is applied for one item of PPE, it needs to be used for all other PPE as well.
 - c) Assets with a definite useful life do not need to be depreciated any more.
 - d) The revalued amount of an item may exceed its initial carrying amount.
- 2) How is a non-exchange transaction, in which the transferred asset partly also holds a condition, to be accounted for?
- a) The asset is capitalized at its fair value minus the unfulfilled obligation and a revenue is recorded.
 - b) The asset is capitalized at its fair value, a revenue is recorded for the fulfilled obligation and a liability for the unfulfilled obligation.
 - c) The asset is capitalized at its fair value minus the fulfilled obligation, and a revenue is recorded.
 - d) The asset is capitalized at its fair value minus the fulfilled obligation, and a liability is recorded.
- 3) How is a service concession asset to be initially measured?
- a) At the discounted value of the sum of unearned revenues.
 - b) At its net cost minus the finance cost.
 - c) At fair value at the point of recognition.
 - d) It is not measured because it is not controlled by the public entity.

Open questions

- 1) Why are inflows from non-exchange transactions recorded in surplus and deficit (i.e. as revenues)?
- 2) Which are the differences between the financial liability model and the grant of a right to the operator model according to IPSAS 32? Please provide examples and reasons why to choose one or the other model.

Chapter 11

Multiple-choice questions

1) A public entity uses the revaluation model for subsequent measurement of an asset of PPE (carrying amount 100 kEUR, 10 years useful life). For the first revaluation in the first year of use, a straight-line depreciation of 10 kEUR is accounted for. Then, its market value determined by appraisal is found to be 130 kEUR. What is the respective accounting record for the revaluation?

- | | | | |
|------------------------|---------|----------------------------|---------|
| a) Revaluation reserve | 40 kEUR | to PPE | 40 kEUR |
| b) PPE | 40 kEUR | to Reversal of impairment | 10 kEUR |
| | | Revaluation reserve | 30 kEUR |
| c) PPE | 40 kEUR | to Revaluation reserve | 40 kEUR |
| d) PPE | 40 kEUR | to Income from revaluation | 40 kEUR |

2) What needs to be considered when determining the value in use for a non-cash generating asset according to IPSAS 21?

- a) If the fair value less costs to sell is lower than the carrying amount of the asset, the value in use does not need to be determined.
- b) The age and wear of the asset needs to be taken into account by determining the value in use based on depreciated replacement costs.

- c) The non-cash generating assets are to be clustered into cash generating units.
- d) A sound interest rate based on public sector bonds for discounting the cash flows needs to be found.

3) What is the accounting record for a tax receipt through bank transfer by a public sector entity?

- a) Bank account to Tax authority
- b) Tax liability to Bank account
- c) Bank account to Tax authority
- d) Bank account to Tax revenue

Open questions

- 1) Why are inflows from non-exchange transactions recorded in surplus and deficit (i.e. as revenues)?
- 2) Which are the differences between the financial liability model and the grant of a right to the operator model according to IPSAS 32? Please provide examples and reasons why to choose one or the other model.

Chapter 12

Multiple-choice questions (always select the option that is *true*)

- 1) According to entity theory of consolidation:
 - a) CFS are compiled as extended SFSs of the controlling entity by recognizing the proportionate share of the assets and liabilities of the controlled entity.
 - b) CFS are compiled from the perspective of the economic entity assuming that the controlling and the controlled entities are dependent permanent operations of the economic entity.
 - c) CFS are compiled from the perspective of the non-controlling interests recognizing the proportionate share of the assets and liabilities of the economic entity.

- d) CFS are compiled from the perspective of the controlling entity assuming that the controlling entity has the power to control the assets and liabilities of other entities to the full extent.
- 2) Whole of government financial reports present:
- a) The overall financial position of a single controlling public sector entity (e.g. a local government) and are prepared via the consolidation of the financial statements and transactions of all the entities controlled by this entity.
 - b) A comprehensive overview of financial and non-financial performance information of public sector programs and services.
 - c) A public entity's assets, liabilities and net assets at a specific point in time.
 - d) The overall financial position of the government of a particular jurisdiction via the consolidation of the financial statements and transactions of all the entities controlled by the jurisdiction's government.
- 3) Full consolidation means that:
- a) The assets and liabilities as well as expenses and revenues of the controlled entities are included in the CFS depending on the controlling entity's share in the net assets of the controlled entities.
 - b) The assets and liabilities as well as expenses and revenues of the controlled entities, the associated entities and the joint arrangements are included in full in the CFSs, irrespective of the controlling entity's share in the net assets of the controlled entities.
 - c) The owned share of the controlled entity's net asset and the share of the net operating income are included in full in the CFS.
 - d) The assets and liabilities as well as expenses and revenues of the controlled entities are included by 100% in the CFS, irrespective of the controlling entity's share in the net assets of the controlled entities.

Open questions

- 1) What are reasons for difficulties to adopt private sector consolidated accounting in the public sector?
- 2) Why FS II and III are prepared?

Chapter 13

Multiple-choice questions (always select the option that is *true*)

1) According to IPSAS 35, an entity has power over another entity when, for example:

- a) The entity has the right to direct the financial and operating policies of another entity.
- b) The entity owns 50% of the voting rights of another entity.
- c) The entity has potential rights that give it future ability to direct the relevant activities.
- d) The entity exercises regulatory over control another entity.

2) According to IPSAS 35, a controlling entity shall:

- a) Adjust its own accounting policies to its controlled entities accounting policies to ensure uniformity.
- b) Present non-controlling interests in the consolidated statement of financial position together with the net assets of the owners of the controlling entity.
- c) Prepare CFS that consist of a statement of financial performance and a statement of financial position only.
- d) Present non-controlling interests in the consolidated statement of financial position within net assets separately from the net assets of the owners of the controlling entity.

3) According to IPSAS 36, the equity method is to be used for

- a) Joint ventures and associate entities.
- b) Joint arrangements.

- c) Joint ventures and controlled entities.
- d) Joint arrangements and associate entities.

Open questions

- 1) Which entities have to present CFSs according to IPSAS 35?
- 2) What are the differences between full consolidation, proportionate consolidation and the equity method?

Chapter 14

Multiple-choice questions (always select the option that is *true*)

- 1) The EPSAS standards are expected to be...
 - a) Cash-accounting based standards.
 - b) Triple helix based accounting standards.
 - c) Accrual-accounting based standards.
- 2) The EPSAS project is...
 - a) A German initiative to reform public sector accounting.
 - b) An initiative by Italy to reform European public sector accounting.
 - c) A reform initiative of Eurostat in the aftermath of the financial crisis of 2010.
- 3) The potential benefits of information delivered by future EPSAS-based financial statements are...
 - a) A better measurement of the fiscal situation in EU member states.
 - b) A better environmental protection.
 - c) Less debtiness in national budgets.

Open questions

- 1) Who is the standard setter for the EPSAS?
- 2) How stable and robust is the EPSAS standards setting process from right – or left-wing political influence?

2. Solutions

Chapter 1

- 1) d
- 2) b
- 3) c

Chapter 2

- 1) c
- 2) d
- 3) a

Chapter 3

- 1) c
- 2) b
- 3) a

Chapter 4

- 1) The following claims are more wrong than right: a; c; d; e.
- 2) The following claims are right: b; c; e.

Chapter 5

- 1) The following claims are wrong: b; c; e.
- 2) The following claims are right: c; d.

Case study of Chapter 5

The local government is an accounting entity. Money measurement is present in most of the numbered descriptions, but not in all. It uses the accrual principle.

The local government is steadily good in a going concern, if not merged with another local government. But inside the budget entity, some units may be closed, as in description 16. Based on description 18, it is a parent for a subsidiary, but it does not make a consolidated financial statement (there is no such in the financial statement collection).

Regarding the cost concept, it seems that the historical cost concept is used with some exemptions, see description 7. Appreciations are not done in description 10, seemingly because the country probably mainly follows the realisation and prudence principles, and in current assets the historical cost or the lower value of the selling price.

The matching and periodicity principles are present in several points, for instance description 6. The prudence principle is also present in description 7.

Based on description 12, it seems that local governments are forbidden to take any speculative derivative instruments in the country in question.

If the Swap is identical to the bank loan in all relevant aspects, it seems probable that the local government may show the market value that is not realised only in the notes to the disclosure.

At first glance, there seems to be a problem with consistency because it seems that in description 13a no depreciations are recorded regarding the park equipment. However, the explanation must be that the local government has received the park equipment at the end of the year, and depreciations are not recorded before the next year's accounting period.

According to the description number 18 the local government has a subsidiary. The local government owned shares are not shown in the balance sheet, which is an error. This omission may be significant and the auditor must probe deeper in to the accounting books.

It seems also that the local government does not recognise donated art items or heritage items to the balance sheet (description 22). It is probable that it keeps a record of all museum items in a way that will satisfy planning and control purposes. The museum makes budget plans containing all expenditures, incomes and investments. The management of the museum seems to think that recognising these items with an infinite life cycle and no initial transaction prices to the balance sheet as assets would not make sufficient sense.

However, a transparent control of donated assets requires that given items with restrictions must be recognised as commissioned assets and as commissioned capital on the liability side.

Chapter 6

- 1) a
- 2) c
- 3) a

Chapter 7

- 1) a
- 2) c
- 3) b

Chapter 8

- 1) d
- 2) c
- 3) b

Chapter 9

- 1) b
- 2) a
- 3) d

Chapter 10

- 1) d
- 2) b
- 3) c

Chapter 11

- 1) c
- 2) b
- 3) d

Chapter 12

1) b

2) d

3) c

Chapter 13

1) a

2) d

3) a

Chapter 14

1) c

2) c

3) a

Glossary and keyword index

Pages

Accountability: Is the means by which an agent provides explanations for their actions to their superior or controlling body. From the perspective of public sector entities, it covers the obligation for public officials to report on the usage of public resources and answerability of government to the public, to meet stated performance objectives. Also, objective of IPSAS GPFs (Preface of IPSAS CF Par. 23).	27, 48, 56, 68 f., 78, 81, 83, 132, 157, 164, 188 ff., 244 ff., 378
Accounting entity: The purpose of the entity concept is to characterize the accounting boundary and make a clear distinction between the economic affairs of the accounting entity and those of other entities.	31, 125, 217, 320
Accounting standards: Detailed explanations of the accounting approaches by different bodies that should be adopted to ensure that comprehensive and comparable financial statements are produced.	41, 74, 144, 166, 374
Accounting year: The period covered by the accounts or financial statements, the period over which all the receipts and payments are summarised to form the accounts.	52, 130, 227
Accounting basis: Leads to accrual accounting, cash accounting or other basis of accounting.	37, 159
Accrual accounting: Resource-based accounting system in which revenues are recognized in the period earned and expenses in the period in which these are incurred.	39, 77 f., 129, 155, 169, 174
Asset: Resource presently controlled by an entity as a result of a past event, expected to hold service potential or to generate future economic benefits (IPSAS CF 5.6).	76, 78, 86, 89 f., 135, 154, 164, 255, 378
Associate: Entity over which the investor has the power to exercise a significant influence (see IPSAS 38.8).	312 ff., 341 ff., 367

- Assurance:** Confidence provided in financial statements usually by an auditor that they have been compiled in line with the budget and Financial Regulations. 48, 81, 88, 245
- Auditor:** A person who provides assurance to stakeholders that the accounts have been prepared properly. Independence of the auditor from the accountant is vital for their role, the details of this can vary from one government to another. 50, 53, 63, 88, 98, 147, 186, 247, 381
- Balance sheet:** A financial statement that compares information of (current and non-current) assets and liabilities, in order to evidence the net worth (called net assets or equity) of the entity at a reporting date, usually at the end of the reporting period. It is prepared under accrual accounting; also referred to as statement of financial position (e.g., by the IPSASB). 33, 64, 82, 87, 89, 155, 197, 208, 218 ff., 226 ff., 240 ff., 253, 278, 376
- Bookkeeping:** Recording of financial impacts of economic transactions or events of an entity. 37 f., 66 f., 123 ff., 174, 277 ff.
- Budget:** An estimation of expenditure/expenses to provide public goods and services, to suppress public needs, as well as the estimated revenue to cover those expenditures/expenses. It is an annual statement by the government approved by parliament that indicates the government's financial plans for the coming year and authorises a certain level of payments on specified goods and services. 32, 56, 81, 83, 96 f., 159
- **Annual budget:** Approved budget for one year. It does not include published forward estimates or projections for periods beyond the budget period. 32, 97 f.
 - **Approved budget:** The expenditure authority derived from laws, appropriation bills, government ordinances and other decisions related to the anticipated revenue or receipts for the budgetary period. 32, 106
 - **Budget appropriation:** Authorisation granted by a legislative body to allocate funds for purposes specified by the legislature or similar authority. 100 f., 105 f.
 - **Budget out-turn report:** A report summarising all the receipts and payments in comparison with the budget agreed by parliament. This may typically be quarterly or annual. 56, 61, 63

- **Final budget:** The original budget adjusted for all reserves, carryover amounts, transfers, allocations, supplemental appropriations and other authorised legislative, or similar authority, changes applicable to the budget period. 98

Budgetary

- **Budgetary accounting and reporting:** Recording of transactions related to the actual documentation of the actual payments and receipts (or expenditures and revenues) in a budgetary year and comparison with the previously agreed annual budget. 33, 96, 113, 192

- **Budgetary basis:** The accrual, cash or other basis of accounting adopted in the budget that has been approved by the legislative body, or similar authority. 37, 97 f., 103, 105 f.,

- **Budgetary control:** Procedures to ensure that receipts and especially payments are only made properly in line with the budget approved by parliament. 59, 98

- **Comparable basis:** The actual amounts presented on the same accounting basis, the same classification basis, for the same entities and for the same period as the approved budget. 114

Budgeting: The process of developing, setting up and approving the budget. 32, 48 ff., 65 ff., 83 ff., 100

Cash accounting: Accounting regime, in which revenues and expenses are only recognized when the cash inflow or outflow occur. 39, 169, 378

Cash flow statement: A financial statement that explains changes in the amount of a funds of an entity consisting of cash and cash equivalents over a certain economic period. Basically, changes occur as cash in- and out-flows. These cash flows might be organized in different ways and the statement is prepared under cash or accrual accounting. According to the IPSASB, it is under accrual accounting and the cash in- and out-flows are to be allocated to operating, investment and financing activities. 196, 218 ff., 220, 234 ff., 240 ff.

Citizens: Those people who have the right to vote for a government and so hold it to account for its actions including financial management. 64, 81, 167, 244, 375

Consistency: Continuity of accounting methods and rules (e.g. 125 ff., 177, between accounting periods). 384

Consolidated accounts manual: Guideline for the controlling entity 319, 342 and the controlled entities which incorporates the accounting, disclosure and measurement methods for the economic entity. It may consider structures in the economic entity, reporting structures and the accounting environment and may also prescribe a chart of accounts to be used. Those guidelines will vary between different groups (economic entities) because of individual decisions in fields where options and management judgement has to be exercised.

Consolidated financial statements: Financial statements of an 43, 146, economic (public sector) entity (group) that combine the controlling 307 ff., 336 f. entity and all entities under control, joint control and significant influence of the controlling entity.

Consolidation: The process of setting up consolidated financial 314 ff., 345 ff., statements. The procedures contain steps like (1) combining items 349 ff. such as assets, liabilities, net assets, revenue, expenses and cash flows of the controlling entity with those of its controlled entities; (2) offsetting the carrying amount of the controlling entity's investment in each controlled entity and the controlling entity's portion of net assets of each controlled entity; and (3) elimination in full intra-economic entity assets, liabilities, net assets, revenue, expenses and cash flows relating to transactions between entities of the economic entity (IPSAS 35.40).

Consolidation of revenue and expenses: Consolidation task that 328, 364 aims to eliminate intra-economic entity transactions in terms of revenue and expenses in the consolidated balance sheet. Elimination can be achieved by reclassification, adjustment or transferral.

Control:

- **Control with respect to resources:** Ability of an entity to use 197 f., 207, a resource so as to derive the benefit of the service potential or 256 f. economic benefits embodied in the resource (IPSAS CF 5.11).

- **Control with respect to entities:** An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the entity (IPSAS 35.14). 310, 343
- **Controlled entity:** Entity that is controlled by another resp. by the controlling entity (IPSAS 35.14). 308, 318, 326 ff., 337, 344
- **Controlling entity:** Entity that controls at least one other entity (IPSAS 35.14). 308 f., 324 ff., 337, 344 ff.
- Debt consolidation:** Consolidation procedure that aims to eliminate intra-economic entity items of debts and receivables in the consolidated balance sheet. It includes the identification of intra-economic entity items in terms of debt, consolidation (by leaving off debts and (loan) receivables) and clearance of any differences. 327 f., 362 f., 368
- Decision usefulness:** Objective of IPSAS GPFRs (Preface of IPSAS CF Par. 23). For example, [...] the amount and sources of cost recovery and the resources available to support future activities [...] will also be useful for decision-making by users of GPFRs including decisions that donors and other financial supporters make about providing resources to the entity (IPSAS CF 2.1). 27, 132 f., 140
- Depreciation:** Accounting technique of systematically allocating the depreciable amount of an asset over its useful life. 78, 80, 130
- Double entry bookkeeping:** Coherent bookkeeping technique, in which for each transaction there are at least two related recordings, balancing between each other. 37, 54, 123
- Economic benefits:** Cash inflows or a reduction in cash outflows possibly generated by an asset (IPSAS CF 5.10). 137 ff., 197 f., 256 f.
- Economic entity:** A controlling entity and its controlled entities. Also called group in the private sector context. 154, 308
- Elimination of unrealised gains or losses:** Consolidation of intra-economic entity transactions where goods and services of the sending entity are capitalised by the receiving entity based on transfer prices, that are not yet realised with external third parties. Finally, those items have to be measured at acquisition or conversion cost from an economic entity perspective. 330, 364

<p>EPSAS: European Public Sector Accounting Standards (EPSASs) are a (to be developed) set of accounting standards issued by the European Commission (specifically based on a proposal of Eurostat) for use by public sector entities (containing all government levels and social security funds) in the EU member states in the preparation of financial statements.</p>	<p>19 ff., 27 ff., 160, 379 ff.</p>
<p>Equity method: Method of accounting for an associate or a joint venture whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets of the associate or joint venture (IPSAS 38.8).</p>	<p>325 ff., 345, 367</p>
<p>Fair value: This is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between knowledgeable, unrelated willing market participants at the measurement date.</p>	<p>134 ff., 155, 176, 256 ff.</p>
<p>Financial accounting: Recording of all economic transactions and presentation of an overview of the resources, i.e. assets, and sources of finance (liabilities and net assets), as well as an overview of the resource consumption and creation, i.e. expenses & revenues; cash in- and out-flows, during the reporting period. The accounting procedures are needed to produce the annual financial statements of an entity.</p>	<p>33, 74, 91, 113, 152</p>
<p>Financial auditing: A type of auditing to the financial statements, usually carried out by professional bodies (e.g., auditing firms). It might be determined by law but based on professionals' pronouncements, aiming at assessing conformity with accounting and reporting standards (fair presentation stated in the auditor's report accompanying the accounts).</p>	<p>243 ff., 248</p>
<p>Financial liability model: Model of subsequent measurement of a service concession arrangement which is prevalent if the grantor has an unconditional obligation to pay for the construction, development, acquisition or upgrade of the asset (IPSAS 32.18).</p>	<p>270, 297</p>
<p>Financial regulations: A set of fairly detailed rules covering all financial procedures that are to be followed by all officials in a public sector entity or across the whole of government.</p>	<p>56, 83</p>

Financial reporting: The process of producing and maybe publishing documents containing financial statements or selected financial statement information with the aim of enabling users to understand the financial affairs of the entity and to assess the relative success of its financial management.	33, 68, 74, 146, 378
Financial statements: Reports prepared by an entity’s management to present the financial performance for a reporting period and financial position at a point in time. A set of financial statements usually includes a balance sheet, income statements, and statement of cash flows. In the public sector context, these also may contain tables of amounts of receipts and payments made by an entity compared to the annual budget approved by parliament and/or the figures for the previous year.	43, 78, 81, 83, 144, 146, 166, 253 ff., 277 ff.
General Purpose Financial Reporting / Reports – GPFR(s): Set of statements, including financial statements, as well as other statements demonstrating compliance with the approved budget, management performance and service delivery, and also descriptive narrative non-financial information (e.g. in the notes). Because it aims at satisfying information needs of diverse users, none in particular having the power to require (individually tailored) specific purpose reporting, it is designated of ‘general purpose’.	36, 188 ff., 214 ff.
Going concern: Assumption that the entity is a continuing one, at least in the near future, and not on the verge of cessation.	125 ff., 131, 184
Goodwill: An asset representing the future economic benefits arising from other assets acquired in an acquisition that are not individually identified and separately recognised (IPSAS 40.5).	327 ff., 351 f.,
Grant of a right to the operator model: Model of subsequent measurement of a service concession arrangement for which there is no unconditional obligation to pay by the grantor to the operator, but the operator is given the right to earn revenue from third-party users or another asset (IPSAS 32.24).	271, 300
Group: A controlling entity and its controlled, jointly controlled or significantly influenced entities in the private sector. Also called “economic entity“ in the public sector context.	308, 343 ff.

<p>Heritage assets: Assets with a (1) cultural, environmental, educational or historical value, which are, in addition, characterised by (2) sale prohibitions or restrictions laid upon those assets, (3) the difficulty to estimate their useful lives, and (4) their irreplaceability (IPSAS 17.10).</p>	255, 296
<p>Historical cost concept: Historical cost is the price paid to acquire or the resources consumed to produce an asset or the amount received pursuant to the incurrence of a liability in an actual exchange transaction.</p>	137, 155
<p>IFAC: International Federation of Accountants. The IFAC was established in 1977 and aims to promote international harmonisation of accounting.</p>	74, 77, 165
<p>IFRS: International Financial Reporting Standards (IFRSs) are a set of accounting standards issued by the International Accounting Standards Board (IASB) for global use by private sector entities in the preparation of separate or consolidated financial statements. They are the basis for the IPSAS development.</p>	146, 166
<p>Impairment: A loss in the future economic benefits or service potential of an asset. With respect to depreciable assets it exceeds the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (IPSAS 21.14).</p>	259, 265, 287
<p>Income statement: A financial statement that reports on the revenues obtained and expenses incurred during a certain economic period, evidencing the entity's deficit or surplus at the end of that reporting period; this bottom line is to be included in the net assets in balance sheet. It is prepared under accrual accounting. Also designated as statement of financial performance (e.g., by the IPSASB). Excluded are (other comprehensive income transactions leading to) revenues or expenses that are directly recorded in equity (resp. net assets).</p>	78, 107, 140, 200, 218 ff., 229 ff., 240 ff.
<p>Integrated Reporting: Process of presenting clearly and concisely how a public entity creates and sustains value (e.g. public welfare) in an interconnected way, taking into account economic, social and environmental factors and the value creation in the short, medium and long run. Might be based on the International Integrated Reporting Council (IIRC) Framework.</p>	34 f.

Internal control: Procedures introduced and individually designed by an reporting entity to avoid loss of goods or money, to ensure that the Financial Regulations are followed and accurate financial statements and other accounts are prepared.	54 f.
IPSAS: International Public Sector Accounting Standards (IPSASs) are a set of accounting standards issued by the IPSAS Board for global use by public sector entities in the preparation of separate or consolidated financial statements. IPSASs are based on IFRSs.	114, 166, 181-305
International Public Sector Accounting Stad Board (or IPSASB): The IPSASB is developing the IPSAS and consists of 18 members.	165 ff.
Joint arrangement: Arrangement of which two or more parties have joined control (IPSAS 36.8).	168, 341, 345
Joint control: Consent of at least two independent parties to decide about the relevant activities of an arrangement unanimously (IPSAS 36.8).	312, 345 ff.
Joint venture: Joint arrangement whereby the parties, that have joint control of the arrangement, have rights to the net assets of the arrangement (IPSAS 38.8).	312 ff., 367
Liabilities: Debts and related amounts of money that are expected to be paid by an entity in a future financial year. In IPSAS CF 5.14 defined as “present obligation of an entity for an outflow of resources that results from a past event”.	86 f., 89, 135, 154, 166, 378
Management accounting: A system that allows for the calculation of the resource consumption (costs) of organizational units or product/ service units for control or pricing purposes.	34, 97
Matching: Accounting principle for the accrual and deferral of expenses and income, where expenses are recognized when the income is realized or revenues are recognized as income when they are probable and the related expenses have been incurred.	232
Measurement criteria: Bases to determine monetary values for elements to be recognized in the financial statements, e.g., historical cost, replacement cost, market value, or value in use.	135, 201 ff.

Money measurement: The common accounting convention is to measure transactions with (constant) monetary terms.	125
Multi-year budget: An approved budget for more than one year. It excludes published forward estimates or projections for periods beyond the budget period.	97
Net assets/equity consolidation: Consolidation task to offset (eliminate) the carrying amount of the controlling entity's investment in a controlled entity and the controlling entity's portion of the net assets/equity of the controlled entity.	327, 358
New Public Management: The approach to public sector management adopted by some governments in recent decades that emphasises efficiency, encourages privatisation and outsourcing and the adoption of private sector style management tools by public sector entities.	48, 65, 75, 83
Non-controlling interest (NCI): Also referred to as minority interest. Specifically used in relation to controlled entities included in consolidated financial statements to specify the interest in net assets that is held by outside investors rather than the controlling entity preparing the consolidated financial statements. The outside investor's share of ownership in net assets gives them no influence on how the company is run. The outside investor's portion of the surplus or deficit and net assets/equity of a controlled entity has to be disclose separately.	232, 313 ff., 351 f.
Non-exchange transactions: Transactions in which a public entity receives/pays resources and provides/receives no or nominal consideration (IPSAS 23.9).	80, 172, 258, 266, 294
Notes: Additional financial and non-financial information that complements the financial statements within GPFR, helping users to better understand, interpret and place in context the information reported in the different financial statements (e.g. statement of financial position or of cash flows). They should include also a summary of the main accounting policies.	239, 254
Original budget: The initial approved budget for the budget period.	110
Periodicity: This means that the life of an accounting entity must be divided into constant periods, usually into one-year periods, for reporting purposes.	125

Power: Consists of existing rights that give the current ability to direct the relevant activities of another entity (IPSAS 35.14). 311, 314, 343

Private sector accounting: The style of external financial accounting adopted by not state-owned for profit companies that includes a profit and loss accounting indicating the annual profit earned by the company and a balance sheet that indicates how its debts will be funded in cases of bankruptcy or insolvency. The private sector might encompass charities and non-profit organisations. 30, 75, 79 f., 145

Property, plant and equipment: Tangible (i.e. physical) assets for the purposes of production or supply of goods or services, administrative purposes or rental to others, which are expected to be used during more than one reporting period (i.e. as non-current assets) (IPSAS 17.13). 255 ff., 278 ff.

Prudence principle: Two notions exist. Cautious prudence means care in e.g. estimating budget incomes so that they are not exaggerated and care in estimating budget expenditures so that they are not underestimated. Asymmetric prudence means that e.g. unrealized losses are recognized, but not unrealized gains. Asymmetric prudence is one of the core principles for preparing financial statements in Germany, whereas the cautious prudence notion prevails in IPSAS financial statements. 99, 131

Public sector accounting: The means by which governments, ministries, departments and agencies record, analyse and report their economic transactions. It depends on the system of accounting and accounting technique used. In some jurisdictions, it includes a comparison of cash receipts and payments actually undertaken in comparison with the annual budget approved by parliament. 48, 75, 164

Public sector: All institutional units, resident in the economy that are controlled by government, including social security funds (ESA 1.35). 30

Qualitative characteristics: Attributes financial information must fit the main objectives of accounting. Qualitative characteristics are principles that might interact and must be outweighed against each other. Qualitative characteristics of elements of IPSAS financial statements should ensure for usefulness of the information provided for several users, namely for the purposes of accountability and decision making. Examples are neutrality, comparability and timeliness. 124, 182, 185, 194 ff., 201, 209

Realisation: Refers to the initial recognition of revenue. Revenues can only be realised after they have been earned. They are earned and only recognized e.g. in sales transactions in that point or period in time, when the underlying goods associated with the revenues have been delivered or the services have been provided.	128, 131, 328 f.
Recognition criteria: Features to be accomplished by an item in a transaction, in order to include that item in the financial statements. Usually, recognition criteria relate to the definition of an element in the financial statements, such as asset, liability, revenue or expense. In order to be included as such, the definition and recognition criteria must be fulfilled. The latter include the reliability of the measurement.	155, 207 ff.
Regularity auditing: A type of auditing in a government or public sector entity, aiming at assessing conformity with legal form, assuring propriety and probity (explicit in the law) of records of transactions, and transactions themselves. Regularity audits also include assessing whether transactions conform with the budget or not. They are generally carried out by Supreme Audit Institutions (SAI), following rules from the International Organization of SAI (INTOSAI).	246 f.
Replacement cost: The price that would be paid to acquire an asset with equivalent ability to generate economic benefit or service potential in an orderly market transaction at the measurement date.	34, 127, 137
Reporting entity: A government or other public sector organization, program or identifiable area of activity of the public sector, that prepares GPFs; it might not have juridical/legal personality (IPSASB CF 4.1, 4.4).	34, 146, 155, 217 ff.
Reporting unit: The entity, formally or informally existent, that produces reporting.	154, 337
Resource: An item with service potential or the ability to generate economic benefit (IPSAS CF 5.7).	196 ff., 220 f., 254, 294
Separate financial statements (SFS): Financial statements presented in addition to consolidated financial statements or in addition to financial statements by an investor that does not have controlled entities but has investments in associates or joint ventures (IPSAS 34.7).	337

<p>Service concession arrangement: Binding agreement between a grantor and an operator, whereby the operator uses an asset to provide a public service on behalf of the grantor for a specified period of time; and the operator is compensated over the service concession period (IPSAS 32.8).</p>	<p>270, 297</p>
<p>Service concession asset: Asset which is alternatively either a) provided by an operator, who constructs, develops or acquires the asset for the grantor or an existing asset of the operator or b) provided by the grantor as an existing asset of the grantor or an upgrade to an existing asset of the grantor (IPSAS 32.8).</p>	<p>270, 297</p>
<p>Service potential: An asset's capacity to provide services that contribute to an entity's objectives (without necessarily generating net cash inflows) (IPSAS CF 5.8).</p>	<p>198 ff., 203, 256</p>
<p>Settlement amount: This is the amount at which an asset could be realised or a liability could be liquidated with the counterparty, other than in an active market.</p>	<p>134, 136</p>
<p>Significant influence: Power to participate in the financial and operating policy decisions of another entity but, is not control or joint control of these policies (IPSAS 38.8).</p>	<p>312, 345</p>
<p>Single entry bookkeeping: Simple bookkeeping technique, in which each transaction is only recorded once, with no counterpart entry; generally associated to the cash-basis accounting regime, in single entry only cash inflows and cash outflows are recorded.</p>	<p>39, 123</p>
<p>Stakeholders: The key groups of people that a private sector company or a public sector entity are accountable to for the quality of their management.</p>	<p>81 f., 88</p>
<p>Sustainability Reporting: Process of delivering an overview of an economic, environmental and social performance of an organization consisting of financial and non-financial information, but in contrast to Integrated Reporting. The Global Reporting Initiative (GRI) is a global de facto standard setter for sustainability reports.</p>	<p>34</p>

Taxation: The main source of public sector or government income; mandatory payments to be made on the receipt of income by a person or company or for a variety of other reasons including purchase or ownership of land or property.	48, 51, 54, 86 f., 268
Taxes: Economic benefits or service potential compulsorily paid or payable to a public sector entity other than fines or other penalties (IPSAS 23.7), but such as the receipt of income by or for a variety of other reasons.	51, 268
Transfers: Inflows from non-exchange transactions other than taxes such as cash or non-cash assets, debt forgiveness, bequests, donations, and goods and services in-kind (IPSAS 23.7).	266
Transparency: Unfettered access by the public to timely and reliable information on decisions and performance in a reporting entity.	144, 164, 224 ff., 245, 378
Treasurer: The government official who is responsible for the Treasury, may be the most senior financial official in a government or the Ministry of Finance.	48, 50
Treasury: The central department in the Ministry of Finance which is responsible for collection of receipts, making payments, recording these transactions and ensuring liquidity and taking care of financial planning.	48, 50, 58 f.
Users of GPFR: Several addressees of the financial reporting in a broad sense, who usually do not have the power to require (individually tailored) specific purpose reporting to satisfy their financial information needs. They are, e.g., citizens, the Parliament, investors in markets, national statistics institutes and the media.	132, 190, 245

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