

Accounting Standard for Local Bodies (ASLB)

**Financial Reporting under the Cash Basis of
Accounting**



Issued by
The Committee on Accounting Standards for Local Bodies

The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)

New Delhi

Accounting Standard for Local Bodies (ASLB)

‘Financial Reporting under the Cash Basis of Accounting’

(This Accounting Standard for Local Bodies is being issued as an interim measure till all Local Bodies in India shift to accrual basis of accounting. Since this Standard contains various disclosure requirements relating to assets and liabilities, it would facilitate transitioning to accrual basis of accounting for the Local Bodies preparing general purpose financial statements under the cash basis of accounting as per this Accounting Standard for Local Bodies. The requirements given in this Standard including presentation requirements relating to cash receipts and cash payments are in addition to the requirements, if any, prescribed under the law relevant to local bodies in the context of cash basis of accounting. Wherever the requirement prescribed by this Standard are in conflict with the requirements prescribed under the law, the law will prevail.

*This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objectives and the Preface to the Accounting Standards for Local Bodies to the extent relevant for cash basis of accounting¹.)*

Structure of the Standard

This Standard comprises two parts:

- Part 1 of the Accounting Standard for Local Bodies: *Financial Reporting under the Cash Basis of Accounting* will be recommendatory in nature in the initial years for use by the local bodies. This part will be mandatory for Local Bodies in a state from the date specified in this regard by the State Government concerned². It sets out the requirements which are applicable to all entities preparing general purpose financial statements under the cash basis of accounting. It defines the cash basis of accounting, establishes requirements for the disclosure of information in the financial statements and supporting notes, and deals with a number of specific reporting issues. After becoming mandatory, the requirements in this part of the Standard must be complied with by entities which claim to be reporting in accordance with the

¹ Attention is specifically drawn to paragraph 4.2 of the ‘Preface to the Accounting Standards for Local Bodies’, according to which Accounting Standards are intended to apply only to items which are material.

² Reference may be made to the paragraph 7.1 of the ‘Preface to the Accounting Standards for Local Bodies’ providing the discussion on the compliance with the Accounting Standards for Local Bodies.

Accounting Standard for Local Bodies: *Financial Reporting under the Cash Basis of Accounting*.

- Part 2 of the Accounting Standard for Local Bodies: *Financial Reporting under the Cash Basis of Accounting* identifies additional accounting policies and disclosures that an entity is encouraged to adopt to enhance its financial accountability and the transparency of its financial statements. It includes explanations of alternative methods of presenting certain information.

FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING

CONTENTS

Introduction

Structure of the Standard

Part 1: Requirements

Objective

	Paragraphs
1.1 Scope of the Requirements	1.1.1 – 1.1.5
1.2 The Cash Basis	1.2.1 – 1.2.9
Definitions.....	1.2.1 – 1.2.9
Cash Basis of Accounting	1.2.2
Cash Equivalents	1.2.3 – 1.2.5
Cash Controlled by the Reporting Entity	1.2.6 – 1.2.9
1.3 Presentation and Disclosure Requirements	1.3.1 – 1.3.38
Definitions	1.3.1 – 1.3.3
Financial Statements	1.3.4 – 1.3.11
Information to be Presented in the Statement of Cash	
Receipts and Payments	1.3.12 – 1.3.29
Classification	1.3.17 – 1.3.17A
Line Items, Headings and Sub-Totals	1.3.18
Reporting on a Net Basis	1.3.19 – 1.3.23
Payments by Third Parties on Behalf of the Entity	1.3.24 – 1.3.29
Accounting Policies and Explanatory Notes.....	1.3.30 – 1.3.38
Structure of the Notes	1.3.30 – 1.3.31
Selection and Disclosure of Accounting Policies	1.3.32 – 1.3.38

1.4	General Considerations	1.4.1 – 1.4.25
	Reporting Period	1.4.1 – 1.4.2
	Timeliness	1.4.4
	Authorisation Date	1.4.5 – 1.4.6
	Information About the Entity	1.4.7 – 1.4.8
	Restrictions on Cash Balances and Access to Borrowings.....	1.4.9 – 1.4.12
	Consistency of Presentation	1.4.13 – 1.4.15
	Comparative Information	1.4.16 – 1.4.20
	Identification of Financial Statements.....	1.4.21 – 1.4.25
1.5	Correction of Errors	1.5.1 – 1.5.5
1.6	Consolidated Financial Statements	1.6.1 – 1.6.21
	Definitions	1.6.1 – 1.6.4
	Economic Entity	1.6.2 – 1.6.4
	Scope of Consolidated Financial Statements.....	1.6.5 – 1.6.15
	Consolidation Procedures	1.6.16 – 1.6.19
	Consolidation Disclosures	1.6.20
	Transitional Provisions.....	1.6.21 - 1.6.21B
1.7	Foreign Currency	1.7.1 – 1.7.8
	Definitions.....	1.7.1
	Treatment of Foreign Currency Cash Receipts, Payments and Balances	1.7.2 – 1.7.8
1.9	Presentation of Budget Information in Financial Statement	1.9.1 – 1.9.48
	Definitions	1.9.1 – 1.9.7
	Approved Budgets	1.9.2 – 1.9.4

Revised Budget.....	1.9.6
Actual Amounts	1.9.7
Presentation of a Comparison of Budget and Actual	
Amounts.....	1.9.8 – 1.9.28
Scope	1.9.9 – 1.9.10
Comparison of Budget and Actual Amounts.....	1.9.11 – 1.9.15
Presentation	1.9.17 – 1.9.19
Level of Aggregation.....	1.9.20 – 1.9.22
Changes from Original to Revised Budget.....	1.9.23 – 1.9.24
Comparable Basis	1.9.25 – 1.9.28
Note Disclosures of Budgetary Basis, Period and Scope.....	1.9.33 – 1.9.39
Reconciliation of Actual Amounts on a Comparable Basis	
and Actual Amounts in the Financial Statements	1.9.41 – 1.9.46
1.10 Recipients of External Assistance.....	1.10.1–1.10.34
Definitions	1.10.1–1.10.7
External Assistance.....	1.10.3–1.10.4
Official Resources.....	1.10.5
External Assistance Agreements	1.10.6–1.10.7
External Assistance Received	1.10.8–1.10.17
Undrawn External Assistance.....	1.10.18–1.10.20
Receipt of Goods or Services.....	1.10.21–1.10.22
Disclosure of Debt Rescheduled or Cancelled	1.10.23–1.10.24
Disclosure of Non-Compliance with Significant	
Terms and Conditions.....	1.10.25–1.10.27
Transitional Provisions for Section 1.10.....	1.10.30–1.10.34

Appendix 1: Illustration of the Requirements of Part 1 of the Standard

Part 2: Encouraged Additional Disclosures

2.1 Encouraged Additional Disclosures	2.1.1 – 2.1.63
Definitions	2.1.1 – 2.1.2
Future Economic Benefits or Service Potential.....	2.1.2
Going Concern	2.1.3 – 2.1.5
Extraordinary Items	2.1.6 – 2.1.14
Distinct from Ordinary Activities	2.1.8
Not Expected to Recur in the Foreseeable Future.....	2.1.9
Outside the Control or Influence of the Entity.....	2.1.10
Identifying Extraordinary Items.....	2.1.11 – 2.1.14
Administered Transactions	2.1.15 – 2.1.22
“Pass-through” Cash flows	2.1.21
Transfer Payments	2.1.22
Disclosure of Major Classes of Cash Flows	2.1.23 & 2.1.30
Related Party Disclosures	2.1.31 – 2.1.32
Disclosures of Assets, Liabilities and Comparison with Budgets	2.1.33 – 2.1.39
Comparison with Budgets	2.1.36 – 2.1.39
Consolidated Financial Statements	2.1.41 – 2.1.48
Acquisitions and Disposals of Controlled Entities and Other Operating Units	2.1.44 – 2.1.48
Joint Ventures.....	2.1.49 – 2.1.50
Assistance Received from	

Non-Governmental Organisations (NGOs).....	2.1.64–2.1.65
Recipients of External Assistance.....	2.1.66–2.1.93

2.2 Governments and Other Public Sector Entities Intending

to Migrate to the Accrual Basis of Accounting.....	2.2.1 – 2.2.6
---	----------------------

Presentation of the Statement of Cash Receipts and Payments.....	2.2.2
---	-------

Scope of Consolidated Statements – Exclusions from the Economic Entity	2.2.3 – 2.2.6
---	---------------

Appendix 2: Illustration of Certain Disclosures Encouraged in Part 2 of the Standard

Appendix 3: [Refer Appendix A]

Appendix 4: Qualitative Characteristics of Financial Reporting

Appendix 5: Establishing Control of Another Entity for Financial Reporting Purposes

Appendix A: Comparison with IPSAS on ‘Financial Reporting under the Cash Basis of Accounting’

Accounting Standard for Local Bodies

FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING

PART 1: REQUIREMENTS

Part 1 of this Standard sets out the requirements for reporting under the cash basis of accounting.

The standards, which have been set in bold italic type, should be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the “Preface to the Accounting Standards for Local Bodies.”

Objective

The purpose of this Standard is to prescribe the manner in which general purpose financial statements should be presented under the cash basis of accounting.

Information about the cash receipts, cash payments and cash balances of an entity is necessary for accountability purposes and provides input useful for assessments of the ability of the entity to generate adequate cash in the future and the likely sources and uses of cash. In making and evaluating decisions about the allocation of cash resources and the sustainability of the entity’s activities, users require an understanding of the timing and certainty of cash receipts and cash payments.

Compliance with the requirements and encouragements of this Standard will enhance comprehensive and transparent financial reporting of the cash receipts, cash payments and cash balances of the entity. It will also enhance comparability with the entity’s own financial statements of previous periods and with the financial statements of other entities which adopt the cash basis of accounting.

1.1 Scope of the Requirements

1.1.1 ***An entity which prepares and presents financial statements under the cash basis of accounting, as defined in this Standard, should apply the requirements of Part 1 of this Standard in the presentation of its general purpose annual financial statements.***

1.1.2 General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their specific information needs. Users of general purpose financial statements include taxpayers, members of the legislature, creditors, suppliers, the media and employees. General purpose financial statements include those financial statements that are presented separately or within another public document such as an annual report.

- 1.1.3 This Standard applies equally to the general purpose financial statements of an individual entity and to the consolidated general purpose financial statements of an economic entity, i.e., a group of entities comprising the controlling entity and controlled entities. It requires the preparation of a statement of cash receipts and payments which recognises the cash controlled by the reporting entity, and the disclosure of accounting policies and explanatory notes. It also requires that amounts settled on behalf of the reporting entity by third parties be disclosed on the face of the statement of cash receipts and payments.
- 1.1.4 ***An entity whose financial statements comply with the requirements of Part 1 of this Standard should disclose that fact. Financial statements should not be described as complying with this Standard unless they comply with all the requirements in Part 1 of the Standard.***
- 1.1.5 ***This Standard applies to entities described as Local Bodies in the preface to the Accounting Standards for Local Bodies³.***
- 1.1.6 [Refer Appendix-A]
- 1.1.7 [Refer Appendix-A]

1.2 The Cash Basis

Definitions

- 1.2.1 ***The following terms are used in this Standard with the meaning specified:***

Cash comprises cash on hand, demand deposits and cash equivalents.

Cash basis means a basis of accounting that recognises transactions and other events only when cash is received or paid.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows are inflows and outflows of cash.

Cash payments are cash outflows.

Cash receipts are cash inflows.

³ Refer paragraph 1.3 of the 'Preface to the Accounting Standards for Local Bodies'.

Control of cash arises when the entity can use or otherwise benefit from the cash in pursuit of its objectives and can exclude or regulate the access of others to that benefit.

Cash Basis of Accounting

1.2.2 The cash basis of accounting recognises transactions and events only when cash (including cash equivalents) is received or paid by the entity. Financial statements prepared under the cash basis provide readers with information about the sources of cash raised during the period, the purposes for which cash was used and the cash balances at the reporting date. The measurement focus in the financial statements is balances of cash and changes therein. Notes to the financial statements may provide additional information about liabilities, such as payables and borrowings, and some non-cash assets, such as receivables, inventories, investments and property, plant and equipment

Cash Equivalents

1.2.3 Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition.

1.2.4 Bank borrowings are generally considered to give rise to cash inflows. However, where bank overdrafts which are repayable on demand form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

1.2.5 Cash flows exclude movements between items that constitute cash because these components are part of the cash management of an entity rather than increases or decreases in the cash it controls. Cash management includes the investment of excess cash on hand in cash equivalents.

Cash Controlled by the Reporting Entity

1.2.6 Cash is controlled by an entity when the entity can use the cash for the achievement of its own objectives or otherwise benefit from the cash and exclude or regulate the access of others to that benefit. Cash collected by, or appropriated or granted to, an entity which the entity can use to fund its operating objectives, acquire capital assets or repay its debt is controlled by the entity.

1.2.7 Amounts deposited in the bank account of an entity are controlled by that entity. In some cases, cash which an entity:

- a) Collects on behalf of any government (or another entity) such as cesses collected on behalf of State Government or water charges collected on behalf of Water Board, is deposited in its own bank account before transfer to such other government or entity; and
- b) Is to transfer to third parties on behalf of any government (or another entity) is initially deposited in its own bank account prior to transfer to the authorised recipient.

In these cases, the entity will control the cash for only the period during which the cash resides in its bank account prior to transfer to any government controlled bank account, or to third parties. Paragraph 1.4.9 requires the disclosure of cash balances held by an entity at reporting date that are not available for use by the entity or are subject to external restrictions. Additional guidance on the treatment of cash flows that an entity administers on behalf of other entities is included in paragraphs 2.1.15 to 2.1.22 of Part 2 of this Standard.

1.2.8 In some cases, a government will manage the expenditure of its individual departments and other entities through a centralised treasury function, often referred to as a “single account” basis. Under these arrangements, individual departments and entities do not control their own bank accounts. Rather, government monies are managed by a central entity through a “single” government account or series of accounts. The central entity will make payments on behalf of individual departments and entities after appropriate authorisation and documentation. Consequently, individual departments and entities do not control the cash that they have been appropriated or otherwise authorised to expend. In these cases, the expenditures made by individual departments and entities will be reported in a separate column headed “treasury account” (or a similarly described column) in the statement of cash receipts and payments in accordance with the requirements of paragraph 1.3.24(a).

1.2.9 In some cases, the centralised treasury function will be undertaken by an entity which controls the bank account(s) from which payments on behalf of the individual operating departments and other entities are made. In these cases, transfers to and payments from those bank accounts reflect cash receipts and payments which the central entity administers on behalf of the individual operating departments and other entities. Paragraph 1.3.13 specifies that cash receipts and payments which arise from transactions the entity administers on behalf of other entities and which are recognised in the primary financial statements may be reported on a net basis. Paragraph 1.4.9 requires the disclosure of cash balances held by an

entity at reporting date that are not available for use by the entity or are subject to external restrictions.

1.3 Presentation and Disclosure Requirements

Definitions

- 1.3.1 *The following terms are used in this Standard with the meanings specified:*

Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

Materiality Information is material if its omission or misstatement could influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the item or error judged in the particular circumstances of omission or misstatement.

Reporting date means the date of the last day of the reporting period to which financial statements relate.

Economic entity means a group of entities comprising a controlling entity and one or more controlled entities.

- 1.3.2 Financial statements result from processing large quantities of transactions that are structured by being aggregated into groups according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data that form line items either on the face of the financial statements or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of the financial statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of the financial statements may nevertheless be sufficiently material that it should be presented separately in the notes.
- 1.3.3 The principle of materiality provides that the specific disclosure requirements of Accounting Standards for Local Bodies need not be met if the resulting information is not material.

Financial Statements

1.3.4 ***An entity should prepare and present general purpose financial statements which include the following components:***

a) ***A statement of cash receipts and payments which:***

i. ***Recognises all cash receipts, cash payments and cash balances controlled by the entity; and***

ii. ***Separately identifies payments made by third parties on behalf of the entity in accordance with paragraph 1.3.24 of this Standard;***

b) ***Accounting policies and explanatory notes; and***

c) ***When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the statement of cash receipts and payments in accordance with paragraph 1.9.8 of this Standard.***

1.3.5 ***When an entity elects to disclose information prepared on a different basis from the cash basis of accounting as defined in this Standard or otherwise required by paragraphs 1.3.4(a) or 1.3.4(c), such information should be disclosed in the notes to the financial statements.***

1.3.6 The general purpose financial statements comprises the statement of cash receipts and payments and other statements that disclose additional information about the cash receipts, payments and balances controlled by the entity and accounting policies and notes. In accordance with the requirements of paragraph 1.3.4(a)(i) above, only cash receipts, cash payments and cash balances controlled by the reporting entity will be recognised as such in the statement of cash receipts and payments or other statements that might be prepared. In accordance with the requirements of paragraph 1.3.4(c) above, the general purpose financial statements may include a comparison of budget and actual amounts as an additional financial statement.

1.3.7 Paragraph 1.3.24 of this Standard requires disclosure on the face of the statement of cash receipts and payments of certain payments made by third parties on behalf of the reporting entity. Payments made by third parties will not satisfy the definition of cash, cash payments and cash receipts as defined in paragraph 1.2.1 of this Standard and will not be presented as cash receipts and payments controlled by the reporting entity in the statement of cash receipts and payments or other statements that might be prepared by the reporting entity. Paragraph 1.9.17 of this Standard provides that an entity can present a comparison of budget and

actual amounts as additional budget columns in the statement of cash receipts and payments only where the financial statements and the budget are prepared on a comparable basis. When the budget and financial statements are not prepared on a comparable basis, a separate statement of comparison of budget and actual amounts is presented.

- 1.3.8 Notes to the financial statements include narrative descriptions or more detailed schedules or analysis of amounts shown on the face of the financial statements, as well as additional information. They include information required and encouraged to be disclosed by this Standard, and can include other disclosures considered necessary to achieve a fair presentation and enhance accountability.
- 1.3.9 This Standard does not preclude an entity from including in its general purpose financial statements, statements in addition to the statement of cash receipts and payments as specified in paragraph 1.3.4 above. Consequently, general purpose financial statements may also include additional statements which, for example:
- a) Report cash receipts, cash payments and cash balances for major fund categories;
 - b) Provide additional information about the sources and deployment of borrowings and the nature and type of cash payments; or
 - c) Provide a comparison of actual and budget amounts. In accordance with the requirements of paragraph 1.3.5 above, any additional statements will only report cash receipts, payments and balances which are controlled by the entity.
- 1.3.10 Entities that report using the cash basis of accounting frequently collect information on items that are not recognised under cash accounting. Examples of the type of information that may be collected include details of:
- a) Receivables, payables, borrowings and other liabilities, non-cash assets and accruing revenues and expenses;
 - b) Commitments and contingent liabilities; and
 - c) Performance indicators and the achievement of service delivery objectives.
- 1.3.11 Entities preparing general purpose financial statements in accordance with this Standard may disclose such information in the notes to the financial statements where that information is likely to be useful to users. Where such disclosures are made they should be clearly described and readily understandable. If not disclosed in the financial statements themselves,

comparisons with budget may also be included in the notes. Part 2 of this Standard encourages inclusion of information about non-cash assets and liabilities and a comparison with budget in general purpose financial statements. For the purpose of making disclosures related to non-cash assets and liabilities, guidance in respect of recognition and measurement of such items may be drawn from the following in descending order (a) the accrual based Accounting Standards for Local Bodies issued by the ICAI (b) existing Accounting Standards issued by the ICAI for commercial entities and Guidance Notes on Accounting. Such pronouncements also include 'Framework for the Preparation and Presentation of Financial Statements' (c) International Public Sector Accounting Standards issued by International Public Sector Accounting Standards Board.

Information to be Presented in the Statement of Cash Receipts and Payments

1.3.12 ***The statement of cash receipts and payments should present the following amounts for the reporting period:***

- a) ***Total cash receipts of the entity showing separately a sub-classification of total cash receipts using a classification basis appropriate to the entity's operations;***
- b) ***Total cash payments of the entity showing separately a sub-classification of total cash payments using a classification based on either the nature of the payments or their function appropriate to the entity's operations; and***
- c) ***Opening and closing cash balances of the entity.***

1.3.12A ***In accordance with paragraph 1.3.12 (b), whichever basis is adopted by the entity for sub-classification of total cash payments, the entity should disclose the total cash payments as per the other basis of classification either as a separate statement or by way of notes.***

1.3.13 ***Total cash receipts and total cash payments, and cash receipts and cash payments for each sub-classification of cash receipt and payment, should be reported on a gross basis, except that cash receipts and payments may be reported on a net basis when:***

- a) ***They arise from transactions which the entity administers on behalf of other parties and which are recognised in the statement of cash receipts and payments; or***
- b) ***They are for items in which the receipts and related payments are in quick succession, the amounts are large, and the maturities are short.***

- 1.3.14 ***Line items, headings and sub-totals should be presented in the statement of cash receipts and payments when such presentation is necessary to present fairly the entity's cash receipts, cash payments and cash balances.***
- 1.3.15 This Standard requires all entities to present a statement of cash receipts and payments which discloses beginning and closing cash balances of the entity, total cash receipts and total cash payments over the reporting period, and major sub-classifications thereof. This will ensure that the financial statements provide comprehensive information about the cash balances of the entity and changes therein over the period in a format that is accessible and understandable to users.
- 1.3.16 Disclosure of information about such matters as the cash balances of the entity, whether cash is generated from taxes, fines, fees, and/or borrowings and whether it was expended to meet operating costs, for the acquisition of capital assets or for the retirement of debt will enhance transparency and accountability of financial reporting. These disclosures will also facilitate more informed analysis and assessments of the entity's current cash resources and the likely sources and sustainability of future cash inflows.

Classification

- 1.3.17 The sub-classifications (or classes) of total cash receipts and payments which will be disclosed in accordance with paragraphs 1.3.12, 1.3.12A and 1.3.14 are a matter of professional judgment. That judgment will be applied in the context of the objective and qualitative characteristics of financial reporting under the cash basis of accounting. Appendix 4 of this Standard summarises the qualitative characteristics of financial reporting. Total cash receipts may be classified to, for example, separately identify cash receipts from: taxation or appropriation; grants and donations; borrowings; proceeds from the disposal of property, plant and equipment; and other ongoing service delivery and trading activities. Total cash payments may be classified to, for example, separately identify cash payments in respect of: ongoing service delivery activities including transfers to constituents or other entities; debt reduction programs; acquisitions of property, plant and equipment; and any trading activities. Alternative presentations are also possible, for example total cash receipts may be classified by reference to their source and cash payments may be sub-classified by reference to either the nature of the payments or their function or program within the entity, as appropriate.
- 1.3.17A As mentioned in paragraph 1.3.12 and 1.3.12A, cash payment items may be sub-classified using classification based on the nature of payments or their function. The two classification basis referred to above are illustrated below: The first method is referred to as the nature of payments method.

Payments are aggregated according to their nature (for example, purchases of materials, transport costs, wages and salaries), and are not reallocated amongst various functions within the entity. An example of a classification using the nature of payments method is as follows:

	Cash payments
Wages and salaries	(X)
Transport costs	(X)
Capital expenditure	(X)
Borrowing costs	(X)
Other	(X)
Total payments	(X)

The second method, referred to as the functional method of classification, classifies payments according to the program or purpose for which they were made. This presentation often provides more relevant information to users, although the allocation of payments to functions can be arbitrary and may involve considerable judgment. An example of a functional classification of cash payments is as follows:

	Cash payments
Health services	(X)
Education services	(X)
Capital projects	(X)
Finance costs	(X)
Other	(X)
Total payments	(X)

Line Items, Headings and Sub-Totals

1.3.18 Factors to be taken into consideration in determining which line items, headings and sub-totals should be presented within each sub-classification in accordance with the requirements of paragraph 1.3.14 above include: the requirements of other sections of this Standard (for example, paragraph 1.10.8 requires that total external assistance received in cash during the period be disclosed separately on the face of the Statement of Cash Receipts and Payments); assessments of the likely materiality of the disclosures to users; and the extent to which necessary explanations and disclosures are made in the notes to the financial statements. Paragraphs 2.1.23 and 2.1.30 of Part 2 of this Standard set out disclosures of additional major classes of cash flows that an entity is encouraged to make in the notes to the financial statements or in the financial statements

themselves. It is likely that in many, but not necessarily all, cases these disclosures will satisfy the requirements of paragraph 1.3.12 above.

Reporting on a Net Basis

1.3.19 This Standard requires the reporting of cash receipts, payments and balances on a gross basis except in the circumstances identified by paragraph 1.3.13 above. Paragraphs 1.3.20 to 1.3.21 below further elaborate on those circumstances in which reporting on a net basis may be justified.

1.3.20 Entities may administer transactions and otherwise act as agents on behalf of others. These administered and agency transactions may encompass the collection of revenues on behalf of another entity, the transfer of funds to eligible beneficiaries or the safekeeping of monies on behalf of constituents. Examples of such activities may include:

a) The collection of taxes by the entity for another level of government or another entity, not including taxes collected by the entity for its own use as part of a tax sharing arrangement;

b) [Refer Appendix A]

c) [Refer Appendix A]

d) Rents collected on behalf of, and paid over to, the owners of properties;

e) Transfers by a local body to third parties consistent with legislation or other government authority; and

f) [Refer Appendix A]

1.3.21 In many cases, the cash an entity receives in respect of transactions it administers as an agent for others will be deposited directly in the bank account of the ultimate recipients of the cash. In these cases, the entity will not control the cash it receives in respect of the transactions it administers and these cash flows will not form part of the cash receipts, cash payments or cash balances of the entity. However, in other cases the cash received will be deposited in bank accounts controlled by the entity acting as an agent and the receipt and transfer of that cash will be reported in the statement of cash receipts and payments of the entity.

1.3.22 In some cases, the amounts of the cash flows arising from administered transactions which “pass-through” the bank account of the reporting entity may be large relative to the entity’s own transactions, and control may occur for only a short time before the amounts are transferred to the ultimate recipients. This may also be true for other cash flows including for example, advances made for, and the repayment of:

- a) The purchase and sale of investments; and
 - b) Other short-term borrowings, for example, those which have a maturity period of three months or less.
- 1.3.23 The recognition of these transactions on a gross basis may undermine the ability of the financial statements of some entities to communicate information about cash receipts and cash payments resulting from the entity's own activities. Accordingly, this Standard permits cash receipts and cash payments to be offset and reported on a net basis in the statement of cash receipts and payments in the circumstances identified in paragraph 1.3.13 above.

Payments by Third Parties on Behalf of the Entity

- 1.3.24 ***Where, during a reporting period, a third party directly settles the obligations of an entity or purchases goods and services for the benefit of the entity, the entity should disclose in separate columns on the face of the statement of cash receipts and payments:***
- a) ***Total payments made by third parties which are part of the economic entity to which the reporting entity belongs, showing separately a sub-classification of the sources and uses of total payments using a classification basis appropriate to the entity's operations; and***
 - b) ***Total payments made by third parties which are not part of the economic entity to which the reporting entity belongs, showing separately a sub-classification of the sources and uses of total payments using a classification based on either the nature of the payments or their function appropriate to the entity's operation.***

Such disclosure should only be made when during the reporting period the entity has been formally advised by the third party or the recipient that such payment has been made or has otherwise verified the payment.

- 1.3.25 Where a government manages the expenditure of its individual departments and other entities through a centralised treasury function or a "single account" arrangement, payments are made on behalf of those departments and entities by a central entity after appropriate authorisation and documentation from the department. In these cases, the department or other entity does not control cash inflows, cash outflows and cash balances. However, the department or other entity benefits from the payments being made on its behalf, and knowledge of the amount of these payments is relevant to users in identifying the cash resources the government has applied to the entity's activities during the period.

Consistent with paragraph 1.3.24(a) above, the department or other entity reports in a separate column on the face of the statement of cash receipts and payments, the amount of payments made by the central entity on its behalf, and the sources and uses of the amount expended sub-classified on a basis appropriate for the department or other entity. These disclosures will enable users to identify the total amount of payments made, the purposes for which they were made and whether, for example, the payments were made from amounts allocated or appropriated from general revenue or from special purpose funds or other sources.

- 1.3.26 In some cases, government or other entities may have their own bank accounts and will control certain cash inflows, cash outflows and cash balances. In these cases, government directions or instructions may also require government or an entity to settle certain obligations of another entity, or to purchase certain goods or services on behalf of another entity. Consistent with paragraph 1.3.24(a) above, the reporting entity reports in a separate column on the face of the statement of cash receipts and payments the amount, sources and uses of such expenditures made on its behalf during the reporting period. This will assist users in identifying the total cash resources of the government or other entity which have been applied to the entity's activities during the reporting period, and the sources and uses of those cash resources.
- 1.3.27 In some cases, third parties which are not part of the economic entity to which the reporting entity belongs purchase goods or services on behalf of the entity or settle obligations of the entity. For example, a government may fund the operation of a health or education program of a local body by directly paying service providers and acquiring and transferring to the local body the necessary supplies during the period. Similarly, a government or independent aid agency may pay a construction company directly for laying or constructing a road for a particular local body rather than providing the funds directly to the local body itself. These payments may be made by way of a grant or other aid, or as a loan which is to be repaid. In these cases, the local body does not receive cash (including cash equivalents) directly from, or gain control of a bank account or similar facility established for its benefit by, the other entity. Therefore, the amount settled or paid on its behalf does not constitute "cash" as defined in this Standard. However, the local body benefits from the cash payments being made on its behalf.
- 1.3.28 Paragraph 1.3.24(b) above requires that an entity report in a separate column on the face of its statement of cash receipts and payments, the amount, sources and uses of expenditures made by third parties which are not part of the economic entity to which it belongs. This will enable users to identify the total cash resources being applied to the entity's activities during the reporting period, and the extent to which those resources are

provided from parties which are, and which are not, part of the economic entity to which the reporting entity belongs. In some cases, as at reporting date an entity may not be aware that payments have been made on their behalf by third parties during the reporting period. This may occur where the entity has not been formally advised of the third party payment or cannot otherwise verify that an expected payment has occurred. Paragraph 1.3.24 above requires that third party payments only be disclosed on the face of the statement of cash receipts and payments when during the reporting period the entity has been formally advised that such payments have been made or otherwise verifies their occurrence.

- 1.3.29 The sub-classifications (or classes) of sources and uses of third party payments which will be disclosed in accordance with paragraphs 1.3.24 are a matter of professional judgment. The factors that will be considered in exercising that judgment are outlined in paragraph 1.3.17.

Accounting Policies and Explanatory Notes

Structure of the Notes

- 1.3.30 *The notes to the financial statements of an entity should:*

- a) *Present information about the basis of preparation of the financial statements and the specific accounting policies selected and applied for significant transactions and other events; and*
- b) *Provide additional information which is not presented on the face of the financial statements but is necessary for a fair presentation of the entity's cash receipts, cash payments and cash balances.*

- 1.3.31 *Notes to the financial statements should be presented in a systematic manner. Each item on the face of the statement of cash receipts and payments and other financial statements should be cross referenced to any related information in the notes.*

Selection and Disclosure of Accounting Policies

- 1.3.32 *General purpose financial statements should present information that is:*

- a) *Understandable;*
- b) *Relevant to the decision-making and accountability needs of users; and*
- c) *Reliable in that it:*
 - i. *Represents faithfully the cash receipts, cash payments and cash balances of the entity and the other information disclosed;*

ii. ***Is neutral, that is, free from bias; and***

iii. ***Is complete in all material respects.***

- 1.3.33 The quality of information provided in general purpose financial statements determines the usefulness of that statement to users. Paragraph 1.3.32 requires the development of accounting policies to ensure that the financial statements provide information that meets a number of qualitative characteristics. Appendix 4 of this Standard summarises the qualitative characteristics of financial reporting. The appendix also notes that the timeliness of information may impact upon both the relevance and reliability of the financial information. The maintenance of complete and accurate accounting records during the reporting period is essential for timely production of the general purpose financial statement.
- 1.3.34 ***The accounting policies section of the notes to the financial statements should describe each specific accounting policy that is necessary for a proper understanding of the financial statements, including the extent to which the entity has applied any transitional provisions in this Standard.***
- 1.3.35 ***Inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material.***
- 1.3.36 In deciding whether a specific accounting policy should be disclosed, management considers whether disclosure would assist users in understanding the way in which transactions and events are reflected in the reported cash receipts, payments and balances. An accounting policy may be significant even if amounts shown for current and prior periods are not material. Paragraph 1.3.4 of this Standard specifies that general purpose financial statements include accounting policies and explanatory notes. Consequently, the requirements of paragraph 1.3.34 above also apply to notes to the financial statements.
- 1.3.37 ***Where an entity elects to include in its financial statements any disclosures encouraged in Part 2 of this Standard, those disclosures should comply with the requirements of paragraph 1.3.32 above.***
- 1.3.38 Part 2 of this Standard encourages the disclosure of additional information in notes to the financial statements. Where such disclosures are made, they will need to be understandable and to satisfy the other qualitative characteristics of financial information.

1.4 General Considerations

Reporting Period

1.4.1 ***The general purpose financial statements should be presented at least annually. When, in exceptional circumstances, an entity's reporting date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity should disclose in addition to the period covered by the financial statements:***

- a) ***the reason(s) for a period other than one year being used; and***
- b) ***the fact that comparative amounts may not be comparable.***

1.4.2 The reporting date is the date of the last day of the reporting period to which the financial statements relate. In exceptional circumstances an entity may be required to, or decide to, change its reporting date to, for example, align the reporting cycle more closely with the budgeting cycle. When this is the case, it is important that the reason for the change in reporting date is disclosed and that users are aware that the amounts shown for the current period and the comparative amounts are not comparable.

1.4.3 [Refer Appendix A]

Timeliness

1.4.4 The usefulness of the financial statements are impaired if they are not made available to users within a reasonable period after the reporting date. An entity should be in a position to issue its financial statements within six months of the reporting date, although a timeframe of not more than three months is strongly encouraged. Ongoing factors such as the complexity of an entity's operations are not sufficient reason for failing to report on a timely basis. More specific deadlines are dealt with by legislation and regulations.

Authorisation Date

1.4.5 ***An entity should disclose the date when the financial statements were authorised for issue and who gave that authorisation. If another authority has the power to amend the financial statements after issuance, the entity should disclose that fact.***

1.4.6 The authorisation date is the date on which the financial statements have received approval from the individual or body like the Council with the authority to finalise those statements for issue. It is important for users to know when the financial statements were authorised for issue, because

the financial statements do not reflect events after this date.

Information about the Entity

1.4.7 ***An entity should disclose the following if not disclosed elsewhere in information published with the financial statements:***

- a) ***The domicile and legal form of the entity, and the jurisdiction within which it operates;***
- b) ***A description of the nature of the entity's operations and principal activities;***
- c) ***A reference to the relevant legislation governing the entity's operations, if any; and***
- d) ***The name of the controlling entity and the ultimate controlling entity of the economic entity (where applicable, if any).***

1.4.8 The disclosure of the information required by paragraph 1.4.7 will enable users to identify the nature of the entity's operations and gain an understanding of the legislative and institutional environment within which it operates. This is necessary for accountability purposes and will assist users in understanding and evaluating the financial statements of the entity.

Restrictions on Cash Balances and Access to Borrowings

1.4.9 ***An entity should disclose in the notes to the financial statements together with a commentary, the nature and amount of:***

- a) ***Significant cash balances that are not available for use by the entity;***
- b) ***Significant cash balances that are subject to external restrictions; and***
- c) ***Undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities.***

1.4.10 Cash balances held by an entity would not be available for use by the entity, for example, in the case of court attachments or when the balances are not available for general use by the entity.

1.4.11 Cash balances controlled by an entity may be subject to restrictions which limit the purpose or timing of their use. This situation often exists when an entity receives a grant or donation which must be used for a specific purpose. It may also exist where, at reporting date, an entity holds in its

own bank accounts cash it has collected for other parties in its capacity as an agent but not yet transferred to those parties. Although these balances are controlled by the entity and reported as a cash balance of the entity, separate disclosure of the amount of such items is helpful to readers.

- 1.4.12 Undrawn borrowing facilities represent a potential source of cash for an entity. Disclosure of the amount of these facilities by significant type allows readers to assess the availability of such cash, and the extent to which the entity has made use of them during the reporting period.

Consistency of Presentation

- 1.4.13 ***The presentation and classification of items in the financial statements should be retained from one period to the next unless:***

a) ***A significant change in the nature of the operations of the entity or a review of its financial statements presentation demonstrates that the change will result in a more appropriate presentation of events or transactions; or***

b) ***A change in presentation is required by an amendment to this Standard or a change in legislation.***

- 1.4.14 A major restructuring of service delivery arrangements; the creation of a new, or termination of a major existing entity; a significant acquisition or disposal; or a review of the overall presentation of the entity's general purpose financial statements might suggest that the statement of cash receipts and payments or other individual financial statements should be presented differently. For example, an amalgamation of local bodies into one local body. In this case, the presentation of the financial statements would undergo changes.

- 1.4.15 Only if the revised structure is likely to continue, or if the benefit of an alternative presentation is clear, should an entity change the presentation of its financial statements. When such changes in presentation are made, an entity reclassifies its comparative information in accordance with paragraph 1.4.19.

Comparative Information

- 1.4.16 ***Unless a provision of this Standard permits or requires otherwise, comparative information should be disclosed in respect of the previous period for all numerical information required by this Standard to be disclosed in the financial statements, except in respect of the financial statements for the reporting period to which this Standard is first applied. Comparative information should be included in narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.***

- 1.4.17 This Standard requires the presentation of a statement of cash receipts and payments and specifies certain disclosures that are required to be made in that statement and notes thereto. This Standard does not preclude the preparation of additional financial statements. Part 2 of this Standard encourages certain additional disclosures. Where financial statements in addition to the statement of cash receipts and payments are prepared or disclosures encouraged by Part 2 of this Standard are made, the disclosure of comparative information is also encouraged.
- 1.4.18 In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, details of a legal dispute, the outcome of which was uncertain at the last reporting date and is yet to be resolved, may be disclosed in the current period. Users benefit from knowing that the uncertainty existed at the last reporting date, and the steps that have been taken during the period to resolve the uncertainty.
- 1.4.19 ***When the presentation or classification of items required to be disclosed in the financial statements is amended, comparative amounts should be reclassified, unless it is impracticable to do so, to ensure comparability with the current period, and the nature, amount of, and reason for any reclassification should be disclosed. When it is impracticable to reclassify comparative amounts, an entity should disclose the reason for not reclassifying and the nature of the changes that would have been made if amounts were reclassified.***
- 1.4.20 Circumstances may exist when it is impracticable to reclassify comparative information to achieve comparability with the current period. For example, data may not have been collected in the previous period(s) in a way which allows reclassification, and it may not be practicable to recreate the information. In such circumstances, the nature of the adjustments to comparative amounts that would have been made is disclosed.

Identification of Financial Statements

- 1.4.21 ***The financial statements should be clearly identified and distinguished from other information in the same published document.***
- 1.4.22 This Standard applies only to the financial statements, and not to other information presented in an annual report or other document. Therefore, it is important that users are able to distinguish information that is prepared using this Standard from other information that may be useful to users but that is not the subject of this Standard.
- 1.4.23 ***Each component of the financial statements should be clearly identified. In addition, the following information should be***

prominently displayed and repeated when it is necessary for a proper understanding of the information presented:

- a) ***The name of the reporting entity or other means of identification;***
- b) ***Whether the financial statements cover the individual entity or the economic entity;***
- c) ***The reporting date or the period covered by the financial statements, whichever is appropriate to the related component of the financial statements;***
- d) ***The reporting currency; and***
- e) ***The level of precision used in the presentation of figures in the financial statements.***

1.4.24 The requirements in paragraph 1.4.23 are normally met by presenting page headings and abbreviated column headings on each page of the financial statements. Judgment is required in determining the best way of presenting such information. For example, when the financial statements are read electronically, separate pages may not be used. In such cases, the items identified in paragraph 1.4.23 are presented frequently enough to ensure a proper understanding of the information given.

1.4.25 Financial statements are often made more understandable by presenting information in thousands, lakhs, millions or crores of units of the reporting currency. This is acceptable as long as the level of precision in presentation is disclosed and relevant information is not lost.

1.5 Correction of Errors

1.5.1 ***When an error arises in relation to a cash balance reported in the financial statements, the amount of the error that relates to prior periods should be reported by adjusting the cash at the beginning of the period.***

1.5.2 ***An entity should disclose in the notes to the financial statements the following:***

- a) ***The nature of the error; and***
- b) ***The amount of the correction.***
- c) ***[Refer Appendix A]***

1.5.3 Errors in the preparation of the financial statements of one or more prior periods may be discovered in the current period. Errors may occur as a result of mathematical mistakes, mistakes in applying accounting policies,

misinterpretation of facts, fraud or oversights. When an error is identified in respect of a previous period, the opening balance of cash is adjusted to correct the error and the financial statements are presented as if the error had been corrected in the period in which it was made. An explanation of the error and its adjustment is included in the notes.

1.5.4 [Refer Appendix A]

1.5.5 This Standard requires the presentation of a statement of cash receipts and payments, and does not preclude the presentation of other financial statements. Where financial statements in addition to the statement of cash receipts and payments are presented, the requirements in paragraphs 1.5.1 and 1.5.2 for correction of errors will also apply to those statements.

1.6 Consolidated Financial Statements

Definitions

1.6.1 *The following terms are used in this Standard with the meanings specified:*

Consolidated financial statements are the financial statements of an economic entity presented as that of a single entity.

Control of an entity is the power to govern the financial and operating policies of another entity so as to benefit from its activities.

Controlled entity is an entity that is under the control of another entity (known as the controlling entity).

Controlling entity is an entity that has one or more controlled entities.

Economic entity means a group of entities comprising a controlling entity and one or more controlled entities.

Economic Entity

1.6.2 The term “economic entity” is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.

1.6.3 Other terms sometimes used to refer to an economic entity include “administrative entity,” “financial reporting entity,” “consolidated entity” and “group.”

1.6.4 An economic entity may include entities with both social policy and commercial objectives. For example, a local body XYZ (controlling entity) may control by way of majority voting power in an entity ABC (controlled entity) that provides services of health care for a nominal charge, as well

as another entity PQR (controlled entity) that provides transport services on a commercial basis. The group of entities comprising local body XYZ and the controlled entities, viz., ABC and PQR, is the economic entity.

Scope of Consolidated Financial Statements

- 1.6.5 ***A controlling entity, other than a controlling entity identified in paragraph 1.6.7, should issue consolidated financial statements which consolidates all controlled entities, other than those referred to in paragraph 1.6.6.***
- 1.6.6 ***A controlled entity should be excluded from consolidation when it operates under severe external long-term restrictions which prevent the controlling entity from benefiting from its activities.*** Examples of severe external long term restrictions could be when the resources of a controlled entity are assigned for natural calamity relief for a long period of time. During such period the controlling entity cannot benefit from the activities of the controlled entity.
- 1.6.7 ***A controlling entity that is a wholly owned controlled entity need not present consolidated financial statements provided users of such financial statements are unlikely to exist or their information needs are met by the controlling entity's consolidated financial statements.***
- 1.6.8 ***[Refer Appendix A]***
- 1.6.9 Users of the financial statements of a controlling entity are usually concerned with, and need to be informed about, the cash resources controlled by the economic entity as a whole. This need is served by consolidated financial statements which present financial information about the economic entity as a single entity without regard for the legal boundaries of the separate legal entities.
- 1.6.10 Paragraph 1.3.4 of this Standard requires that a reporting entity prepare a statement of cash receipts and payments. Consistent with the requirements of paragraph 1.6.5 above, the statement of cash receipts and payments prepared by a reporting entity which is a controlling entity, will consolidate the cash receipts, cash payments and cash balances of all the entities it controls. The note disclosures required by Part 1 of this Standard will also be presented on a consolidated basis. Appendix 5 of this Standard illustrates the application of the concept of control in determining the financial reporting entity.
- 1.6.11 This Standard does not preclude the preparation of financial statements additional to the statement of cash receipts and payments. Those additional statements may, for example, disclose additional information about receipts and payments related to certain fund groups or provide

additional details about certain types of cash flows. Part 2 of this Standard identifies additional disclosures that an entity is encouraged to make. The additional statements and disclosures will also report consolidated information where appropriate.

- 1.6.12 For financial reporting purposes, the reporting entity (financial reporting entity) may consist of a number of controlled entities including departments, agencies and special purpose vehicles. Determining the scope of the financial reporting entity can be difficult due to the large number of potential entities. For this reason, financial reporting entities are often determined by legislation. In some cases, the financial reporting entity required by this Standard may differ from the reporting entity specified by legislation and additional disclosures may be necessary to satisfy the legislative reporting requirements.
- 1.6.13 A controlling entity that is itself wholly owned by another entity (such as an agency which is wholly owned by a local body), is not required to present consolidated financial statements when such statements are not required by its controlling entity and the needs of other users may be best served by the consolidated financial statements of its controlling entity. However, many controlling entities that are either wholly owned or virtually wholly owned represent key sectors or activities of the local body. In these cases, the information needs of certain users may not be served by the presentation of a consolidated financial statements at the level of ultimate controlling entity alone, and the purpose of this Standard is not to exempt such entities from preparing consolidated financial statements.
- 1.6.14 [Refer Appendix A]
- 1.6.15 In some instances, an economic entity will include a number of intermediate controlling entities. For example, whilst a department of health may be the controlling entity, there may be intermediate controlling entities at the local or regional health authority level. Accountability and reporting requirements prescribed under the laws relevant to local bodies may specify which entities are required to (or exempted from the requirement to) prepare a consolidated financial statement. Where there is no requirement for an intermediate controlling entity to prepare consolidated financial statements but users of general purpose financial statements of the economic entity are likely to exist, intermediate controlling entities are encouraged to prepare and publish such a statement.

Consolidation Procedures

1.6.16 ***The following consolidation procedures apply:***

- a) ***Cash balances and cash transactions between entities within the economic entity should be eliminated in full;***
- b) ***When the financial statements used in a consolidation are drawn up to different reporting dates, adjustments should be made for the effects of significant cash transactions that have occurred between those dates and the date of the controlling entity's financial statements. In any case, the difference between the reporting dates should be no more than six months; and***
- c) ***Consolidated financial statements should be prepared using uniform accounting policies for like cash transactions. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.***

1.6.17 The consolidation procedures outlined in paragraph 1.6.16 provide the basis for preparing consolidated financial statements for all the entities within the economic entity as a single economic unit.

1.6.18 The consolidated financial statements should only reflect transactions between the economic entity and other entities external to it. Accordingly, transactions between entities within the economic entity are eliminated to avoid double-counting. For example, a local body may sell a physical asset to an entity which it controls. Because the net cash effect on the reporting entity is zero, this transaction needs to be eliminated to avoid overstating the cash receipts and cash payments of the reporting entity i.e. the local body. .

1.6.19 Individual entities within the economic entity may adopt different policies for the classification of cash receipts and cash payments and the presentation of their financial statements. Cash receipts or cash payments arising from like transactions are classified and presented in a uniform manner in the consolidated financial statements where practicable.

Consolidation Disclosures

1.6.20 ***The following disclosures should be made in consolidated financial statements:***

- a) ***A listing of significant controlled entities including the name, the activity or purpose for which the controlled entity operates; and***

b) The reasons for not consolidating a controlled entity.

Transitional Provisions

1.6.21 Controlling entities that adopt this Standard may have large numbers of controlled entities with significant volumes of transactions between those entities. Accordingly, it may be difficult to identify all the transactions and balances that need to be eliminated for the purpose of preparing the consolidated financial statements of the economic entity. For this reason, paragraph 1.6.21A provides relief, during the transitional period, from the requirement to eliminate all cash balances and transactions between entities within the economic entity. However, paragraph 1.6.21B requires that entities which apply the transitional provision should disclose the fact that not all balances and transactions between entities within the economic entity have been eliminated.

1.6.21A *Entities are not required to comply with the requirement in paragraph 1.6.16(a) concerning the elimination of cash balances and transactions between entities within the economic entity for reporting periods beginning on a date within three years following the date of first adoption of this Standard.*

1.6.21B *Where entities apply the transitional provision in paragraph 1.6.21A, they should disclose the fact that not all balances and transactions between entities within the economic entity have been eliminated.*

Foreign Currency

Definitions

1.7.1 *The following terms are used in this Standard with the meanings specified:*

Closing rate is the spot exchange rate at the reporting date.

Exchange difference is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency at different exchange rates.

Exchange rate is the ratio for exchange of two currencies.

Foreign currency is a currency other than the reporting currency of an entity.

Reporting currency is the currency used in presenting the financial statements.

Treatment of Foreign Currency Cash Receipts, Payments and Balances

- 1.7.2** *Cash receipts and payments arising from transactions in a foreign currency should be recorded in an entity's reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the receipts and payments.*
- 1.7.3** *Cash balances held in a foreign currency should be reported using the closing rate.*
- 1.7.4** *[Refer Appendix A]*
- 1.7.5** *An entity should disclose the amount of exchange differences included as reconciling items between opening and closing cash balances for the period.*
- 1.7.6** *[Refer Appendix A]*
- 1.7.7** Entities may have transactions in foreign currencies such as borrowing an amount of foreign currency or purchasing goods and services where the purchase price is designated as a foreign currency amount. In order to include foreign currency transactions in financial statements the entity must express cash receipts, payments and balances in reporting currency terms.
- 1.7.8** Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash receipts and payments. However, the effect of exchange rate changes on cash held in a foreign currency is reported in the statement of cash receipts and payments in order to reconcile cash at the beginning and the end of the period. This amount is presented separately from cash receipts and payments and includes the differences, if any, had those cash receipts, payments and balances been reported at end-of-period exchange rates.
- 1.8.1** *[Refer Appendix A]*
- 1.8.2-1.8.3** *[Shifted to Consolidated Financial Statements section as paragraphs 1.6.21A & 1.6.21B]*

1.9 Presentation of Budget Information in Financial Statements

Definitions

1.9.1 *The following terms are used in this Standard with the meanings specified:*

Accounting basis means the accrual or cash basis of accounting as defined in the Accounting Standards for Local Bodies.

Annual budget means an approved budget for a financial year. It does not include published forward estimates or projections for periods beyond the budget period.

Appropriation is an authorisation granted by the appropriate authority or government to allocate funds for specific purposes.

Approved budget means the expenditure authority derived from laws, government orders and other decisions related to the anticipated revenue or receipts for the budgetary period.

Budgetary basis means the accrual, cash or other basis of accounting adopted in the budget that has been duly approved.

Comparable basis means the actual amounts presented on the same accounting basis, same classification basis, for the same entities and for the same period as the approved budget.

Revised budget is the original budget adjusted for all reserves, carry over amounts, transfers, allocations, supplemental appropriations, and other authorised legislative or similar authority, changes applicable to the budget period.

Original budget is the initial approved budget for the budget period.

Approved Budgets

1.9.2 An approved budget as defined by this Standard reflects the anticipated revenues or receipts expected to arise in the annual period based on current plans and the anticipated economic conditions during that budget period, and expenses or expenditures approved by the appropriate authority. An approved budget is not a forward estimate or a projection based on assumptions about future events and possible management actions which are not necessarily expected to take place. Similarly, an approved budget differs from prospective financial information which may

be in the form of a forecast, a projection or a combination of both – for example, a one year forecast plus a five year projection.

1.9.3 The critical feature of approved budgets is that the authority to withdraw funds from its own bank account or the government treasury for agreed and identified purposes is provided by the appropriate authority. The approved budget establishes the expenditure authority for the specified items. The expenditure authority is generally considered the legal limit within which an entity must operate.

1.9.4 If a budget is not approved prior to the beginning of the budget period, the original budget is the budget that has been approved for a specified period within the year by the appropriate authority.

Revised Budget

1.9.5 [Refer Appendix A]

1.9.6 Supplemental appropriations may be necessary where the original budget did not adequately envisage expenditure requirements arising from, for example, natural disasters. In addition, there may be a shortfall in budgeted receipts during the period, and internal transfers between budget heads or line items may be necessary to accommodate changes in funding priorities during the fiscal period. Consequently, the funds allotted to an entity or activity may need to be cut back from the amount originally appropriated for the period in order to maintain fiscal discipline. The revised budget includes all such authorised changes or amendments.

Actual Amounts

1.9.7 This Standard uses the term actual or actual amounts to describe the amounts that result from execution of the budget.

Presentation of a Comparison of Budget and Actual Amounts

1.9.8 ***Subject to the requirements of paragraph 1.9.17, an entity that makes publicly available its approved budget(s) should present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the statement of cash receipts and payments currently presented in accordance with this Standard. The comparison of budget and actual amounts should present separately:***

- a) ***The original and revised budget amounts;***
- b) ***The actual amounts on a comparable basis; and***
- c) ***By way of note disclosure, an explanation of material differences***

between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Scope

- 1.9.9 This Standard applies to all entities that are required to make publicly available their approved budget(s). This Standard does not require approved budgets to be made publicly available, nor does it require that the financial statements disclose information about, or include comparisons with, approved budgets which are not made publicly available.
- 1.9.10 In some cases, approved budgets will be compiled to encompass all the activities controlled by an entity. In other cases, separate approved budgets may be required to be made publicly available for certain activities, groups of activities or entities included in the financial statements of the entity. This may occur where, for example, a local body's financial statements encompass agencies or programs that have operational autonomy and prepare their own budgets. This Standard applies to all entities which present financial statements when approved budgets for the entity, or components thereof, are made publicly available.

Comparison of Budget and Actual Amounts

- 1.9.11 Presentation in the financial statements of the original and revised budget amounts and actual amounts on a comparable basis with the budget, which is made publicly available, will complete the accountability cycle by enabling users of the financial statements to identify whether resources were obtained and used in accordance with the approved budget. Differences between the actual amounts and the budget amounts, whether original or revised budget (often referred to as the "variance" in accounting), may also be presented in the financial statements for completeness.
- 1.9.12 An explanation of the material differences between actual amounts and the budget amounts will assist users in understanding the reasons for material departures from the approved budget for which the entity is held publicly accountable.
- 1.9.13 An entity may be required, to make publicly available its original budget, its revised budget or both its original and revised budget. In circumstances where both original and revised budget are required to be made publicly available, the legislation, regulation or other authority will often provide guidance on whether explanation of material differences between actual and the original budget amounts, or actual and the revised budget

amounts, is required in accordance with paragraph 1.9.8(c). In the absence of any such guidance, material differences may be determined by reference to, for example, differences between actual and original budget to focus on performance against original budget, or differences between actual and revised budget to focus on compliance with the revised budget.

- 1.9.14 In many cases, the revised budget amount and the actual amount will be the same. This is because budget execution is monitored over the reporting period and the original budget progressively revised to reflect changing conditions, changing circumstances and experiences during the reporting period. Paragraph 1.9.23 of this Standard requires the disclosure of an explanation of the reasons for changes between the original and revised budget. That disclosure, together with the disclosures required by paragraph 1.9.8 above, will ensure that entities which make publicly available their approved budget(s) are held publicly accountable for their performance against, and compliance with, the relevant approved budget.
- 1.9.15 Reports like city management reports, annual administrative reports, management discussion and analysis, or other public reports which provide commentary on the performance and achievements of the entity during the reporting period, including explanations of any material differences from budget amounts, are often issued in conjunction with the financial statements. In accordance with paragraph 1.9.8(c) of this Standard, explanation of material differences between actual and budget amounts will be included in notes to the financial statements unless included in other public reports or documents issued in conjunction with the financial statements, and the notes to the financial statements identify the reports or documents in which the explanation can be found.
- 1.9.16 [Refer Appendix A]

Presentation

- 1.9.17 ***An entity should present a comparison of budget and actual amounts as additional budget columns in the statement of cash receipts and payments only where the financial statements and the budget are prepared on a comparable basis.***
- 1.9.18 Comparisons of budget and actual amounts may be presented in a separate financial statement (“statement of comparison of budget and actual amounts” or a similarly titled statement). Alternatively, where the financial statements and the budget are prepared on a comparable basis – that is, on the same basis of accounting for the same entity and reporting period, and adopt the same classification structure – additional columns may be added to the statement of cash receipts and payments presented in accordance with this Standard. These additional columns will identify original and revised budget amounts and, if the entity so chooses,

differences between the budget and actual amounts.

- 1.9.19 When the budget and financial statements are not prepared on a comparable basis, a separate statement of comparison of budget and actual amounts is presented. In these cases, to ensure that readers do not misinterpret financial information which is prepared on different bases, the financial statements could usefully clarify that the budget and the accounting bases differ and the statement of comparison of budget and actual amounts is prepared on the budget basis.

Level of Aggregation

- 1.9.20 Budget documents may provide great detail about particular activities, programs or entities. These details are often aggregated into broad classes under common budget heads, budget classifications or budget headings for presentation to, and approval by, the appropriate authority. The disclosure of budget and actual information consistent with those broad classes and budget heads or headings will ensure that comparisons are made at the level of legislative or other authoritative body oversight.
- 1.9.21 In some cases, the detailed financial information included in approved budgets may need to be aggregated for presentation in financial statements in accordance with the requirements of this Standard. Such aggregation may be necessary to avoid information overload and to reflect relevant levels of legislative or other authoritative body oversight. Determining the level of aggregation will involve professional judgment. That judgment will be applied in the context of the objective of this Standard and the qualitative characteristics of financial reporting as identified in paragraph 1.3.32 of this Standard.
- 1.9.22 Additional budget information, including information about service achievements, may be presented in documents other than financial statements. Part 2 of this Standard encourages the inclusion in the financial statements of a cross reference to such documents.

Changes from Original to Revised Budget

- 1.9.23 ***An entity should present an explanation of whether changes between the original and revised budget are a consequence of reallocations within the budget, or of other factors, either:***
- a) ***By way of note disclosure; or***
 - b) ***In a report issued before, at the same time as, or in conjunction with the financial statements, and should include a cross reference to the report in the notes to the financial statements.***

1.9.24 The revised budget includes all changes approved by the appropriate authority to revise the original budget. Consistent with the requirements of this Standard, notes to the financial statements or a separate report issued before, in conjunction with or at the same time as the financial statements, will include an explanation of changes between the original and revised budget. That explanation will include whether, for example, changes arise as a consequence of reallocations within the original budget parameters or as a consequence of other factors, such as changes in the overall budget parameters, including changes in government policy. Such disclosures are often made in a management report or similar report on operations issued in conjunction with, but not as part of, the financial statements. Such disclosures may also be included in budget outcome reports issued by governments to report on budget execution. Where such disclosures are made in a separate report rather than in the notes to the financial statements, the notes will include a cross reference to that report.

Comparable Basis

1.9.25 ***All comparisons of budget and actual amounts should be presented on a comparable basis to the budget.***

1.9.26 The comparison of budget and actual amounts will be presented on the same accounting basis, same classification basis and for the same entities and period as for the approved budget. This will ensure that the disclosure of information about compliance with the budget in the financial statements is on the same basis as the budget itself. In some cases, this may mean presenting a budget and actual comparison on a different basis of accounting, for a different group of activities, and with a different presentation or classification format than that adopted for the financial statements.

1.9.27 Financial statements consolidate entities and activities controlled by the entity. As noted in paragraph 1.9.10, separate budgets may be approved and made publicly available for individual entities or particular activities that make up the consolidated financial statements. Where this occurs, the separate budgets may be recompiled for presentation in the financial statements in accordance with the requirements of this Standard. Where such recompilation occurs, it will not involve changes or revisions to approved budgets. This is because this Standard requires a comparison of actual amounts with the approved budget amounts.

1.9.28 Entities may adopt different bases of accounting for the preparation of their financial statements and for their approved budgets. For example, in some,

albeit rare, cases an entity may adopt the modified cash basis⁴ for its financial statements and the cash basis for its budget. However, the budget entity and financial reporting entity will often be the same. Similarly, the period for which the budget is prepared and the classification basis adopted for the budget will often be reflected in financial statements. This will ensure that the accounting system records and reports financial information in a manner which facilitates the comparison of budget and actual data for management and for accountability purposes – for example, for monitoring progress of execution of the budget during the budget period and for reporting to the government, the public and other users on a relevant and timely basis.

1.9.29-1.9.32 [Refer Appendix A]

Note Disclosures of Budgetary Basis, Period and Scope

1.9.33 ***An entity should explain in notes to the financial statements the budgetary basis and classification basis adopted in the approved budget.***

1.9.34 There may be differences between the accounting basis, for example, cash basis used in preparation and presentation of the budget and the modified cash basis used in the financial statements. These differences may occur when the accounting system and the budget system compile information from different perspectives – the budget may focus on cash flows, while the financial statements report cash receipts and cash payments plus certain accruals and commitments in notes to financial statements.

1.9.35 Formats and classification schemes adopted for presentation of the approved budget may also differ from the formats adopted for the financial statements. An approved budget may classify items on the same basis as is adopted in the financial statements, for example, expenditures by economic nature (compensation of employees, supplies and consumables, grants and transfers, etc) or function (health, education, etc). Alternatively, the budget may classify items by specific programs (for example, poverty reduction or control of contagious diseases) or program components linked to performance outcome objectives (for example, length of motorable roads, pass percentage of students), which differ from classifications

⁴ The modified cash basis of accounting recognises as disbursements and receipts in a reporting period those amounts expended and received respectively, during the reporting period plus those cash flows in a specified period following the reporting date (e.g., 60 days) that relate to events or transactions occurring during the reporting period. In effect, under this basis the books are kept open at the year end to identify payables and receivables that relate to events or transactions occurring during the reporting period.

adopted in the financial statements. Further, a revenue budget for ongoing operations (for example, education or health) may be approved separately from a capital budget (for example, infrastructure or buildings).

- 1.9.36 Disclosure of the budgetary basis and classification basis adopted for the preparation and presentation of approved budgets will assist users to better understand the relationship between the budget and accounting information disclosed in the financial statements.
- 1.9.37 ***An entity should disclose in notes to the financial statements the period of the approved budget.***
- 1.9.38 Financial statements are presented at least annually. Entities approve budgets for an annual period. Disclosure of the period covered by the approved budget where that period differs from the reporting period adopted for the financial statements will assist the user of those financial statements to better understand the relationship of the budget data and budget comparison to the financial statements. Disclosure of the period covered by the approved budget where that period is the same as the period covered by the financial statements will also serve a useful confirmation role, particularly where interim budgets and financial statements and reports are also prepared.
- 1.9.39 ***An entity should identify in notes to the financial statements the entities included in the approved budget.***
- 1.9.40 [Refer Appendix A]

Reconciliation of Actual Amounts on a Comparable Basis and Actual Amounts in the Financial Statements

- 1.9.41 ***The actual amounts presented on a comparable basis to the budget in accordance with paragraph 1.9.25 should, where the financial statements and the budget are not prepared on a comparable basis, be reconciled to total cash receipts and total cash payments, identifying separately any basis, timing and entity differences. The reconciliation should be disclosed on the face of the statement of comparison of budget and actual amounts or in the notes to the financial statements.***
- 1.9.42 Differences between the actual amounts identified consistent with the comparable basis and the actual amounts recognised in the financial statements can be classified into the following:
- a) Budgetary basis differences, which occur when the approved budget is prepared on a basis other than the accounting basis. For example, where the budget is prepared on the cash basis and the financial

statements are prepared on the modified cash basis;

- b) Timing differences, which occur when the budget period differs from the reporting period reflected in the financial statements; and
- c) Entity differences, which occur when the budget omits programs or entities that are part of the entity for which the financial statements are prepared.

There may also be differences in formats and classification schemes adopted for presentation of financial statements and the budget.

- 1.9.43 The reconciliation required by paragraph 1.9.41 of this Standard will enable the entity to better discharge its accountability obligations by identifying major sources of difference between the actual amounts on a budget basis and the total cash receipts and total cash payments recognised in the statement of cash receipts and payments. This Standard does not preclude reconciliation of each major total and subtotal, or each class of items, presented in a comparison of budget and actual amounts with the equivalent amounts in the financial statements.
- 1.9.44 For entities adopting the cash basis of accounting for preparation of both the budget documents and the financial statements, a reconciliation will not be required where the budget is prepared for the same period, encompasses the same entities and adopts the same presentation format as the financial statements. For other entities adopting the same basis of accounting for the budget and the financial statements, there may be a difference in presentation format, reporting entity or reporting period – for example, the approved budget may adopt a different classification or presentation format to the financial statements. A reconciliation would be necessary where there are presentation, timing or entity differences between the budget and the financial statements prepared on the same accounting basis.
- 1.9.45 ***The disclosure of comparative information in respect of the previous period in accordance with the requirements of this Standard is not required.***
- 1.9.46 This Standard requires a comparison of budget and actual amounts to be included in the financial statements of entities which make publicly available their approved budget(s). It does not require the disclosure of a comparison of actual amounts of the previous period with the budget of that previous period, nor does it require that the related explanations of differences between the actuals and budget of that previous period be disclosed in the financial statements of the current period.
- 1.9.47 ***[Refer Appendix A]***

1.9.48 [Refer Appendix A]

1.10 Recipients of External Assistance

Definitions

1.10.1 *The following terms are used in this Standard with the meaning specified:*

Assigned External Assistance means any external assistance, including external assistance grants, technical assistance, guarantees or other assistance, received by an entity that is assigned by the recipient to another entity.

Bilateral External Assistance Agencies are agencies established under national law, regulation or other authority of a nation for the purpose of, or including the purpose of, providing some or all of that nation's external assistance.

External Assistance means all official resources which the recipient can use or otherwise benefit from in pursuit of its objectives.

Multilateral External Assistance Agencies are all agencies established under international agreement or treaty for the purpose of, or including the purpose of, providing external assistance.

Non-Governmental Organisations (NGOs) are all foreign or national agencies established independent of control by any government for the purpose of providing assistance to government(s), government agencies, other organisations or to individuals.

Official Resources means all loans, grants, technical assistance, guarantees or other assistance provided or committed under a binding agreement by multilateral or bilateral external assistance agencies or by a government, or agencies of a government, other than to a recipient of the same nation as the government or government agency providing, or committing to provide, the assistance.

Re-Lent External Assistance Loans means external assistance loans received by an entity that are lent by the recipient to another entity.

1.10.2 Different organisations may use different terminology for external assistance or classes of external assistance. For example, some organisations may use the term external aid or aid, rather than external assistance. In these cases, the different terminology is unlikely to cause confusion. However, in other cases, the terminology may be substantially different. In these cases, preparers, auditors and users of general purpose

financial statements will need to consider the substance of the definitions rather than just the terminology in determining whether the requirements of this Standard apply.

External Assistance

- 1.10.3 External assistance is defined in paragraph 1.10.1 as all official resources which the recipient can use or otherwise benefit from in pursuit of its objectives. Official resources as defined in paragraph 1.10.1 does not encompass assistance provided by non-governmental organisations (NGOs), even if such assistance is provided under a binding agreement. Assistance received from NGOs, whether in the form of cash donations or third party settlements, will be presented in the financial statements and disclosed in explanatory notes in accordance with the requirements of Sections 1.1 to 1.9 of Part 1 of this Standard. Paragraph 2.1.64 encourages, but does not require, application of the disclosures required by paragraphs 1.10.1 to 1.10.27 to assistance received from NGO's where practicable.
- 1.10.4 NGOs as defined in paragraph 1.10.1 are foreign or national agencies established independent of control by any government. In some rare cases, it may not be clear whether the donor organisation is a bilateral or multilateral external assistance agency or a NGO, and therefore independent of control by any government. Where such a donor organisation provides, or commits to provide, assistance under the terms of a binding agreement, the distinction between official resources as defined in this Standard and resources provided by a NGO may become blurred. In these cases, professional judgment will need to be exercised to determine whether the assistance received satisfies the definition of external assistance and, therefore, is subject to the disclosure requirements specified in this section.

Official Resources

- 1.10.5 Official resources are defined in paragraph 1.10.1 to be resources committed under a binding agreement by multilateral or bilateral external assistance agencies or governments or government agencies, other than to a recipient of the same nation as the provider of the assistance. Governments as referred to in the definition of official resources may include national, state, provincial or local governments in any nation. Therefore, assistance provided by, for example, a national government or state government agency of one nation to a state or local government of another nation is external assistance as defined in this Standard. However, assistance provided by a national or state government to another level of government within the same nation does not satisfy the definition of official resources, and therefore is not external assistance.

External Assistance Agreements

1.10.6 Governments seeking particular forms of external assistance may participate in formal meetings or rounds of meetings with donor organisations. These may include meetings to discuss the government's macroeconomic plans and its development assistance needs, or bilateral discussions at governmental level regarding finance military assistance, balance of payments and other forms of assistance. They may also include separate meetings to consider the country's emergency assistance needs as those needs arise. Initial discussions may result in statements of intent or pledges which are not binding on the government or the external assistance agency. However, subsequently binding agreements may be set in place to make available assistance loans or grants provided restrictions on access to the funds, if any, are met and agreed conditions or covenants are adhered to by the recipient entity. External assistance agreements may also include the provision of goods or services in-kind to the recipient.

1.10.7 External assistance agreements may provide for the entity to:

- a) Draw down in cash the full proceeds of the loan or grant or a tranche of the loan or grant;
- b) Seek reimbursement(s) for qualifying payments made by the entity to a third party settling in cash an obligation(s) of the entity, as defined by the loan or grant agreement; or
- c) Request the external assistance agency to make payments directly to a third party settling in cash an obligation(s) of the recipient entity as defined by the loan or grant agreement, including an obligation of the recipient entity for goods or services provided or to be provided by a NGO.

External Assistance Received

1.10.8 ***The entity should disclose separately on the face of the Statement of Cash Receipts and Payments, total external assistance received in cash during the period.***

1.10.9 ***The entity should disclose separately, either on the face of the Statement of Cash Receipts and Payments or in the notes to the financial statements, total external assistance paid by third parties during the period to directly settle obligations of the entity or purchase goods and services on behalf of the entity, showing separately:***

- a) ***Total payments made by third parties which are part of the economic entity to which the reporting entity belongs; and***

b) ***Total payments made by third parties which are not part of the economic entity to which the reporting entity belongs. These disclosures should only be made when, during the reporting period, the entity has been formally advised by the third party or the recipient that such payment has been made, or has otherwise verified the payment.***

1.10.10 ***Where external assistance is received from more than one provider, the significant classes of providers of assistance should be disclosed separately, either on the face of the Statement of Cash Receipts and Payments or in the notes to the financial statements.***

1.10.11 ***Where external assistance is received in the form of loans and grants, the total amount received during the period as loans and the total amount received as grants should be shown separately, either on the face of the Statement of Cash Receipts and Payments or in the notes to the financial statements.***

1.10.12 External assistance may be provided directly to the reporting entity in the form of cash. Alternatively, a third party may provide external assistance by settling an obligation of the reporting entity or purchasing goods and services for the benefit of the reporting entity. In some cases:

a) The third party may be part of the economic entity to which the reporting entity belongs – this will occur where, for example, external assistance in the form of cash is provided for the benefit of a program run by a particular department of a local body where the local body manages the expenditure of its individual departments and other entities through a centralised treasury function or a “single account” arrangement. In these cases, the treasury or other central agency receives the external assistance and makes payments of amounts provided by way of external assistance on behalf of the department, after appropriate authorisation and documentation from the department; or

b) The third party may not be part of the economic entity to which the reporting entity belongs – this will occur where, for example, an aid agency makes a debt repayment to a regional development bank on behalf of a local body, pays a construction company directly for building a road for a particular local body rather than providing the funds directly to the local body itself, or funds the operation of a health or education program of an independent local body by directly paying service providers and acquiring on behalf of the local body the necessary supplies during the period.

1.10.13 Disclosure of the amount of external assistance received in the form of cash and in the form of third party payments made on behalf of the entity will indicate the extent to which the operations of the reporting entity are

funded from taxes and/or internal sources, or are dependent upon external assistance. Consistent with the requirements of paragraph 1.3.24 of this Standard, external assistance paid by third parties should only be disclosed in the statement of Cash Receipts and Payments when the reporting entity has been formally advised that such payments have been made during the reporting period or otherwise verifies their occurrence. Disclosure of the significant classes of external assistance received is also encouraged, but not required (see paragraph 2.1.66).

- 1.10.14 Disclosure of the significant classes of providers of assistance such as, for example, multilateral donors, bilateral donors, international assistance organisations, national assistance organisations or other major classes as appropriate for the reporting entity will identify the extent of the entity's dependence on particular classes of providers and will be relevant to an assessment of the sustainability of the assistance. This Standard does not require the disclosure of the identity of each provider of assistance or the amount of assistance each provides. However, disclosure of the amount provided by each provider in the currency provided is encouraged (see paragraph 2.1.70).
- 1.10.15 External assistance is often denominated in a currency other than the reporting currency of the entity. Cash receipts, or payments made by third parties on behalf of the entity arising from transactions in a foreign currency, will be recorded or reported in the entity's reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the receipts or payments in accordance with paragraph 1.7.2 of this Standard.
- 1.10.16 Governments usually retain the exclusive right to enter into external assistance agreements with multilateral or bilateral external assistance agencies. In many of these cases, the project or activity is implemented by another entity. The government may re-lend or assign the funds received to the other entity. The terms and conditions of the re-lent or assigned funds may be the same as received from the external assistance agency or may be different than initially received. In some cases, a small fee or interest spread is charged to cover the government's administrative costs. An entity which enters into an external assistance agreement and passes the benefits as well as the terms and conditions of the agreement through to another entity by way of a subsidiary agreement will recognise or report the external assistance as it is received. It will also record payments to the second entity in accordance with its normal classification of payments adopted in the financial statements.
- 1.10.17 Where the initial recipient of a loan or grant passes the proceeds and the terms and conditions of the loan or grant through to another entity, the initial entity may simply be administering the loan or grant on behalf of the

end user. Netting of transactions where the terms and conditions are substantially the same may be appropriate in the financial statements of the administrator, in accordance with the provisions of paragraph 1.3.13 of this Standard.

Undrawn External Assistance

1.10.18 ***The entity should disclose in the notes to the financial statements the balance of undrawn external assistance loans and grants available at reporting date to fund future operations when, and only when, the amount of the loans or grants available to the recipient is specified in a binding agreement and the satisfaction of any substantial terms and conditions that determine, or affect access to, that amount is highly likely, showing separately in the reporting currency:***

a) ***Total external assistance loans; and***

b) ***Total external assistance grants.***

Significant terms and conditions that determine, or affect access to, the amount of the undrawn assistance should also be disclosed.

1.10.19 The amount of external assistance currently committed under a binding agreement(s) but not yet drawn may be significant. In some cases, the amount of the assistance loan(s) or grant(s) is specified in a binding agreement and the satisfaction of any substantial conditions that need to be satisfied to access that amount is highly likely. This may occur in respect of undrawn balances of project funding for projects currently under development where conditions have been, and continue to be, satisfied and the project is anticipated to continue under the terms of the agreement. Where such undrawn balances are provided in a foreign currency, opening and closing balances will be determined by applying to the foreign currency amount the exchange rate on the reporting dates in accordance with the provisions of paragraph 1.7.3 of this Standard.

1.10.20 In some cases, a donor entity may express an intention to provide ongoing assistance to the reporting entity, but not specify in a binding agreement the amount of the assistance loan(s) or grant(s) to be provided in future periods – for example, this may occur where the amount of assistance to be provided is dependent on the annual budget of the donor or other sources of funding that may be secured by the recipient. In other cases, the amount of assistance may be specified but be subject to terms and conditions, the satisfaction of which cannot be assessed as being highly likely at the reporting date – for example, this may occur in respect of emergency assistance to be provided subject to the amount of assistance provided by other agencies. In these cases, disclosure of the undrawn amounts is not made. In some cases, professional judgment may need to

be exercised in assessing whether the satisfaction of the substantial terms and conditions that determine, or effect access to, the external assistance is highly likely.

Receipt of Goods or Services

1.10.21 ***Where an entity elects to disclose the value of external assistance received in the form of goods or services, it should also disclose in the notes to the financial statements the basis on which that value is determined.***

1.10.22 Paragraph 2.1.90 of this Standard encourages an entity to disclose separately in the notes to the financial statements the value of external assistance received in the form of goods or services. Paragraph 1.3.38 of this Standard explains that where encouraged disclosures are included in notes to the financial statements, they will need to be understandable and to satisfy the other qualitative characteristics of financial information. Where an entity elects to make such disclosures, it is required to disclose in the notes to the financial statements the basis on which that value is determined. Such disclosure will enable users to assess whether, for example, the value is determined by reference to donor valuation, fair value determined by reference to prices in the world or domestic markets, by management assessment or on another basis.

Disclosure of Debt Rescheduled or Cancelled

1.10.23 ***An entity should disclose in the notes to the financial statements the amount of external assistance debt rescheduled or cancelled during the period, together with any related terms and conditions.***

1.10.24 An entity experiencing difficulty in servicing its external assistance debt may seek renegotiation of the terms and conditions of the debt or cancellation of the debt. Disclosure of the amount of external assistance debt rescheduled or cancelled, together with any related terms and conditions will alert users of the financial statements that such renegotiation or cancellation has occurred. This will provide useful input to assessments of financial condition of the entity and changes therein.

Disclosure of Non Compliance with Significant Terms and Conditions

1.10.25 ***An entity should disclose, in notes to the financial statements, significant terms and conditions of external assistance loan or grant agreements or guarantees that have not been complied with during the period when non compliance resulted in cancellation of the assistance or has given rise to an obligation to return assistance previously provided. The amount of external assistance cancelled or to be returned should also be disclosed.***

- 1.10.26 External assistance agreements will usually include terms and conditions that must be complied with for ongoing access to assistance funds, as well as some procedural terms and conditions.
- 1.10.27 The disclosures required by paragraph 1.10.25 will enable readers to identify the instances of non compliance that have adversely affected the funds that are available to support the entity's future operations. It will also provide input to assessments of whether re-establishment of compliance with the agreement may occur in the future. Disclosure of non-compliance with significant terms and conditions in other cases is also encouraged, but not required (see paragraph 2.1.83).

Transitional Provisions for Section 1.10

- 1.10.28 *[Refer Appendix A]*
- 1.10.29 *[Refer Appendix A]*
- 1.10.30 ***Entities are not required to disclose separately in the notes to the financial statements the balance of undrawn external assistance as specified in paragraph 1.10.18 for a period of two years from the date of first application of this Standard.***
- 1.10.31 ***When an entity applies the transitional provisions in paragraph 1.10.30, it should disclose that it has done so.***
- 1.10.32 In the first year of application of the requirements of this Standard, an entity may not have the information necessary to enable it to disclose the closing balance of undrawn external assistance as required by paragraph 1.10.18.
- 1.10.33 Paragraph 1.10.30 provides relief from the requirement to apply paragraph 1.10.18 for a period of two years from initial application of that paragraph.
- 1.10.34 To ensure users are informed of the extent to which the requirements of this Standard have been complied with, paragraph 1.10.31 requires that entities that make use of these transitional provisions disclose that they have done so.

Appendix 1

Illustration of the Requirements of Part 1 of the Standard

This Appendix is illustrative only and does not form part of the Standard. It illustrates an extract of a Statement of Receipts and Payments and relevant note disclosures for an entity that has received external assistance loans and grants during the current and preceding periods. Its purpose is to assist in clarifying the meaning of the standards by illustrating their application in the preparation and presentation of general purpose financial statements under the cash basis of accounting. The receipts and payments heads in these formats may be modified to make them consistent with those given in the budget of the local body.

CONSOLIDATED FINANCIAL STATEMENTS FOR LOCAL BODY A
CONSOLIDATED STATEMENT OF CASH RECEIPTS AND PAYMENTS
FOR YEAR ENDED MARCH 31, 20XX
(RECEIPTS)

(in thousands of currency units)	Note	← 20XX-XX →			← 20XX-XX-1 →		
		Receipts/ (Payments) controlled by entity	Treasury Account	Payments by third parties	Receipts/ (Payments) controlled by entity	Treasury Account	Payments by third parties
RECEIPTS							
Taxes & Cess							
Property tax		x	-	-	x	-	-
Other taxes		x	=	=	x	=	=
Cesses		x	=	=	x	=	=
Assigned revenue		x	=	=	x	=	=
Lease		x	=	=	x	=	=
		x	-	-	x	-	-
External Assistance	10						
Multilateral Agencies		x	x	x	x	x	x
Bilateral Agencies		x	x	x	x	x	x
		x	x	x	x	x	x
Other Grants and							

Aid							
Central Government		x	x	x	x	x	x
State Government		<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>	<u>x</u>
		x	x	x	x	x	x
Other Borrowings							
Receipts from borrowing	3						
- From banks		x			x		
- From Government		x			x		
- From financial institutions		x			x		
- others		<u>x</u>			<u>x</u>		
		x			x		
Capital Receipts							
Proceeds from disposal of property, plant and equipment		x			x		
Investments							
Proceeds from maturity of investments		x			x		
Trading Activities							
Receipts from trading activities		x			x		
Other receipts	4	x		x	x		x
Total receipts		x	x	x	x	x	x

(PAYMENTS)

	Note	20XX-XX			20XX-XX-1		
(in thousands of currency units)		Receipts/ (Payments) controlled by entity	Treasury Account	Payments by third parties	Receipts/ (Payments) controlled by entity	Treasury Account	Payments by third parties
PAYMENTS							
Operations							
Wages, salaries and employee benefits		(x)	(x)	(x)	(x)	(x)	(x)
Supplies and Consumables		(x)	(x)	(x)	(x)	(x)	(x)
Operations & Maintenance expenses		<u>(x)</u>	<u>(x)</u>	<u>(x)</u>	<u>(x)</u>	<u>(x)</u>	<u>(x)</u>
		(x)	(x)	(x)	(x)	(x)	(x)
Transfers							
Grants		(x)	(x)	-	(x)	(x)	-
Other transfer payments		<u>(x)</u>	<u>(x)</u>	=	<u>(x)</u>	<u>(x)</u>	=
		(x)	(x)	-	(x)	(x)	-
Capital Expenditures							
Purchase/construction of property, plant and equipment		(x)	(x)	(x)	(x)	(x)	(x)
Infrastructure assets		<u>(x)</u>	<u>(x)</u>	=	<u>(x)</u>	<u>(x)</u>	=
		(x)	(x)	(x)	(x)	(x)	(x)
Annuities							
		(x)	(x)	-	(x)	(x)	-
Loan and Interest							
Repayments							
Repayment of borrowings		(x)	(x)	-	(x)	(x)	-
Interest payments		<u>(x)</u>	<u>(x)</u>	=	<u>(x)</u>	<u>(x)</u>	=
		(x)	(x)	-	(x)	(x)	-
Investments							
Other payments	5	<u>(x)</u>	<u>(x)</u>	=	<u>(x)</u>	<u>(x)</u>	=
		(x)	(x)	(x)	(x)	(x)	(x)
Total payments		(x)	(x)	(x)	(x)	(x)	(x)
Increase/(Decrease) in Cash		(x)	(x)	-	(x)	(x)	-
Cash at beginning of year	2	(x)	(x)	N/A*	(x)	(x)	N/A
Increase/(Decrease) in Cash		(x)	(x)	N/A	(x)	(x)	N/A
Cash at end of year	2	(x)	(x)	N/A	(x)	(x)	N/A

* N/A = Not applicable.

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT (BUDGET
VARIANCE STATEMENT)**

For Local Body X for the Year Ended March 31, 20XX

Budget Approved on the Cash Basis

(Classification of Payments by Functions)

(in thousands of currency units)	*Actual Amounts	Revised Budget	Original Budget	** <i>Difference: Revised Budget and Actual</i>
CASH INFLOWS				
Taxation	x	x	x	x
Government grants	x	x	x	x
Scheme grants	x	x	x	x
International agencies	x	x	x	x
Other grants and aid	x	x	x	x
Borrowing	x	x	x	x
Disposal of plant and equipment	x	x	x	x
Trading activities	x	x	x	x
Other receipts	x	x	x	x
Total receipts	x	x	x	x
CASH OUTFLOWS				
Health	(x)	(x)	(x)	(x)
Education	(x)	(x)	(x)	(x)
Storm Water Drains	(x)	(x)	(x)	(x)
Welfare	(x)	(x)	(x)	(x)
Horticulture	(x)	(x)	(x)	(x)
Basic Services for Urban Poor	(x)	(x)	(x)	(x)
Engineering	(x)	(x)	(x)	(x)
Projects	(x)	(x)	(x)	(x)
General Administration	(x)	(x)	(x)	(x)
Other	(x)	(x)	(x)	(x)
Total payments	(x)	(x)	(x)	(x)
NET CASH FLOWS	x	x	x	x

* Actual amounts encompass both cash and third party settlements.

** The "Difference..." column is not required. However, a comparison between actual and the original or the revised budget, clearly identified as appropriate, may be included.

ADDITIONAL FINANCIAL STATEMENTS (OPTIONAL)

Additional financial statements may be prepared to provide details of amounts included in the consolidated statement of cash receipts and payments: for example, to disclose information by major funds or to disclose expenditures by major functions or programs, or to provide details of sources of borrowings. Columns disclosing budgeted amounts may also be included.

STATEMENT OF CASH RECEIPTS BY FUND CLASSIFICATION

	20XX		20XX-1	
(in thousands of currency units)		Treasury Account		Treasury Account
	Receipts controlled by entity		Receipts controlled by entity	
RECEIPTS				
General Fund	x	x	x	x
Water Supply Fund	x	x	x	x
Education Fund	x	x	x	x
Special Funds	x	x	x	x
Trading Funds	x	x	x	x
Total receipts	x	x	x	x

BORROWINGS

	Note	20XX			20XX-1		
(in thousands of currency units)		Cash Receipts controlled by entity	Treasury Account	Resulting from Payments by third parties	Receipts controlled by entity	Treasury Account	Resulting from Payments by third parties
BORROWINGS							
Domestic Commercial Institution		x	x	-	x	x	-
Offshore Commercial Institution		x	x	-	x	x	-
Development Banks and Similar Lending Agencies		x	x	x	x	x	x
Total borrowings	3	x	x	x	x	x	x

STATEMENT OF PAYMENTS BY PROGRAMS/ACTIVITIES/FUNCTION OF LOCAL BODY

	Note	← 20XX →		← 20XX-1 →			
(in thousands of currency units)		Payments controlled by entity	Treasury Account	Payments by third parties	Payments controlled by entity	Treasury Account	Payments by third parties
PAYMENTS/EXPENDITURE							
Operating Account							
Education Services		x	x	x	x	x	x
Health Services		x	x	x	x	x	x
Welfare		x	x	x	x	x	x
Engineering		x	x	x	x	x	x
Horticulture		x	x	x	x	x	x
Basic Services for Urban Poor		x	x	x	x	x	x
General Administration		x	x	x	x	x	x
Other		x	x	x	x	x	x
Total payments/expenditure		x	x	x	x	x	x
PAYMENTS/EXPENDITURE							
Capital Account							
Education Services		x	x	x	x	x	x
Health Services		x	x	x	x	x	x
Welfare		x	x	x	x	x	x
Projects		x	x	x	x	x	x
Storm Water Drains		x	x	x	x	x	x
General Administration		x	x	x	x	x	x
Other		x	x	x	x	x	x
Total payments/expenditure		x	x	x	x	x	x
Total Operating and Capital Accounts		x	x	x	x	x	x

Notes to the Financial Statements

1. Accounting Policies

Basis of preparation

The financial statements have been prepared in accordance with ASLB on *Financial Reporting under the Cash Basis of Accounting*.

The accounting policies have been applied consistently throughout the period.

Reporting entity

The financial statements are for the _____ local body. The financial statements encompass the reporting entity as specified in the relevant legislation (_____). This comprises:

- i. Departments of the local body; and
- ii. Joint ventures that are under the control of the local body.

The consolidated financial statements include all entities controlled during the year. A list of significant controlled entities is shown in Note 7 to the financial statements.

Certain receipts and payments of the local body are made by the State Treasury. Payments made on this account in respect of the local body are disclosed in the Treasury Account column in the Statement of Cash Receipts and Payments and other financial statements.

Payments by Third Parties

The local body also benefits from goods and services purchased on its behalf as a result of cash payments made by third parties during the period by way of loans and contributions. The payments made by the third parties do not constitute cash receipts or payments by the local body but do benefit the local body. They are disclosed in the *Payments by third parties* column in the Consolidated Statement of Cash Receipts and Payments and other financial statements.

Reporting currency

The reporting currency is Indian Rupees.

2. Cash

Cash comprises cash on hand, demand deposits and cash equivalents. Demand deposits and cash equivalents consist of balances with banks and short term investments. Cash included in the statement of cash receipts and payments comprise the following amounts:

(Rs. in thousands)	20XX	20XX-1
Cash on hand and balances with banks	x	x
Short-term investments	x	x
	x	x

Included in the amount stated above is Rs. XX have been provided by the International Agency XX that is restricted to the construction of road infrastructure.

3. Borrowings

Borrowings comprise cash inflows from banks, similar lending agencies and commercial institutions and amounts owing in respect of non-cash assistance provided by third parties.

4. Other Receipts

Included in other receipts are fees, fines, penalties and miscellaneous receipts.

5. Other Payments/Expenditure

Included in other payments are miscellaneous payments which cannot be classified under specific heads.

6. Undrawn Borrowing Facilities Other than Undrawn External Assistance

(See note 10 for undrawn external assistance)

(Rs. in thousands)	20XX	20XX-1
Movement in Undrawn Borrowing Facilities		
Undrawn borrowing facilities at 1.4.XX	x	x
Additional loan facility	x	x
Total available	x	x
Amount drawn	(x)	(x)
Facility closure/cancellations	(x)	(x)
Undrawn borrowing facilities at 31.3.XX.	x	x

(Rs. in thousands)	20XX	20XX-1
Undrawn Borrowing Facilities		
Commercial Financial Institutions	x	x
Banks	x	x
Total undrawn borrowing facilities	x	x

7. Significant Controlled Entities

Entity	Activity or Purpose
Entity A	x
Entity B	x
Entity C	x
Entity D	x

8. Authorisation Date

The financial statement was authorised for publication on *XX Month 20XX* by a resolution passed by the Council.

9. Original and Revised Approved Budget and Comparison of Actual and Budget Amounts

The budget is approved on a cash basis by functional classification. The approved budget covers the fiscal period from April 1, 20XX to March 31, 20XX and includes all local body departments – these are identified in Note 7 above.

The original budget was approved by a council resolution dated _____ and a supplemental appropriation of XXX for disaster relief support was approved by a council resolution dated _____ due to the earthquake in the town on (date). The original budget objectives and policies, and subsequent revisions are explained more fully in the City Management Report issued in conjunction with the financial statements.

The excess of actual expenditure over the revised budget of 15% (25% over original budget) for the health function was due to expenditures above the level approved by a council resolution dated _____ in response to the earthquake. There were no other material differences between the revised approved budget and the actual amounts.

The budget and the accounting bases differ. The financial statements for the local body are prepared on the modified cash basis using a classification based on the nature of expenses in the statement of financial performance. The financial statements are consolidated statements which include all controlled entities, including joint ventures for the fiscal period from April 1, 20XX to March 31 20XX. The budget is approved on the cash basis by functional classification and deals only with the local body which excludes joint ventures and certain other non-market government entities and activities.

The amounts in the statement of cash receipts and payments were adjusted to be consistent with the cash basis and reclassified by functional classification to be on the same basis as the revised approved budget. In addition, adjustments to amounts in the statement of cash receipts and payments for timing differences associated with the continuing appropriation and

differences in the entities covered (joint ventures and other entities) were made to express the actual amounts on a comparable basis to the revised approved budget.

A reconciliation between the actual inflows and outflows as presented in the statement of comparison of budget and actual amounts and the amounts of total cash receipts and total cash payments reported in the statement of cash receipts and payments for the year ended March 31, 20XX is presented below.

	Total inflows	Total outflows
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	x	x
Basis Differences	x	x
Timing Differences	-	-
Entity Differences	x	x
Total Cash receipts	x	
Total Cash Payments		x

The financial statements and budget documents are prepared for the same period. There is an entity difference: the budget is prepared for the local body only and the financial statements consolidate all entities controlled by the local body. There is also a basis difference: the budget is prepared on a cash basis and the financial statements on the modified cash basis. This reconciliation could be included on the face of the Statement of Comparison of Budget and Actual Amounts or as a note disclosure.

10. External Assistance

Payments by Third Parties

All payments made by third parties are made by third parties which are not part of the economic entity.

External Assistance

External assistance was received in the form of loans and grants from multilateral and bilateral donor agencies under agreements specifying the purposes for which the assistance will be utilised. The following amounts are presented in the reporting currency of the entity.

	20XX Total	20XX-1 Total
Loan Funds		
Multilateral Agencies	x	x
Bilateral Agencies	x	x
Total	x	x

Grant Funds		
Multilateral Agencies	x	x
Bilateral Agencies	x	x
Total	x	x
Total External Assistance	x	x

Non Compliance with significant terms and conditions and rescheduled and cancelled debt

There have been no instances of non compliance with terms and conditions which have resulted in cancellation of external assistance loans.

External assistance grants of X domestic currency units were cancelled during the reporting period. The cancellation resulted from over estimation of the cost of specified development projects and consequentially expenditure of an amount less than that committed for the period by the donor entity.

Undrawn External Assistance

Undrawn external assistance loans and grants at reporting date are amounts specified in a binding agreement which relate to funding for projects currently under development, where conditions have been satisfied, and their ongoing satisfaction is highly likely, and the project is anticipated to continue to completion.

	Loans 20XX	Grants 20XX	Loans 20XX-1	Grants 20XX-1
Closing balance in reporting currency	x	x	x	x

The significant terms and conditions that determine or affect access to the amount of undrawn assistance relate to the achievement of the following specified construction targets for development of health and education infrastructure: (Entity to identify significant construction targets).

PART 2: FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING ENCOURAGED ADDITIONAL DISCLOSURES

This part of the Standard is not mandatory. It sets out encouraged additional disclosures for reporting under the cash basis. It should be read together with Part 1 of this Standard, which sets out the requirements for reporting under the cash basis of accounting. The encouraged disclosures, which have been set in italic, should be read in the context of the commentary paragraphs in this part of the Standard, which are in plain type.

FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING PART 2: ENCOURAGED ADDITIONAL DISCLOSURES

2.1 Encouraged Additional Disclosures

Definitions

2.1.1 *The following terms are used in this part of the Standard with the meanings specified:*

Accrual basis means a basis of accounting under which transactions and other events are recognised when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognised in the financial statements of the periods to which they relate. The elements recognised under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.

Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Closing rate is the spot exchange rate at the reporting date.

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.

Extraordinary items are (for the purposes of this Standard) cash flows that arise from events or transactions that are clearly distinct from the ordinary activities of the entity, are not expected to recur frequently or regularly and are outside the control or influence of the entity.

A financial asset is any asset that is:

- a) *Cash;*
- b) *A contractual right to receive cash or another financial asset from another entity;*
- c) *A contractual right to exchange financial instruments with another entity under conditions that are potentially favourable; or*
- d) *An equity instrument of another entity.*

Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying

economic benefits or service potential.

Ordinary activities are any activities which are undertaken by an entity as part of its service delivery or trading activities. Ordinary activities include such related activities in which the entity engages in furtherance of, incidental to, or arising from these activities.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

Terms defined in Part 1 of this Standard are used in this part of the Standard with their defined meaning.

Future Economic Benefits or Service Potential

2.1.2 Assets, including cash and other resources, provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives but which do not directly generate net cash inflows are often described as embodying "service potential." Assets that are used to generate net cash inflows are often described as embodying future economic benefits. To encompass all the purposes to which assets may be put, this Standard uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.

Going Concern

2.1.3 *When preparing the financial statements of an entity, those responsible for the preparation of the financial statements are encouraged to make an assessment of the entity's ability to continue as a going concern. When those responsible for the preparation of the financial statements are aware, in making their assessment, of material uncertainties related to events or conditions which may cast significant doubt upon the entity's ability to continue as a going concern, the disclosure of those uncertainties is encouraged.*

2.1.4 In assessing whether the entity is a going concern, those responsible for the preparation of the financial statements:

- a) Will need to take into account all available information for the foreseeable future which will include, but will not necessarily be limited to, twelve months from the approval of the financial statements; and
- b) May need to consider a wide range of factors surrounding current and expected performance, potential and announced restructurings of organisational units, estimates of receipts or the likelihood of continued government funding, and potential sources of financing before it is appropriate to conclude that the entity is a going concern.

2.1.5 There may be circumstances where the usual going concern tests of liquidity and solvency as applied to business enterprises appear unfavorable, but other factors suggest that the entity is nonetheless a going concern. For example:

- a) In assessing whether the entity is a going concern, the power to levy rates or taxes may enable some entities to be considered as a going concern even though their cash payments may exceed their cash receipts for extended periods; and
- b) For an individual entity, an assessment of its cash flows for a reporting period may suggest that the entity is not a going concern. However, there may be multi-year funding agreements in place with the government that will ensure the continued operation of the entity.

Extraordinary Items

2.1.6 *An entity is encouraged to separately disclose the nature and amount of each extraordinary item. The disclosure may be made on the face of the statement of cash receipts and payments, or in other financial statements or in the notes to the financial statements.*

2.1.7 Extraordinary items are characterised by the fact that they arise from events or transactions that are distinct from an entity's ordinary activities, are not expected to recur frequently or regularly and are outside the control or influence of the entity. Accordingly, extraordinary items are rare, unusual and material.

Distinct from Ordinary Activities

2.1.8 Whether an event or transaction is clearly distinct from the ordinary activities of the entity is determined by the nature of the event or transaction in relation to the activities ordinarily carried on by the entity rather than by the frequency with which such events are expected to occur. An event or transaction may be extraordinary for one entity, but not extraordinary for another entity, because of the differences between their respective ordinary activities.

Not Expected to Recur in the Foreseeable Future

2.1.9 The event or transaction will be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates. The nature of extraordinary items is such that they would not normally be anticipated at the beginning of a reporting period and therefore would not be included in a budget. Inclusion of an item in a budget suggests that the occurrence of the specific item is foreseen and therefore not extraordinary.

Outside the Control or Influence of the Entity

2.1.10 The event or transaction will be outside the control or influence of the entity. A transaction or event is presumed to be outside the control or influence of an entity if the

decisions of the entity do not normally influence the occurrence of that transaction or event.

Identifying Extraordinary Items

2.1.11 Whether or not an item is extraordinary will be considered in the context of the entity's operating environment. Judgment will be exercised in each case.

2.1.12 Examples of cash flows associated with events or transactions that may, although not necessarily, give rise to extraordinary items for some entities are:

- a) Short-term cash flows associated with the provision of services to refugees where the need for such services was unforeseen at the beginning of the period, outside the ordinary scope of activities for the entity and outside the control of the entity. If such services were predictable or occurring in more than one reporting period they would not generally be classified as extraordinary; and
- b) The cash flows associated with the provision of services following a natural or man-made disaster, for example, the provision of shelter to homeless people following an earthquake. In order for a particular earthquake to qualify as an extraordinary event it would need to be of a magnitude that would not normally be expected in either the geographic area in which it occurred or the geographic area associated with the entity, and the provision of emergency services or the restoration of essential services would need to be outside the scope of ordinary activities of the entity concerned. Where an entity has responsibility for providing assistance to those affected by natural disasters, the costs associated with this activity would not generally meet the definition of an extraordinary item.

2.1.13 The restructuring of activities is an example of an event which would normally not be extraordinary for the entity. All three criteria within the definition of an extraordinary item must be satisfied before an item can be classified as extraordinary. A restructuring may clearly be distinct from the ordinary activities of the entity. It is only in circumstances where the restructuring is imposed by government or by an external regulator or other external authority that it could be classified as outside the control or influence of the entity.

2.1.14 The disclosure of the nature and amount of each extraordinary item may be made on the face of the statement of cash receipts and payments or other financial statements that might be prepared or in the notes to those financial statements. An entity may also decide to disclose only the total amount of extraordinary items on the face of the statement of cash receipts and payments and the details in the notes.

Administered Transactions

2.1.15 *An entity is encouraged to disclose in the notes to the financial statements, the amount and nature of cash flows and cash balances resulting from transactions administered*

by the entity as an agent on behalf of others where those amounts are outside the control of the entity.

2.1.16 The cash flows associated with transactions administered by an entity acting as an agent on behalf of others may not pass through a bank account controlled by the reporting entity. In these cases, the entity cannot use, or otherwise benefit from, the cash it administers in the pursuit of its own objectives. These cash flows are not controlled by the entity and therefore are not included in the totals shown on the face of the statement of cash receipts and payments or other financial statements that might be prepared. However, disclosure of the amount and nature of these transactions by major type is encouraged because it provides useful information on the scope of the entity's activities and it is relevant for an assessment of an entity's performance.

2.1.17 Where such cash receipts and payments pass through a bank account controlled by the entity, they are treated as cash flows and balances of the entity itself and included in the totals shown on the face of the statement of cash receipts and payments. Paragraph 1.3.13(a) of Part 1 of this Standard permits such cash receipts and payments to be reported on a net basis. Paragraphs 2.1.21 to 2.1.22 below provide guidance on the cash receipts, payments and balances that:

- a) May be controlled by a entity and will be reported in the statement of cash receipts and payments in accordance with Part 1 of this Standard; and
- b) Are administered transactions which will not be included on the face of the statement of cash receipts and payments or other financial statements that might be prepared but for which disclosure is encouraged.

2.1.18 – 2.1.20 [Refer Appendix A]

“Pass-through” Cash Flows

2.1.21 In some cases, the administrative arrangements in place in respect of the revenue collection activities a government or government entity undertakes as an agent of another party may provide for the cash collected to be initially deposited in the entity's own bank account before it is transferred to the ultimate recipient. Cash flows arising as a consequence of these transactions are sometimes termed “pass-through” cash flows. In these cases, the entity will:

- a) Control the cash it collects in its capacity as an agent for the, usually short, period the cash is deposited in the entity's bank account prior to transfer to third parties;
- b) Usually benefit from any interest arising from amounts deposited in interest bearing accounts prior to its transfer to the other entity; and
- c) Have an obligation to transfer the cash collected to third parties in accordance with legislative requirements or administrative arrangements.

When cash inflows from administered transactions pass through a bank account controlled by the reporting entity, the cash receipts, cash transfers and cash balances arising from the collection activity will be included in the entity's statement of cash receipts and payments in accordance with paragraph 1.3.4(a)(i) of Part 1 of this Standard. Paragraph 1.3.13(a) of Part 1 of this Standard specifies that cash receipts and payments which arise from transactions the entity administers on behalf of other parties and which are recognised in the financial statements may be reported on a net basis.

Transfer Payments

2.1.22 Consistent with a government's objectives and with legislation or other authority, amounts appropriated to an entity may include amounts to be transferred to third parties in respect of, for example, pensions. In some cases, these amounts will pass through a bank account controlled by the entity. Where this occurs, the entity will recognise the cash appropriated for transfer during the reporting period as a cash receipt, the amounts transferred during that reporting period as a cash payment and any amounts held at the end of the reporting period for transfer in the future as part of closing balance of cash.

Disclosure of Major Classes of Cash Flows

2.1.23 *An entity is encouraged to disclose, either on the face of the statement of cash receipts and payments or other financial statements or in the notes to those statements:*

a) [Refer Appendix A]

b) proceeds from borrowings. In addition, the amount of borrowings may be further classified into type and source.

2.1.24 -2.1.29 [Refer Appendix A]

2.1.30 Paragraph 1.3.12 of Part 1 of this Standard requires the disclosure of total cash receipts of the entity showing separately a sub-classification of total cash receipts using a classification basis appropriate to the entity's operations. The sub-classification of cash receipts into appropriate classes will depend upon the size, nature and function of the amounts involved. In addition to disclosure of the amount of receipts from external assistance and borrowings, the following sub-classifications may be appropriate:

- a) Receipts from taxation (these may be further sub-classified into types of taxes);
- b) Receipts from fees, fines, penalties and licenses;
- c) Receipts from exchange transactions including receipts from the sale of goods and services and user charges (where these are classified as exchange transactions);

- d) The purposes for which external assistance grants and loans are provided, the providers of that assistance and the amount provided;
- e) Receipts from other grants, transfers, or budget appropriations (possibly classified by source and purpose);
- f) Receipts from interest and dividends; and
- g) Receipts from gifts and donations.

Related Party Disclosures

2.1.31 An entity is encouraged to disclose in the notes to the financial statements information required by Accounting Standard for Local Bodies on “Related Party Disclosures.”⁵

2.1.32 ASLB 20, in the accrual based series of ASLBs, defines related parties and other relevant terms, requires the disclosure of related party relationships where control exists and requires the disclosure of certain information about related party transactions, including information about aggregate remuneration of key management personnel.

Disclosure of Assets, Liabilities and Comparison with Budgets

2.1.33 *An entity is encouraged to disclose in the notes to the financial statements:*

- a) *Information about the assets and liabilities of the entity; and*
- b) *A comparison with budgets*

2.1.34 Entities control significant resources in addition to cash and deploy those resources in the achievement of service delivery objectives. They also borrow to fund their activities, incur other debts and liabilities in the course of their operations and make commitments to expend money in the future on the acquisition of capital assets. Non-cash assets and liabilities will not be reported on the face of the statement of cash receipts and payments or other financial statements that might be prepared under the cash basis of accounting. However, entities maintain records of, and monitor and manage, their debt and other liabilities and their non-cash assets. The disclosure of information about assets and liabilities and the costs of particular programs and activities will enhance accountability and is encouraged by this Standard.

2.1.35 Entities that make such disclosures are encouraged to identify assets and liabilities by type, for example, by classifying:

- a) Assets as receivables, investments or property plant and equipment; and

⁵ This ASLB is under formulation.

- b) Liabilities as payables, borrowings by type or source and other liabilities.

While such disclosures may not be comprehensive in the first instance, entities are encouraged to progressively develop and build on them. In order to comply with the requirements of paragraphs 1.3.5 and 1.3.37 of Part 1 of this Standard, these disclosures will need to comply with qualitative characteristics of financial information and should be clearly described and readily understood. Accrual based ASLBs including ASLB on, “Leases”⁶, ASLB 17 on, “Property, Plant and Equipment” and ASLB on “Provisions, Contingent Liabilities and Contingent Assets” can provide useful guidance to entities disclosing additional information about assets and liabilities.

Comparison with Budgets

2.1.36 Entities are typically subject to budgetary limits in the form of appropriations or other budgetary authority which may be given effect through authorising legislation. One of the objectives of financial reporting by these entities is to report on whether cash was obtained and used in accordance with the legally adopted budget. In some jurisdictions, this requirement is reflected in legislation. Entities which make publicly available their approved budgets are required to comply with the requirements of paragraphs 1.9.1 to 1.9.46 of Part 1 of this Standard. This Standard encourages other entities (that is, entities which do not make publicly available their approved budgets) to include in their financial statements the disclosure of a comparison of actual with the budgeted amounts for the reporting period where the financial statements and the budget are on the same basis of accounting. Reporting against budgets for these other entities may be presented in different ways, including:

- a) The preparation of a note with separate columns for budgeted amounts and actual amounts. A column showing any variances from the budget or appropriation may also be presented for completeness; and
- b) Disclosure that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or payments made without appropriation or other form of authority, then details may be disclosed by way of note to the relevant item in the financial statements.

2.1.37 *Entities which disclose in their financial statements a comparison of actual with budgeted amounts are encouraged to include in the financial statements a cross reference to reports which include information about service achievements.*

2.1.38 [Refer Appendix A]

2.1.39 Additional budget information, including information about service achievements, may be presented in documents other than financial statements. Entities which disclose in their financial statements a comparison of actual with budgeted amounts are

⁶ This Accounting Standard for Local Bodies is under preparation.

encouraged to include in their financial statements a cross reference to such documents, particularly to link budget and actual data to non-financial budget data and service achievements.

2.1.40 [Refer Appendix A]

Consolidated Financial Statements

2.1.41 *An entity is encouraged to disclose in the notes to the financial statements:*

- a) *The proportion of ownership interest in controlled entities and, where that interest is in the form of shares, the proportion of voting power held (only where this is different from the proportionate ownership interest);*
- b) *Where applicable:*
 - i. *The name of any controlled entity in which the controlling entity holds an ownership interest and/or voting rights of 50% or less, together with an explanation of how control exists; and*
 - ii. *The name of any entity in which an ownership interest of more than 50% is held but which is not a controlled entity, together with an explanation of why control does not exist; and*
- c) *In the controlling entity's separate financial statements, a description of the method used to account for controlled entities.*

2.1.42 *A controlling entity which does not present a consolidated statement of cash receipts and payments is encouraged to disclose the reasons why the consolidated financial statements have not been presented together with the basis on which controlled entities are accounted for in its separate financial statements. It is also encouraged to disclose the name and the principal address of its controlling entity that publishes consolidated financial statements.*

2.1.43 Paragraph 1.6.20(b) of Part 1 of this Standard requires that the reasons for non-consolidation of a controlled entity should be disclosed. Paragraph 1.6.7 of Part 1 of the Standard also provide that a controlling entity that is itself a wholly owned entity or a controlling entity that is virtually wholly owned, need not present a consolidated financial statement. When this occurs, the disclosure of the information in paragraph 2.1.42 above is encouraged.

Acquisitions and Disposals of Controlled Entities and Other Operating Units

2.1.44 *An entity is encouraged to disclose and present separately the aggregate cash flows arising from acquisitions and from disposals of controlled entities or other operating units.*

2.1.45 *An entity is encouraged to disclose in the notes to the financial statements, in aggregate in respect of both acquisitions and disposals of controlled entities or other operating units during the period, each of the following:*

- a) *The total purchase or disposal consideration (including cash or other assets);*
- b) *The portion of the purchase or disposal consideration discharged by means of cash; and*
- c) *The amount of cash in the controlled entity or operating unit acquired or disposed of.*

2.1.46 The separate presentation of the cash flow effects of acquisitions and disposals of controlled entities and other operations, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from cash receipts and payments arising from the other activities of the entity. To enable users to identify the effects of both acquisitions and disposals, the cash flow effects of disposals should not be deducted from those acquisitions.

2.1.47 The aggregate amount of the cash paid or received as purchase or sale consideration is reported in the statement of cash receipts and payments net of cash acquired or disposed of.

2.1.48 Paragraph 2.1.33 encourages the disclosure of assets and liabilities of the entity. Assets and liabilities other than cash of a controlled entity or operating unit acquired or disposed of may also be separately disclosed, summarised by each major category. Consistent with the requirement of paragraph 1.3.37 of Part 1 of this Standard, where such disclosure is made, the assets and liabilities should be clearly identified and the basis on which they are recognised and measured explained.

Joint Ventures

2.1.49 *An entity is encouraged to make disclosures about joint ventures which are necessary for a fair presentation of the cash receipts and payments of the entity during the period and the balances of cash as at reporting date.*

2.1.50 Many entities establish joint ventures to undertake a variety of activities. The nature of these activities range from commercial undertakings to provision of community services at no charge. The terms of a joint venture are set out in a contract or other binding arrangement and usually specify the initial contribution from each joint venturer and the share of revenues or other benefits (if any) and expenses of each of the joint venturers. Entities which report on a cash basis will generally report:

- a) As cash payments, the cash expended in the acquisition of an interest in a joint venture and in the ongoing operations of the joint venture; and

- b) As cash receipts, the cash received from the joint venture.

Disclosures about joint ventures may include a listing and description of interests in significant joint ventures. Accounting Standard for Local Bodies on “Interests in Joint Ventures”⁷ in the accrual based series of ASLBs provides guidance on the different forms and structures that joint ventures may take and potential additional disclosures that might be made.

2.1.51-2.1.63 [Refer Appendix A]

Assistance Received From Non-Governmental Organisations (NGOs)

2.1.64 Where practicable, an entity is encouraged to apply to assistance received from non-governmental organisations (NGOs), the required disclosures identified in paragraphs 1.10.1 to 1.10.27 of Part 1 of this Standard and the encouraged disclosures identified in paragraphs 2.1.66 to 2.1.93 below.

2.1.65 Reporting entities are not required to make the disclosures identified in paragraphs 1.10.1 to 1.10.27 of Part 1 in respect of assistance received from non-governmental organisations (NGOs). This is because the costs of collecting and aggregating the information necessary to comply with those requirements may be greater than its benefits. However, making the disclosures about assistance received from NGOs which are identified in paragraphs 1.10.1 to 1.10.27, together with the disclosures encouraged in paragraphs 2.1.66 to 2.1.93 below can provide additional input to assessments of the extent to which the reporting entity is dependent on assistance from these organisations to support its activities. Accordingly, reporting entities are encouraged to apply the disclosures identified in this Standard to assistance received from NGOs, where it is practicable to do so.

Recipients of External Assistance

2.1.66 *An entity is encouraged to disclose in notes to the financial statements:*

- a) *The purposes for which external assistance was received during the reporting period, showing separately amounts provided by way of loans and grants; and*
- b) *The purposes for which external assistance payments were made during the reporting period.*

2.1.67 An entity may receive external assistance for many purposes including assistance to support its:

⁷ This Accounting Standard for Local Bodies is under preparation.

- a) Economic development or welfare objectives, often termed development assistance;
- b) Emergency relief objectives, often termed emergency assistance; and
- c) [Refer Appendix A]
- d) [Refer Appendix A]
- e) Trading activities, including export credits or loans offered by export/import banks or other government agencies, often termed trade finance.

2.1.68 Part 1 of this Standard requires disclosure of the total amount of external assistance received during the reporting period showing separately the total amount received by way of grants and loans. Disclosure of external assistance received by way of loan or grant will enable users to determine the purposes for which assistance was provided during the period, the amounts thereof and whether the entity has an obligation to repay the assistance provided at some time in the future.

2.1.69 Disclosure of the purposes for which external assistance payments were made during the reporting period will further enhance the entity's accountability for its use of external assistance received.

2.1.70 *An entity is encouraged to identify in notes to the financial statements each provider of external assistance during the reporting period and the amount provided, excluding any undrawn amounts, showing separately amounts provided by way of loans and grants in the currency provided.*

2.1.71 Disclosure of each provider of external assistance and the amount provided by way of loan and grant will indicate the extent of diversification of sources of assistance. This will assist readers of the financial statements to determine, for example, whether the entity is dependent on particular agencies for assistance, the extent of that dependency and the currency in which it was provided, and whether the assistance is provided by way of a grant or a loan which will need to be repaid in the future. The disclosure encouraged by this paragraph excludes amounts that have not been drawn down during the period. Paragraph 2.1.72 encourages disclosure of information about undrawn amounts of external assistance in certain circumstances.

2.1.72 In respect of external assistance that is undrawn at reporting date and is disclosed in accordance with paragraph 1.10.18 of Part 1 of this Standard, *an entity is encouraged to disclose in notes to the financial statements:*

- a) *Each provider of loan assistance and grant assistance and the amount provided by each;*
- b) *The purposes for which the undrawn loan assistance and undrawn grant*

assistance may be used;

- c) *The currency in which the undrawn assistance is held or will be made available; and*
- d) *Changes in the amount of undrawn loan assistance and undrawn grant assistance during the period.*

2.1.73 Undrawn external assistance balances are required to be disclosed in certain circumstances by paragraph 1.10.18 of Part 1 of this Standard. The disclosures encouraged by paragraph 2.1.72 will enable readers of the financial statements to determine the purposes for which such undrawn assistance may be used in the future, the currency in which that undrawn assistance is held or will be made available, and whether the amount of undrawn loan and grant assistance declined or increased during the period.

2.1.74 As is appropriate for the reporting entity, the disclosures could usefully identify such matters as the opening balance of undrawn loans and grants, the amount of new loans and new grants approved or otherwise made available during the period, the total amount of loans and grants drawn or utilised during the period, the total amounts of loans and grants cancelled or expired during the period, and the closing balance of undrawn loans and grants. Such disclosures will assist users in identifying not only the amount of the change in undrawn balances, but also the components of that change.

2.1.75 Where disclosures of changes in the amount of undrawn assistance are made in the entity's reporting currency, external assistance denominated in a foreign currency will be reported in the entity's reporting currency by applying to the foreign currency amount the exchange rate on the date of each applicable transaction, consistent with the requirements of Part 1 of this Standard.

2.1.76 *An entity is encouraged to disclose in notes to the financial statements the terms and conditions of external assistance agreements that determine or affect access to, or limit the use of, external assistance.*

2.1.77 Some external assistance agreements limit or specifically define the use or purpose for which the external assistance may be used, or limit the sources from which goods or services may be purchased. This type of external assistance term or condition may specify that the funds are available only to purchase specific inputs for the construction of specified facilities at a specified location, or that the goods or services purchased under the external assistance agreement must originate from a specified country or countries.

2.1.78 Some external assistance may be released on specific dates, or may be released upon the entity:

- a) Undertaking actions specified in an external assistance agreement, such as implementing specific policy changes; or
- b) Achieving ongoing performance targets, such as budget deficit targets or other broad economic objectives.

2.1.79 Disclosure of terms and conditions that determine or affect access to external assistance will indicate the extent to which external assistance is time bound and/or is dependent upon the entity taking certain actions and achieving certain performance objectives, and what those actions and performance objectives are.

2.1.80 *An entity is encouraged to disclose in notes to the financial statements:*

- a) *The outstanding balance of any external assistance loans for which principal and/or interest payments have been guaranteed by third parties, any terms and conditions related to those loans, and any additional terms and conditions arising from the guarantee; and*
- b) *The amount and terms and conditions of external assistance loans and grants for which performance of related terms and conditions have been guaranteed by third parties, and any additional terms and conditions arising from the guarantee.*

2.1.81 The balance of external assistance loans borrowed by an entity and payment of interest thereon may be guaranteed, in total or up to a specified amount. Terms and conditions associated with the loans may also require the recipient to take certain actions, or achieve agreed outcomes such as setting tariffs according to an agreed formula, the performance of which are guaranteed by third parties. External assistance grants may also be subject to similar terms and conditions, the performance of which are guaranteed by third parties.

2.1.82 Disclosure of the amounts of external assistance loans and grants guaranteed by third parties will indicate the extent of support from another entity to obtain the benefits of the external assistance agreement. Disclosure of the terms and conditions of external assistance loans and grants that have been guaranteed, and any additional terms and conditions imposed to effect that guarantee, will indicate the additional performance requirements or conditions that arise as a consequence of securing the guarantee.

2.1.83 *An entity is encouraged to disclose in notes to the financial statements other significant terms and conditions associated with external assistance loans, grants or guarantees that have not been complied with, together with the consequence of the non compliance.*

2.1.84 Paragraph 1.10.25 of Part 1 of this Standard requires the disclosure of significant terms and conditions that have not been complied with when non compliance has

resulted in cancellation of the assistance or given rise to an obligation to return assistance previously provided. External assistance agreements may also include other significant terms and conditions that are to be complied with, as well as some procedural terms and conditions. Consequences of non compliance with these other significant terms and conditions may include a reduction in the amount, or variation in the timing, of funds that may be drawn or made available in the future until the default is corrected. They may also include an increase in the interest rate charged on loan funds.

- 2.1.85 Identifying these other significant terms and conditions which have not been complied with is likely to require professional judgment. That judgment will be exercised in the context of the entity's particular circumstances and by reference to the qualitative characteristics of financial statements. These terms and conditions are likely to be those where non compliance is likely to affect the amount or timing of funds that will be available to support the entity's future operations.
- 2.1.86 *An entity is encouraged to disclose in the notes to the financial statements, a summary of the repayment terms and conditions of outstanding external assistance debt. Where disclosures of future debt service payments denominated in a foreign currency are made, the entity is encouraged to report them in the entity's reporting currency by applying to the foreign currency amount of those payments the closing rate.*
- 2.1.87 External assistance debt agreements will include terms and conditions relating to such matters as the grace period, interest rate, current debt service payments, future debt service payments, remaining term of the loan, currency of debt service payments, principal repayment requirements (where repayment of the principal is deferred until the end of the loan term, or some other future date), and other significant repayment terms.
- 2.1.88 Debt service payments may be a significant cash outlay for the entity and will impact on cash available to fund current and additional operations. Disclosure of repayment terms and conditions of outstanding external assistance debt will enable readers of the financial statements to determine when debt service payments (principal and interest or service charges) will commence, and the amount of principal and interest or service charge payable.
- 2.1.89 Disclosure of information about repayment terms and conditions may require the estimation of, for example, the interest rate to be applied to variable rate debt. The estimated interest rate will usually be determined by reference to applicable interest rates at the closing date. In accordance with the requirements of paragraphs 1.3.30 to 1.3.37 of Part 1 of this Standard, when an entity elects to make disclosures which involve estimates, the accounting policies selected and applied in developing such estimates will be disclosed where necessary for a proper understanding of the

financial statements.

- 2.1.90 *An entity is encouraged to disclose separately in the notes to the financial statements the value of external assistance received in the form of goods or services.*
- 2.1.91 Significant resources may be received under external assistance agreements in the form of goods or services. This will occur when new or used goods such as vehicles, computers or other equipment are transferred to the entity under an external assistance agreement. It will also occur when food aid is provided to a local body for distribution to its citizens under an external assistance agreement. For some recipients, goods or services may be the major form in which external assistance is received.
- 2.1.92 Disclosure of the value of external assistance received as goods and services will assist readers of the financial statements to better understand the full extent of external assistance received during the reporting period. However, in some cases and for some recipients, determining the value of such goods and services can be a difficult, time consuming and costly process. This is particularly so where a domestic market price for those goods and services cannot be readily determined, where the goods and services provided are not widely traded in international markets or where they are of a unique nature, such as often occurs in respect of emergency assistance.
- 2.1.93 This Standard does not specify the basis on which the value of the goods or services is to be determined. Therefore, their value may be determined as the depreciated historical cost of physical assets at the time the assets are transferred to the recipient or the price paid for the food by the external assistance agency. It may also be determined on the basis of an assessment of the value by management of the transferor, or the recipient, or by a third party. Where the value of external assistance in the form of goods or services is disclosed, paragraph 1.10.21 of Part 1 of this Standard requires the disclosure of the basis on which that value is determined. Where such is described as fair value it will conform with the definition of fair value that is, the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

2.2 Governments and Other Public Sector Entities Intending to Migrate to the Accrual Basis of Accounting

Presentation of the Statement of Cash Receipts and Payments

- 2.2.1 *An entity which intends to migrate to the accrual basis of accounting is encouraged to present a statement of cash receipts and payments in the same format as that required by Accounting Standard for Local Bodies (ASLB) on, "Cash Flow*

Statements.”⁸

2.2.2 Part 2 of this Standard encourages disclosure of information additional to that required by ASLB 2. Entities which adopt the format of ASLB 2 for the presentation of the statement of cash receipts and payments are encouraged to also make the additional disclosures identified in Part 2 of this Standard.

Scope of Consolidated Statements - Exclusions from the Economic Entity

2.2.3 When an entity adopts the accrual basis of accounting in accordance with the accrual ASLBs, it will not consolidate entities in which control is intended to be temporary because the controlled entity is acquired and held exclusively with a view to its subsequent disposal in the near future. Temporary control may occur where, for example, a local body intends to transfer its interest in a controlled entity to a government or another entity.

2.2.4 Part 1 of this Standard does not provide for such entities to be excluded from the consolidated financial statements prepared under the cash basis. This is because:

- a) The cash of an entity which is controlled on only a temporary basis can be used for the benefit of the economic entity during the period of temporary control; and
- b) The potentially complex consolidation adjustments that may be necessary under the accrual basis will not arise under the cash basis.

2.2.5 For this exemption from consolidation to apply under the accrual ASLBs, the controlling entity must be demonstrably committed to a formal plan to dispose of, or no longer control, the entity that is subject to temporary control. For the exemption to apply at more than one successive reporting date, the controlling entity must demonstrate an ongoing intent to dispose of, or no longer control, the entity that is subject to temporary control. An entity is demonstrably committed to dispose of, or no longer control, another entity when it has a formal plan to do so and there is no realistic possibility of withdrawal from that plan.

2.2.6 Entities preparing to migrate to the accrual basis will need to be aware of this difference in consolidation requirements of the accrual and cash basis ASLBs, and to determine whether, for any controlled entities included in the consolidated statement of receipts and payments, control is temporary.

⁸ This Accounting Standard for Local Bodies is under preparation.

Illustration of Certain Disclosures Encouraged in Part 2 of the Standard

This appendix is illustrative only. The purpose of the appendix is to illustrate the application of the encouragements and to assist in clarifying their meaning.

Extract from notes to financial statements of Entity ABC

Administered Transactions (paragraph 2.1.15)

Administered transactions comprise cash flows resulting from transactions administered by the Entity as an agent on behalf of the government and specific government bodies. All cash collected in the capacity of an agent is deposited in a separate bank account. These accounts are not controlled by the Entity and the cash deposited in them cannot be used by the Entity without specific authorisation by the relevant government body.

(Rupees in lakhs)

	Nature of Transaction	20XX-XX	20XX-XX-1
Cash collected on behalf of State Government	Library cess	X	X
Election Commission	Enrolment fees	<u>X</u>	<u>X</u>
		X	X
Cash transferred to respective entities		(X)	(X)
		-	-

Extract from notes to financial statements of Local Body X

Assets and Liabilities (paragraph 2.1.33(a))

Property, plant and equipment

The local body commenced the process of identifying and valuing major classes of its property, plant and equipment. The assets are stated at historical cost, wherever available, or valuation. The valuations were performed by an independent professional valuer.

(rupees in lakhs)	200X	200X-1
Plant and equipment	X	X

Land and buildings		
Land	X	X
Buildings	X	X
	X	X

(Extract from notes to financial statements of Local Body X: Assets and Liabilities (paragraph 2.1.33(a) continued)

Borrowings

The borrowings of the Government are listed below:

(rupees in lakhs)	20XX-XX	20XX-XX-1
Balance at beginning of year	X	X
BORROWINGS		
From banks	X	X
From financial institutions	X	X
From Development Banks and Similar Lending Agencies	X	X
Total borrowings	X	X
REPAYMENTS		
To banks	(X)	(X)
To financial institutions	(X)	(X)
To Development Banks and Similar Lending Agencies	(X)	(X)
Total repayments	(X)	(X)
Balance at end of year	X	X

Extract from notes to financial statements of local Body X continued)

Comparison with budget (paragraph 2.1.33(b))

(rupees in lakhs)	Actual	Budgeted	Variance
RECEIPTS			
<i>Tax receipts</i>			
Property tax	X	X	X
Advertisement tax			
Other taxes	X	X	(X)
	X	X	X
<i>Non tax receipts</i>			
Fees and fines	X	X	X
Receipts from trading activities	X	X	X
<i>Others</i>	X	X	X
	X	X	X
<i>Grants in aid</i>			
Government			
International agencies	X	X	-
Other Grants and Aid	X	X	=
	X	X	-
<i>Borrowings</i>			
Government	X	X	(X)
Banks	X	X	(X)
Other agencies	X	X	(X)
	X	X	(X)
<i>Capital Receipts</i>			
Proceeds from disposal of assets	X	X	X
<i>Other receipts</i>	X	X	X
Total receipts	X	X	X

(rupees in lakhs)	Actual	Budgeted	Variance
PAYMENTS			
<i>Operations</i>			
Wages, salaries and employee benefits	(X)	(X)	(X)
Other operational expenses	<u>(X)</u>	<u>(X)</u>	<u>(X)</u>
	(X)	(X)	(X)
<i>Grants and contributions</i>			
Grants	(X)	(X)	-
Other transfers	<u>(X)</u>	<u>(X)</u>	-
	(X)	(X)	-
<i>Capital Expenditures</i>			
Purchase/construction of fixed assets	(X)	(X)	(X)
	(X)	(X)	(X)
<i>Loan and Interest Repayments</i>			
Repayment of borrowings	(X)	(X)	-
Interest payments	(X)	(X)	-
	(X)	(X)	-
<i>Other payments</i>	(X)	(X)	(X)
Total payments	(X)	(X)	(X)
NET RECEIPTS/(PAYMENTS)	X	X	X

Extract from notes to financial statements of Entity XYZ

Controlled Entities (paragraphs 2.1.41, 2.1.44 and 2.1.45)

Entity XYZ has the power to govern the financial and operating policies so as to benefit from the activities of other entities. These are controlled entities. All controlled entities are included in the consolidated financial statements. (Paragraph 1.6.20(a) in Part 1 of this Standard requires that a list of significant controlled entities be disclosed.)

Enterprise	Nature of controlling interest	Ownership Interest (%)	Voting Power (%)
Enterprise A		XX	XX
Enterprise B		XX	XX
Enterprise C		XX	XX
Enterprise D		XX	XX
Enterprise E		XX	XX

Significant Joint Ventures (paragraph 2.1.49)

Name of Joint Venture	Principal Activity	Interest	
		20XX-XX %	20XX-XX-1 %
		XX	XX
		XX	XX

Extract From Notes to the Financial Statements of Local body C

Assistance Provided by Non-Governmental Organisations (NGOs) (Paragraph 2.1.64)

Assistance from NGOs is included in the amount of “Other Grants and Aid” in the Statement of Cash Receipts and Payments. The amount of assistance from NGOs received during the reporting period in the reporting currency is:

	20XX		20XX-XX-1	
	Cash Receipts	Payments by third parties	Cash Receipts	Payments by third parties
Grant Funds	X	X	X	-
Loan Funds	-	-	-	-
Total	X	X	X	-

Assistance was received from NGOs under agreements specifying that the assistance would be utilised for the following purposes:

	Development Assistance		Emergency Assistance		Other		Total	
	20XX	20XX-XX-1	20XX	20XX-XX-1	20XX	20XX-XX-1	20XX	20XX-XX-1
NGO 1	X	X	-	-	-	X	X	X
NGO 2	-	-	X	-	-	-	X	-
NGO 3	X	X	X	-	-	-	X	X
Total	X	X	X	-	-	X	X	X
USD	X	X	X	X	-	X	X	X
Euro	X	X	X	-	-	-	X	X
Yen	-	-	X	X	-	-	X	X

The currency in which external assistance was provided was as follows:

- NGO 1 – US Dollars to the amount of YYY and other currency being (specify currency) to the amount of X
- NGO 2 – Euros to the amount of YYY
- NGO 3 – Yen to the amount of YYY

The assistance was fully used for the purposes specified.

While NGO 1, 2 and 3 have indicated their intention to provide ongoing emergency assistance as the need arises and their resources allow, the extent of the assistance is not subject to binding written agreements. It will be determined on the basis of an assessment of needs and the capacity of each NGO to provide ongoing assistance.

During 200X, NGO 1 provided medical teams and medical equipment in support of earthquake victims in the ZZZ region. Temporary shelter, food and clothing were also supplied by NGO 2. The value of the goods and services received has been estimated at XX rupees. The value of the specialised emergency assistance provided has been determined based on cost estimates provided by the NGOs involved.

There have been no instances of non-compliance with terms and conditions which have resulted in cancellation of assistance grants.

There were no amounts of undrawn assistance from NGOs in 20XX or 20XX-XX-1.

Extract From Notes to the Financial Statements of Local body C

Classes of External Assistance (Paragraph 2.1.66 and 2.1.70)

During the reporting period external assistance was received from multilateral and bilateral external assistance agencies under agreements specifying that the assistance would be utilised for the following purposes:

	Development Assistance		Emergency Assistance		Other		Total	
	20XX	20XX-XX-1	20XX	20XX-XX-1	20XX	20XX-XX-1	20XX	20XX-XX-1
Loan Funds	X	X	-	-	X	-	X	X
Grant Funds	X	-	X	X	-	-	X	X
Total	X	X	X	X	X	-	X	X
Amount utilised	X	X	X	X	X	-	X	X
% utilised	X	X	X	X	X	-	X	X

	Agency 1		Agency 2		Agency 3		Agency 4	
	20XX	20XX-XX-1	20XX	20XX-XX-1	20XX	20XX-XX-1	20XX	20XX-XX-1
Loan Funds	X	X	-	-	X	-	X	X
Grant Funds	X	-	X	X	-	X	X	X
Total	X	X	X	X	X	X	X	X
Currency: US Dollar	X	X	-	-	-	-	-	-

Euro	-	-	X	X	-	-	-	-
Yen	-	-	-	-	X	X	-	-
Other	-	-	-	-	-	-	X	X

Undrawn External Assistance (Paragraph 2.1.72)

Undrawn external assistance loans and grants consist of amounts which have been specified in a binding agreement with external assistance agencies but have not been utilised at reporting date, and are subject to terms and conditions that have been satisfied in the past and it is anticipated will be satisfied in the future. External assistance loans cancelled or expired due to non-incurrence of budgeted expenditure on development projects. Changes in the amount of undrawn assistance loans and grants are presented in rupees.

	Development Assistance		Emergency Assistance		Other		Total	
	20XX	20XX-XX-1	20XX	20XX-XX-1	20XX	20XX-XX-1	20XX	20XX-XX-1
<i>Opening balance</i>								
Loans	X	X	-	-	X	X	X	X
Grants	X	X	-	X	-	-	X	X
<i>Approved during the period</i>								
Loans	X	X	-	-	X	-	X	X
Grants	X	X	X	X	X	X	X	X
<i>Total available</i>	X	X	X	X	X	X	X	X
Loans drawn	(X)	(X)	-	-	(X)	(X)	(X)	-

Grants drawn	(X)	(X)	(X)	(X)	-	-	(X)	(X)
Loans cancelled/expired	(X)	(X)	-	-	-	-	(X)	(X)
Grants cancelled/expired	-	-	-	-	-	-	-	-
Exchange difference	X	X	-	-	X	X	X	X
<i>Closing balance</i> – Loans	X	X	-	-	X	X	X	X
<i>Closing balance</i> - Grants	X	X	-	-	X	X	X	X

Closing balance By currency held	Development Assistance		Emergency Assistance		Other		Total	
	20XX-XX	20XX-XX-1	20XX-XX	20XX-XX-1	20XX-XX	20XX-XX-1	20XX-XX	20XX-XX-1
US Dollar	X	X	-	X	X	X	X	X
Euro	X	X	-	X	X	X	X	X
Yen	X	X	-	-	X	X	X	X
Other	X	X	-	-	-	-	X	-
in rupees								
<i>Loans</i>								
Agency 1	X	X	-	-	X	X	X	X
Agency 4	X	X	-	-	X	X	X	X

<i>Grants</i>								
Agency 2	X	X	-	X	X	X	X	X
Agency	X	X	-	X	X	X	X	X
Total	X	X	-	X	X	X	X	X

Significant terms and conditions (*Paragraph 2.1.76*)

General Restrictions

The balance of commitments for and undrawn balances of, external assistance is subject to, or restricted by, performance of agreed actions or the maintenance of agreed economic or financial performance levels.

The Local body has prepared an economic development plan for receipt of development assistance. The plan includes a poverty reduction strategy which is supported by the donor community. The Local body and the donors have agreed the following major targets within the poverty reduction strategy: (Entity to identify major targets).

The Local body and the donor community have agreed on methods to monitor progress to achieve the agreed targets and will meet annually to review progress.

Loans and grants to support specific projects include financial performance targets for all electricity and water utilities to ensure adequate revenue to cover the cost of providing services, to properly maintain existing utility assets and to contribute to a program of asset replacement and renewal.

Procurement Restrictions

Certain development assistance received is subject to restrictions in regards to the nature of goods or services that may be purchased or the country in which the goods or services may be purchased. All multilateral development bank loans or grants are restricted in that (a) they prohibit the use of their funds for the purchase of military goods or services, luxury goods or environmentally damaging goods; and (b) the purchase of goods or services must be from their respective member countries. External assistance from bilateral agencies is either unrestricted or limited to purchases of goods or services from the country providing the funds.

Non Compliance with other significant terms and conditions (*Paragraph 2.1.83*)

The Local Body's expenditures on primary education did not meet the target level primarily due to construction delays caused by an earthquake. Expenditures were X percent below the target. Steps have been taken to correct the under investment and the relevant donors support the corrective actions planned. The Local Body has complied with all procurement regulations applicable under all outstanding external assistance loans and grants.

Guarantees of external assistance loans and grants (*Paragraph 2.1.80*)

The State Government has guaranteed an infrastructure loan from XXX Bank of rupees X lakhs. (20XX-XX-1: Nil). The principal is to be repaid in XX years. The

interest rate applicable to the outstanding balance is Y percent. Interest payments are to be made annually. No additional terms or conditions arise from the guarantee. No other external assistance loans or grants are subject to guarantees by third parties.

Repayment Terms and Conditions-Debt Service Obligations (Paragraph 2.1.86)

The terms of development assistance loans include grace periods which range from 0 to a maximum of 7 years. Interest rates include both fixed rates and variable rates. All development assistance loans are denominated in US Dollars or Euros. Interest rates on fixed rate loans as at fiscal year ending 20XX-XX, range from X percent to Y percent with a weighted average of Z percent. For the fiscal year ending 20XX-XX-1, they range from A percent to B percent with a weighted average of C percent. Interest rates on variable rate loans range from LIBOR plus P percent to LIBOR plus Q percent with a weighted average at the end of fiscal year 20XX-XX of R percent and at the end of fiscal year 20XX-XX-1 of S percent.

Other external assistance loans do not include a grace period, and are denominated in a range of currencies including US Dollars, Euros and Yen.

	20XX-XX			
	Outstanding Debt by Remaining Grace Period Years			
	Expired	0 – 4	5 – 7	Total
Development Assistance	X	X	X	X
Other	X	-	-	X
Total	X	X	X	X

	20XX-XX-1			
	Outstanding Debt by Remaining Grace Period Years			
	Expired	0 – 4	5 – 7	Total
Development Assistance	X	X	X	X
Other	X	-	-	X
Total	X	X	X	X

	20XX-XX				
	Debt Service Payments Including Interest				
	US Dollar	Euro	Yen	Other	Total
Development Assistance	X	X	X	X	X
Other	X	X	-	-	X
Total	X	X	X	X	X

	20XX-XX-1				
	Debt Service Payments Including Interest				
	US Dollar	Euro	Yen	Other	Total
Development Assistance	X	X	X	X	X
Other	X	X	-	-	X
Total	X	X	X	X	X

All debt service payments for subsequent years are based on payment of a fixed amount comprising principal plus accrued interest. The interest payment or service charge component is based on the outstanding principal of each loan at the end of the current year, and for variable interest rate loans, at interest rates prevailing at that date. Debt service payments denominated in foreign currency have been determined by applying the closing rate of exchange on the reporting date of the financial statements.

	<u>20XX-XX + 1 and N Subsequent Years</u>				
	Debt Service Payments Including Interest				
	US Dollar	Euro	Yen	Other	Total
Development Assistance	X	X	X	X	X
Other	X	X	-	-	X
Total	X	X	X	X	X

Receipt of Goods and Services (Paragraph 2.1.90 and 1.10.21 of part 1)

During 20XX-XX, a severe earthquake occurred in the ZZZ region inflicting serious damage to property of a local body and private property, and significant loss of life. Multilateral agencies and bilateral agencies of several nations donated personnel and equipment to assist in locating and rescuing individuals trapped in the rubble. In addition, specialised medical teams trained in trauma treatment together with medical

equipment, were flown into the region. Temporary shelter and food were also supplied. The value of goods and services received has been estimated at XX rupees. The value of the emergency assistance provided has been determined based on cost estimates provided by the bilateral aid agencies involved because local prices for equivalent goods or services were not available.

Fifty thousand tons of rice was received as food aid during the year. It has been valued at XX rupees which represents the wholesale price of similar rice in domestic wholesale markets.

Goods and services received during the year have not been recorded in the Statement of Cash Receipts and Payments, which reflects only cash received (directly or indirectly) or paid by the Government. Goods and services-in-kind were received as part of the emergency assistance and are reflected in this note.

Appendix 3

[Refer Appendix A]

Qualitative Characteristics of Financial Reporting

Paragraph 1.3.32 of Part 1 of this Standard requires that the financial statements provide information that meets a number of qualitative characteristics. This appendix summarises the qualitative characteristics of financial reporting.

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. They are applicable to financial statements, regardless of the basis of accounting used to prepare the financial statements. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

Understandability

Information is understandable when users might reasonably be expected to comprehend its meaning. For this purpose, users are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, and to be willing to study the information.

Information about complex matters should not be excluded from the financial statements merely on the grounds that it may be too difficult for certain users to understand.

Relevance

Information is relevant to users if it can be used to assist in evaluating past, present or future events or in confirming, or correcting, past evaluations. In order to be relevant, information must also be timely.

Materiality

The relevance of information is affected by its nature and materiality.

Information is material if its omission or misstatement could influence the decisions of users or assessments made on the basis of the financial statement. Materiality depends on the nature or size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

Reliability

Reliable information is free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be

expected to represent.

Faithful Representation

For information to represent faithfully transactions and other events, it should be presented in accordance with the substance of the transactions and other events, and not merely their legal form.

Substance Over Form

If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. The substance of transactions or other events is not always consistent with their legal form.

Neutrality

Information is neutral if it is free from bias. Financial statements are not neutral if the information they contain has been selected or presented in a manner designed to influence the making of a decision or judgment in order to achieve a predetermined result or outcome.

Prudence

Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated.

Completeness

The information in financial statements should be complete within the bounds of materiality and cost.

Comparability

Information in financial statements is comparable when users are able to identify similarities and differences between that information and information in other reports.

Comparability applies to the:

- Comparison of financial statements of different entities; and
- Comparison of the financial statements of the same entity over periods of time.

An important implication of the characteristic of comparability is that users need to be informed of the policies employed in the preparation of financial statements, changes to those policies and the effects of those changes.

Because users wish to compare the performance of an entity over time, it is important that the financial statements show corresponding information for preceding periods.

Constraints on Relevant and Reliable Information

Timeliness

If there is an undue delay in the reporting of information it may lose its relevance. To provide information on a timely basis it may often be necessary to report before all aspects of a transaction are known, thus impairing reliability. Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the decision-making needs of users.

Balance between Benefit and Cost

The balance between benefit and cost is a pervasive constraint. The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is, however, substantially a matter of judgment. Furthermore, the costs do not always fall on those users who enjoy the benefits. Benefits may also be enjoyed by users other than those for whom the information was prepared. For these reasons, it is difficult to apply a benefit-cost test in any particular case. Nevertheless, standard setters, as well as those responsible for the preparation of financial statements and users of financial statements, should be aware of this constraint.

Balance between Qualitative Characteristics

In practice a balancing, or trade-off, between qualitative characteristics is often necessary. Generally the aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgment.

Establishing Control of Another Entity for Financial Reporting Purposes

1. Whether an entity controls another entity for financial reporting purposes is a matter of judgment based on the definition of control in this Standard and the particular circumstances of each case. That is, consideration needs to be given to the nature of the relationship between the two entities. In particular, the two elements of the definition of control in this Standard need to be considered. These are the power element (the power to govern the financial and operating policies of another entity) and the benefit element (which represents the ability of the controlling entity to benefit from the activities of the other entity).
2. For the purposes of establishing control, the controlling entity needs to benefit from the activities of the other entity. For example, an entity may benefit from the activities of another entity in terms of a distribution of its surpluses (such as a dividend) and is exposed to the risk of a potential loss. In other cases, an entity may not obtain any financial benefits from the other entity but may benefit from its ability to direct the other entity to work with it to achieve its objectives. It may also be possible for an entity to derive both financial and non-financial benefits from the activities of another entity.

Control for Financial Reporting Purposes

3. For the purposes of financial reporting, control stems from an entity's power to govern the financial and operating policies of another entity and does not necessarily require an entity to hold a majority shareholding or other equity interest in the other entity. The power to control must be presently exercisable. That is, the entity must already have had this power conferred upon it by legislation or some formal agreement. The power to control is not presently exercisable if it requires changing legislation or renegotiating agreements in order to be effective. This should be distinguished from the fact that the existence of the power to control another entity is not dependent upon the probability or likelihood of that power being exercised.
4. Similarly, the existence of control does not require an entity to have responsibility for the management of (or involvement in) the day-to-day operations of the other entity. In many cases, an entity may only exercise its power to control another entity where there is a breach or revocation of an agreement between a controlled entity and its controlling entity.
5. [Refer Appendix A]
6. The existence of separate legislative powers does not, of itself, preclude an entity from being controlled by another entity. The existence of control does not

require an entity to have responsibility over the day-to-day operations of another entity or the manner in which professional functions are performed by the entity.

7. The power of one entity to govern decision-making in relation to the financial and operating policies of another entity is insufficient, in itself, to ensure the existence of control as defined in this Standard. The controlling entity needs to be able to govern decision-making so as to be able to benefit from its activities, for example by enabling the other entity to operate with it as part of an economic entity in pursuing its objectives. This will have the effect of excluding from the definitions of a “controlling entity” and “controlled entity” relationships which do not extend beyond, for instance, that of a liquidator and the entity being liquidated, and would normally exclude a lender and borrower relationship. Similarly, a trustee whose relationship with a trust does not extend beyond the normal responsibilities of a trustee would not be considered to control the trust for the purposes of this Standard.

Regulatory and Purchase Power

8. Governments and government entities have the power to regulate the behavior of many entities by use of their sovereign or legislative powers. Regulatory and purchase powers do not constitute control for the purposes of financial reporting. To ensure that the financial statements of an entity include only those resources (cash, including cash equivalents) that it controls and can benefit from, the meaning of control for the purposes of this Standard does not extend to:
 - a) The power of the legislature to establish the regulatory framework within which entities operate and to impose conditions or sanctions on their operations. For example, a pollution control authority may have the power to close down the operations of entities that are not complying with environmental regulations. However, this power does not constitute control because the pollution control authority only has the power to regulate; or
 - b) [Refer Appendix A]

Determining Whether Control Exists for Financial Reporting Purposes

9. Public sector entities may create other entities to achieve some of their objectives. In some cases, it may be clear that an entity is controlled, and hence should be consolidated. In other cases it may not be clear. Paragraphs 10 and 11 below provide guidance to help determine whether or not control exists for financial reporting purposes.
10. In examining the relationship between two entities, control is presumed to exist when at least one of the following power conditions and one of the following benefit conditions exists, unless there is clear evidence of control being held by another entity.

Power conditions

- a) [Refer Appendix A]
- b) The entity has the power, either granted by or exercised within existing legislation, to appoint or remove a majority of the members of the governing body of the other entity.
- c) The entity has the power to cast, or regulate the casting of, a majority of the votes that are likely to be cast at a meeting of the other entity.
- d) The entity has the power to cast the majority of votes at meetings of the board of directors or equivalent governing body.

Benefit conditions

- a) The entity has the power to dissolve the other entity and obtain a significant level of the residual economic benefits or bear significant obligations. For example, the benefit condition may be met if an entity had responsibility for the residual liabilities of another entity.
 - b) The entity has the power to extract distributions of assets from the other entity, and/or may be liable for certain obligations of the other entity.
11. When one or more of the conditions listed in paragraph 10 do not exist, the following factors are likely, either individually or collectively, to be indicative of the existence of control.

Power indicators

- a) The entity has the ability to veto operating and capital budgets of the other entity.
- b) The entity has the ability to veto, overrule, or modify governing body decisions of the other entity.
- c) The entity has the ability to approve the hiring, reassignment and removal of key personnel of the other entity.
- d) The mandate of the other entity is established and limited by legislation.
- e) [Refer Appendix A]

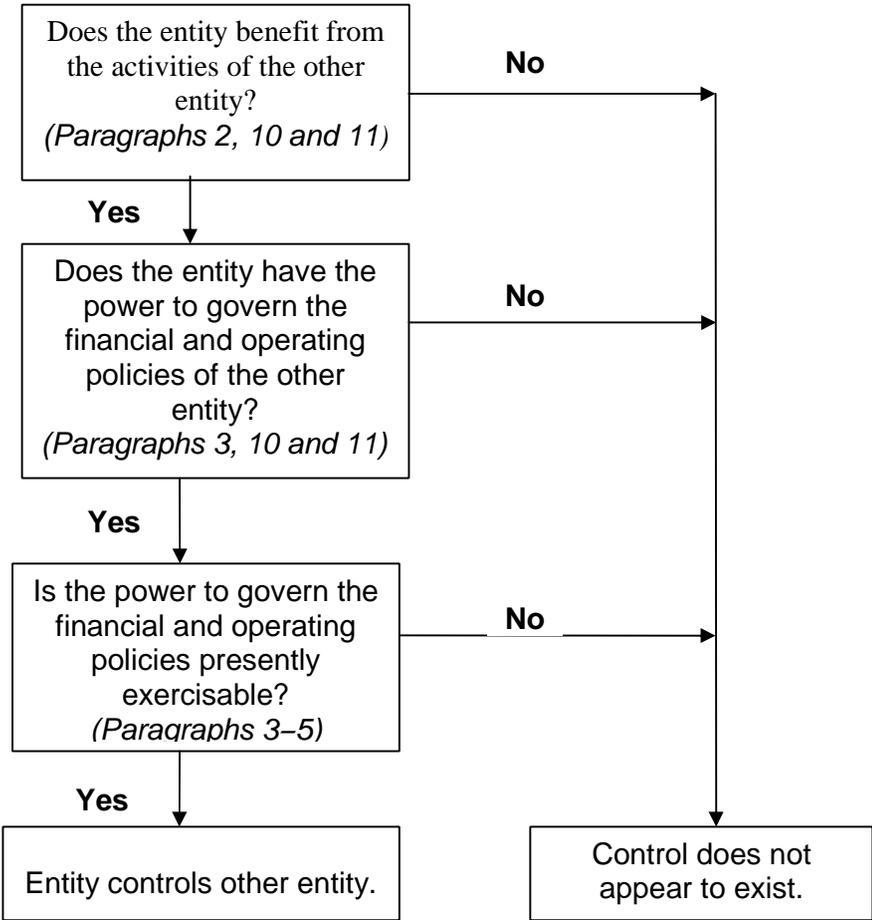
Benefit indicators

- a) The entity holds direct or indirect title to the net assets/equity of the other entity with an ongoing right to access these.
- b) The entity has a right to a significant level of the net assets/equity of the

other entity in the event of a liquidation or in a distribution other than a liquidation.

- c) The entity is able to direct the other entity to co-operate with it in achieving its objectives.
 - d) The entity is exposed to the residual liabilities of the other entity.
12. The following diagram indicates the basic steps involved in establishing control of another entity. It should be read in conjunction with paragraphs 1 to 11 of this appendix.

Establishing Control of another Entity for Financial Reporting Purposes



- 13. Sometimes a controlled entity is excluded from consolidation when its activities are dissimilar to those of other entities within the economic entity, Exclusion on these grounds is not justified because better information would be provided by consolidating such controlled entities and disclosing additional information in the consolidated financial statements about the different activities of controlled entities.

Appendix - A

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) and the corresponding International Public Sector Accounting Standard (IPSAS) on 'Financial Reporting under Cash Basis of Accounting'

Comparison with IPSAS on 'Financial Reporting under the Cash Basis of Accounting'

1. Paragraphs 1.1.6 and 1.1.7 of IPSAS on *Financial Reporting under Cash Basis of Accounting* which provide information on definition of Government Business Enterprises (GBEs) and use of IFRSs by these enterprises have been deleted as these are not relevant for ASLB on *Financial Reporting under Cash Basis of Accounting*, which is applicable to Local Bodies. However, these paragraph numbers have been retained in the ASLB, in order to maintain consistency with IPSAS.
2. As per IPSAS on *Financial Reporting under Cash Basis of Accounting*, equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents. But the said requirement has been deleted from the ASLB on *Financial Reporting under Cash Basis of Accounting*.
3. Examples have been added in paragraph 1.2.7(a) to clarify the situation where cash is collected by a local body on behalf of government or another entity.
4. IPSAS on *Financial Reporting under Cash Basis of Accounting* requires that the statement of cash receipts and payments should present total cash payments of the entity showing separately a sub-classification of total cash payments using a classification basis appropriate to the entity's operations. IPSAS in its Part 2 encourages an entity to disclose, either on the face of the statement of cash receipts and payments or in other financial statements or in the notes to those statements, an analysis of total cash payments and payments by third parties using a classification based on either their nature or their function. IPSAS further provides that if an entity follows function-wise classification, it is encouraged to disclose additional information on the basis of nature of payments. ALSB on *Financial Reporting under Cash Basis of Accounting* in its Part 1 requires that the statement of cash receipts and payments should present total cash payments of the entity showing separately a sub-classification of total cash payments using a classification based on either the nature of the payments or their function appropriate to the entity's operations. It further provides that whichever basis is adopted, the entity should disclose the total cash payments as per the other basis of classification either as a separate statement or by way of notes. To give effect to the above change, paragraphs 1.3.12, 1.3.25 and 2.1.23 have been amended,

paragraphs 1.3.12A and 1.3.17A have been added and paragraphs 2.1.23(a), 2.1.24-2.1.29 have been deleted.

5. The IPSAS permits the periodicity, for example, of 52 weeks for preparation of financial statements. ASLB does not permit so, therefore, paragraph 1.4.3 has been deleted.
6. ASLB on *Financial Reporting under Cash Basis of Accounting* includes an exception to the principle of consistency of presentation and classification of items in the financial statements i.e. when there is a change in legislation. The IPSAS on *Financial Reporting under Cash Basis of Accounting*, however, does not contain any such exception. Necessary amendments have been made in paragraph 1.4.13.
7. Paragraph 1.5 of the IPSAS requires an entity to restate its comparative information, in case an error arises in relation to a cash balance reported in the financial statements which relates to prior periods. ASLB does not require restatement of comparative information in such a case.
8. Examples of severe external long term restrictions where a controlled entity should be excluded from consolidation have been added in paragraph 1.6.6.
9. Paragraphs 1.6.8 and 1.6.14 of the IPSAS require that a controlling entity that is virtually wholly owned controlled entity need not present consolidated financial statements provided it obtains the approval of minority share holders. ASLB does not contain such provisions since these provisions are not relevant for local bodies in India.
10. The IPSAS requires that the difference between the reporting dates of controlling as well as the controlled entities should be no more than three months whereas ASLB requires that the difference between the reporting dates should be not more than six months.
11. Paragraph 1.7.4 of the IPSAS provides provisions related to translation of foreign controlled entities. Further, paragraph 1.7.5 deals with a situation where reporting currency is different from the currency of the country in which the entity is domiciled. This ASLB does not contain such provisions since these provisions are not relevant for local bodies in India.
12. Paragraphs 1.9.31, 1.9.32, 2.1.38 and 2.1.40 of the IPSAS which deal with Multiyear Budgets have not been included in ASLB keeping in view that these are not relevant for local bodies in India. However, paragraph numbers have been retained in order to maintain consistency with IPSAS.
13. Paragraphs 2.1.51-2.1.63 of the IPSAS provides encouraged disclosures in the context of hyperinflationary economies. These disclosures have not been included in this ASLB since the Indian economy is not hyperinflationary.

However, paragraph numbers have been retained in the ASLB, in order to maintain consistency with the IPSAS.

14. Appendix 3 to the IPSAS provides a summary of key aspects of IPSAS 2, *Cash Flow Statements*, and guidance on its application for financial reporting under this Standard relating to '*Presentation of Statement of Cash Receipts and Payments*'. This Appendix has been deleted in this ASLB and it has been mentioned that ASLB 2 on 'Cash Flow Statements' may be referred for the format of the Statement of Cash Receipts and Payments and guidance. However, the Appendix number has been retained in the ASLB in order to maintain consistency with the IPSAS.
15. Paragraph 1.10.29 providing relief from the requirement to disclose comparative information for the previous period on initial application of **paragraphs 1.10.1 to 1.10.34 of this Standard** has been deleted since paragraph 1.4.16 of the Standard already provides relief in this regard for all the sections of the Standard. Necessary changes have been made in other paragraphs in this regard.
16. Paragraphs 1.8.1, 1.9.47-1.9.48, 1.10.28, related to 'Effective Date' have been removed as Part 1 of ASLB would become mandatory for Local Bodies in a state from the date specified by the State Government concerned. Paragraph numbers have been retained in order to maintain consistency with the relevant IPSAS.
17. Certain paragraphs such as paragraph numbers 1.3.20(b),(c) & (f), 1.9.5, 1.9.16, 1.9.29-1.9.30, 1.9.40, 2.1.18-2.1.20, 2.1.67(c) & (d) and paragraph 5, 8(b), 10(a), 11(e) of Appendix 5 have been removed from the ASLB, as these are not considered to be relevant for Local Bodies. However, paragraph numbers have been retained in order to maintain consistency with the IPSAS. To address the conditions prevailing in local bodies in India, various amendments in certain paragraphs and Appendices have been made.