

Public Financial Management: Financial Reporting

Module Introduction and Overview

Contents

| | | |
|----------|-----------------------------------|----------|
| 1 | Introduction to the Module | 2 |
| 2 | The Module Author | 2 |
| 3 | Study Resources | 2 |
| 4 | Module Overview | 3 |
| 5 | Learning Outcomes | 6 |

1 Introduction to the Module

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

2 The Module Author

Dr Alexa Simm is an accountancy consultant specialising in accountancy education. As a professionally qualified Chartered Public Financial Accountant, she has extensive experience as an external auditor, professional trainer for the Chartered Institute of Public Finance and Accountancy and as a University Senior Lecturer. She is a Fellow of the Higher Education Authority and now specialises in authoring higher and professional education learning materials.

3 Study Resources

This study guide is your main learning resource for the module as it directs your study through the eight study units. Each unit has recommended reading, either from the key texts or from supplementary material which is included in the module readings. The module also comprises a range of case studies and contains many review questions and exercises to facilitate your learning.



Key texts

You will be provided with access to two key texts for this module:

Müller-Marqués Berger T and Ernst & Young (2018) *IPSAS Explained: A Summary of International Public Sector Accounting Standards*, 3rd Edition. Chichester UK: John Wiley & Sons Ltd.

Elliott B and J Elliott (2019) *Financial Accounting and Reporting*, 19th Edition. Harlow UK: Pearson Education Ltd.

These are comprehensive and useful texts covering financial reporting and the accounting standards. The Elliott and Elliott book focuses primarily on the private sector and IFRS. Müller-Marqués Berger and Ernst & Young

provide detailed requirements of individual IPSAS, as well as giving an introduction to the public sector context.

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

Module readings

You are provided with access to a range of academic journal articles, extracts from supplementary textbooks and other reports or material. The module readings form an essential part of this module.

Case Studies

The theoretical concepts examined in the module material will be supplemented by case studies looking at actual examples in real-life organisations or countries to illustrate the theoretical principles and assist you in understanding and applying financial reporting in the international context. The case studies form part of the module readings contents.

As you are studying this module by distance learning, you will not be able to discuss your point of view with your fellow students in a class setting, as you would on campus. However, to get the benefit of the cases you will be studying, you should prepare and answer the questions as if you would be arguing with fellow students. If you are studying with others, you should spend some time discussing the cases with your fellow students.

If you have strong opinions or questions about the cases or theories presented, you can share your views with your fellow students through the Virtual Learning Environment (VLE). While participation in VLE discussion is not compulsory, students who do participate get great benefit from sharing views with their classmates through the discussion boards.

4 Module Overview

The module is structured around eight units, each of which comprises a set of readings, questions and exercises which should be studied on a weekly basis. It is expected that studying each unit, including the recommended reading and activities, will take between 15 and 20 hours. However, these timings may vary according to your familiarity with the subject matter and your own study experience. You will receive feedback through comments on your assignments and there is a specimen examination paper printed at the end of this introduction to help you prepare for the final examination.

Unit 1 Context of Financial Reporting

- 1.1 Introduction
- 1.2 Private Versus Public Sectors
- 1.3 Rationale for Financial Reporting Standards
- 1.4 International Conceptual Framework – Public Sector
- 1.5 International Conceptual Framework – Private Sector
- 1.6 Conclusion

Unit 2 Accounting Concepts 1

- 2.1 Financial Standards: IFRS versus IPSAS
- 2.2 Cash- Versus Accruals-Based Accounting
- 2.3 Cash Versus Accruals and Accounting Standards
- 2.4 Case Study
- 2.5 Feedback on Case Study
- 2.6 Conclusion

Unit 3 Accounting Concepts 2

- 3.1 Income, Capital and Value
- 3.2 The Accountant's View
- 3.3 The Economist's View
- 3.4 Accounting for Changes in Price Levels
- 3.5 Case Study
- 3.6 Feedback on Case Study
- 3.7 Conclusion

Unit 4 Accounting for Assets

- 4.1 Current Assets
- 4.2 Non-Current Assets
- 4.3 Valuing Assets in Agriculture
- 4.4 Case Study
- 4.5 Feedback on Case Study
- 4.6 Conclusion

Unit 5 Accounting for Liabilities

- 5.1 Current and Non-Current Liabilities
- 5.2 Provisions and Contingent Liabilities
- 5.3 Financial Instruments
- 5.4 Case Studies
- 5.5 Feedback on Case Studies
- 5.6 Conclusion

Unit 6 Leases and Partnerships

- 6.1 Leases
- 6.2 What are Public Private Partnerships?
- 6.3 Use of PPP
- 6.4 Accounting for PPP
- 6.5 Case Study
- 6.6 Feedback on Case Study
- 6.7 Conclusion

Unit 7 Group Accounts

- 7.1 Group Accounts
- 7.2 The Consolidation Process
- 7.3 Users and Uses of Consolidated Financial Statements
- 7.4 Case Studies
- 7.5 Feedback on Case Studies

7.6 Conclusion

Unit 8 Governance

- 8.1 Definitions
- 8.2 Governance Failures
- 8.3 Good Governance in the Public Sector
- 8.4 Good Governance in the Private Sector
- 8.5 International Comparisons and National Perspectives
- 8.6 Conclusion
- 8.7 The Examination

This module introduces the core accounting concepts and explores the financial reporting framework and guidelines currently available for both the private and public sectors.

The first three units set the scene for the module. **Unit 1** distinguishes between private and public sector organisations, as well as introducing you to the need for organisations to produce financial reports. Importantly, the unit also introduces the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* and the *Conceptual Framework for Financial Reporting*, which establish the concepts underpinning financial reporting in the public and private sectors, respectively.

Unit 2 explores the development of IPSAS and IFRS, as well as the extent to which they are adopted globally, and goes on to consider alternative accounting bases that may be applied by entities in their financial reporting. It defines both cash and accruals bases, with specific focus on external financial reporting. Benefits, limitations and modifications to cash and accruals bases are also considered. The adoption of these accounting bases is explored, as is the way in which they relate to the accounting standards. A case study explores the experiences of one country moving from a cash to accruals base.

Unit 3 develops the core concepts further, with consideration of how to account for income and capital, as well as how to actually value individual items. The latter is particularly relevant in economies where there is high inflation and values may change considerably in a relatively short period of time.

Unit 4 builds specifically on the accruals concept by exploring how to account for assets. In particular, it focuses on inventories and the non-current assets of property, plant and equipment (PPE). The unit also looks at the special case of valuing assets in agriculture.

Unit 5 explores accounting for liabilities. The distinctions between liabilities, provisions and contingent liabilities are clarified and the relevant accounting standards are reviewed. The unit also introduces the complex topic of financial instruments. The case studies consider the application of the theory on liabilities to a real-life company and to public sector pensions.

Unit 6 builds on the discussion of accounting for assets and liabilities in Units 4 and 5 by considering how entities may gain access to the use of assets through methods other than purchasing the asset upfront. The two methods considered are leases and public–private partnerships (PPPs). The

unit explores what both leases and PPPs are, as well as their respective accounting treatments.

Unit 7 builds on the topics explored in the previous units by exploring how companies or certain public sector organisations may be grouped together and merge their financial statements into what are known as group accounts or consolidated financial statements. The unit explains how entities to be consolidated are identified, before looking at the consolidation process itself.

Unit 8 considers what governance actually is and examines the best practice principles that entities in the private and public sectors globally are recommended to follow. In particular, the *International Framework: Good Governance in the Public Sector* and the *G20/OECD Principles of Corporate Governance* are explored.

5 Learning Outcomes

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

- discuss the international conceptual frameworks for financial reporting in the public and private sectors
- discuss the development and global adoption of the International Public Sector Accounting Standards (IPSAS) and the International Financial Reporting Standards (IFRS)
- explain and contrast the differences in external reporting on a cash and accruals basis
- discuss the accounting treatment for specific assets and liabilities in accordance with IPSAS and IFRS
- discuss the process of consolidating financial statements and identify relevant accounting standards
- discuss the application of governance principles and compare with national governance guidance.