



**International Public Sector Accounting Standard 34**  
***Separate Financial Statements***

**IPSASB Basis for Conclusions – as per 2017 IPSASB Handbook**

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## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, IPSAS 34.*

### Objective

- BC1. This Basis for Conclusions summarizes the IPSASB's considerations in reaching the conclusions in IPSAS 34. As this Standard is based on IAS 27, *Separate Financial Statements* (Amended in 2011, including amendments up to December 31, 2014), issued by the International Accounting Standards Board (IASB), the Basis for Conclusions outlines only those areas where IPSAS 34 departs from the main requirements of IAS 27 (Amended in 2011), or where the IPSASB considered such departures.

### Overview

- BC2. In 2012 the IPSASB commenced work on a project to update those IPSASs that dealt with accounting for interests in controlled entities, associates and joint ventures. In October 2013 the IPSASB issued Exposure Drafts (EDs) 48 to 52 which were collectively referred to as *Interests in Other Entities*. ED 48, *Separate Financial Statements*, was based on IAS 27 *Separate Financial Statements* (Amended in 2011), having regard to the relevant public sector modifications in IPSAS 6, *Consolidated and Separate Financial Statements*. In January 2015 the IPSASB issued five new IPSASs, including IPSAS 34. These new IPSASs supersede IPSAS 6, IPSAS 7, *Investments in Associates*, and IPSAS 8, *Interests in Joint Ventures*.

### Use of the Equity Method in Separate Statements

- BC3. IPSAS 6 permitted an entity, in its separate financial statements, to measure investments in controlled entities, jointly controlled entities and associates:
- (a) Using the equity method;
  - (b) At cost; or
  - (c) As a financial instrument in accordance with IPSAS 29.
- BC4. The IPSASB noted that in 2003 the IASB limited the measurement options for investments presented in an entity's separate financial statements by removing the option to use the equity method. The IPSASB noted that the reasons given by the IASB for making this change included the following:
- (d) The focus in separate financial statements is on the performance of the assets as investments. Cost and fair value can provide relevant information for this; and
  - (e) To the extent that the equity method provides information about the profit and loss of a subsidiary or an associate, that information would be available in the consolidated financial statements.
- BC5. The IPSASB also noted that, at the time it issued ED 48, the IASB had signaled its intention to reconsider the use of the equity method in separate financial statements. In deciding to reconsider this issue the IASB acknowledged that corporate law in some countries requires that the equity method of accounting be used to measure certain investments when presenting separate financial statements.
- BC6. The IPSASB decided to continue to permit the use of the equity method in separate financial statements for the following reasons:
- (f) The equity method is a well-established method of accounting for certain investments in the public sector. In many circumstances where investments are held by public sector entities, the equity method can provide information that is reliable<sup>1</sup> and useful, and possibly at a lower cost than either the cost method or the fair value method. In the public sector, investment entities are often used more as "instruments" to enable service provision, rather than as a holding for investment purposes, as might generally be the case in the private sector. The equity method may therefore, in some circumstances, be better suited to meeting user needs in the public sector, as it allows the

<sup>1</sup> Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

financial statements to portray the fluctuations in the equity of, and performance by, an investment over time, in a cost effective and easily understood manner.

- (g) Although application of the cost method is often relatively straightforward, where investments have been held for some time, using the cost method may result in outdated and less relevant information, in which case, it would not meet user needs.
- (h) In the public sector there is likely to be a higher proportion of investments for which there are no active markets and in respect of which fair values are not readily observable. Although the guidance in IPSAS 29 can be used to derive a value for such investments, the IPSASB considered that this approach would generally result in information that did not faithfully represent the underlying circumstances.

BC7. A majority of the respondents to ED 48 supported the proposal to permit the use of the equity method in separate financial statements. A further group of respondents also supported this proposal, subject to the IASB reinstating the use of the equity method in separate financial statements. In August 2014 the IASB issued the *Equity Method in Separate Financial Statements (Amendments to IAS 27)*, which reinstated the equity method as an option in separate financial statements. The IPSASB noted the support it had received for this proposal and the reinstatement of the equity method in IAS 27, and agreed to continue to permit the use of the equity method in separate financial statements.

### **Separate Financial Statements of Investment Entities**

BC8. In developing IPSAS 35 the IPSASB decided to introduce the concept of investment entities and to require that a controlling entity that is an investment entity measure its investments in most controlled entities at fair value through surplus or deficit in accordance with IPSAS 29. Consequently, the IPSASB decided to require that an investment entity measure its investments in controlled entities at fair value through surplus or deficit in its separate financial statements. The IPSASB also decided that an investment entity preparing separate financial statements as its only financial statements, should also make the disclosures required in IPSAS 38 about its interests in controlled entities.

BC9. The IPSASB also decided to require a controlling entity of an investment entity that is not itself an investment entity to present consolidated financial statements in which it (i) measures the investments of a controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29 and (ii) consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity. Consequently, the IPSASB decided to require that a non-investment controlling entity should measure its investment in a controlled investment entity in the same way in its separate financial statements.

### **Revision of IPSAS 34 as a result of the IPSASB's *The Applicability of IPSASs*, issued in April 2016**

BC10. The IPSASB issued *The Applicability of IPSASs* in April 2016. This pronouncement amends references in all IPSASs as follows:

- (a) Removes the standard paragraphs about the applicability of IPSASs to “public sector entities other than GBEs” from the scope section of each Standard;
- (b) Replaces the term “GBE” with the term “commercial public sector entities”, where appropriate; and
- (c) Amends paragraph 10 of the *Preface to International Public Sector Accounting Standards* by providing a positive description of public sector entities for which IPSASs are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.