



PUBLIC SECTOR FINANCIAL MANAGEMENT PROGRAMME EXAMINATIONS

DIPLOMA LEVEL

PFM 6: FINANCIAL REPORTING FRAMEWORK FOR PUBLIC SECTOR ENTITIES

MONDAY 9 JUNE 2025

TOTAL MARKS – 100; TIME ALLOWED: THREE (3) HOURS

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.
2. This paper is divided into TWO (2) sections:
Section A: One (1) Compulsory question.
Section B: There are four (4) questions. Attempt any three (3) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

DO NOT OPEN THIS QUESTION PAPER UNTIL YOU ARE INSTRUCTED BY THE INVIGILATOR.

SECTION A

This question is Compulsory and must be attempted.

QUESTION ONE – (COMPULSORY)

Lavushimanda University is a Public University established in the Republic of Zambia which offers education to the Community in Muchinga province. The Trial Balance as at 31 December 2023 is provided below:

	ZMW'000	ZMW'000
Accumulated Fund		1,759
Withholding Tax		170
Student Fees		4,450
Sales From Books		1,985
Donation		2,000
Purchase of Learning Materials	410	
Inventory of Learning Materials 1/10/23	105	
Inventory of Stationery 1/10/23	15	
Revenue From Library Services		548
Revenue from Research		148
Travel and Transport	10	
Conference Costs	420	
Cleaning Materials	50	
Consultancy Services		27
General Maintainance	18	
Salaries	4,109	
Wages	100	
10% Medical Insurance	10	
Extra Duty Allowance	578	
Purchase of Stationery	55	
Repairs and Maintainance	105	
Repatriation	15	
Building at cost	1,900	
Motor Vehicles at cost	1,200	
Software at cost	10	
Loans and Advances	25	
10% Fixed deposit	100	
Payables		416
Bank Loans		428
Interest	100	
Fixed Deposit Interest		150
Other Expenses	25	
Bank Balance	1,300	
Receivables	1,421	
	12,081	12,081

Additional Information:

- (i) Inventory as at 31 December 2023 was as follows:
- (a) Books ZMW 60,000
 - (b) Stationery ZMW 40,000
- (ii) The fixed assets in the trial balance were acquired at the beginning of the year. It is the policy of the institution to depreciate assets using straight line method:

Assets	Useful
Building	50 years
Motor Vehicles	10 years
Software	5 years

- (iii) Wages outstanding during the year amounted to ZMW50,000.

Required:

- (a) Prepare statement of Financial Performance for Lavushimanda University for the Financial Year ended 31 December 2023. (14 marks)
- (b) Prepare Statement of Financial Position for Lavushimanda University as at 31 December 2023. (16 marks)
- (c) The following revelations were made about the financial reporting process of a named public sector entity:
 - (i) The Accountant confirmed that some records relating to expenses were executed through phone calls from the Heads of Department.
 - (ii) A revenue transaction of a significant value was omitted from the statement of financial performance unintentionally.
 - (iii) The budget amounts and the actual amounts were the same in the statement of financial performance.
 - (iv) The users of the financial information are not interested in the financial statements because it does not help in decision making.
 - (v) A building purchased during the financial year was recognized as an expense in the statement of financial performance even though the entity applies International Public Sector Accounting Standards.

Required:

Explain how each of the transactions (i) to (v) would affect the qualitative characteristics of financial information of the entity.

(10 marks)

[Total: 40 Marks]

SECTION B

There are FOUR (4) questions in this section. Attempt any THREE (3) questions.

QUESTION TWO

- (a) A Government grant aided institution is transitioning from cash basis to accrual basis of accounting for the financial year ending 31 December 2023. You are a committee member of the committee set up to ensure smooth implementation of accrual basis of accounting.

Required:

Discuss conditions for smooth transition from cash basis accounting to accrual accounting. (10 marks)

- (b) You are a director in charge of public sector financial reforms at the ministry of finance and national planning. You have received a letter from the minister of finance reading as follows:

Dear director,

I have been invited by cabinet office to attend a seminar on the theme "Fundamentals of Public Financial Reporting." among the topic listed for discussion are:

- (i) Qualitative characteristics of financial information.
- (ii) The bases of measurement of public sector assets.
- (iii) The Statutory Rules of Internal auditors in the public sector.

I am aware of your expertise in public financial management and will greatly appreciate if you could prepare some briefing notes for me.

Required:

- (i) As director and recipient of the letter, provide your response in a memo to the minister. (10 marks)

[Total: 20 Marks]

QUESTION THREE

IPSAS 32 – Service Concession arrangements/: Grantor, establishes accounting and reporting requirements for the grantor in service concession arrangement. In these kinds of arrangements the grantor is a public sector entity. Service concession arrangement in the public sector are characterized by binding arrangements that involve private sector participation in the development , financing , operation and maintenance of assets used to provide public service. IPSAS 32 Intention is to create symmetry with IFRIC 12: service concession arrangements on relevant accounts issues (that is liabilities, revenue and expenses) from the guarantor's point of view).

Required:

- (a) State and explain the conditions under which a grantor can recognize service concession assets.

(6 marks)

- (b) Explain any information that the grantor shall present and disclose in the financial statements.

(14 marks)

[Total: 20 Marks]

QUESTION FOUR

General Purpose Financial Reporting is concerned with the provision of information to users for accountability and disseminating purposes. It is said that financial reporting is not an end in itself but a means to an end. However, this does not mean that every public entity is a reporting entity.

Required:

With reference to the General Purpose Financial Reporting:

- (a) Explain the information needs of primary users of general purpose financial reports.

(16 marks)

- (b) Discuss how general purpose financial reporting supports accountability and decision making in the public sector.

(4 marks)

[Total: 20 Marks]

QUESTION FIVE

A public sector entity has a governing board of 12 members. The members are not remunerated but are each paid a per diem of ZMW 3,000 to cover their expenses.

Required:

You are approached by the board chairperson to explain to other members of the governing board the main elements of *IPSAS 20 Related Party Disclosures* and how the standard would be applied in this arrangement?

[Total: 20 Marks]

END OF PAPER

PFM 6: FINANCIAL REPORTING FRAMEWORK FOR PUBLIC SECTOR ENTITIES – SUGGESTED SOLUTIONS

SOLUTION ONE

Lavushimanda University

(a)

(i)

FINANCIAL PERFORMANCE STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2023

	ZMW'000
Revenue	
Internally Generated Funds	9,308
Expenses	
Compensation of Employees	4,862
Use of Goods and Services	1,088
Consumption of Assets (dep)	160
Interest	100
Other Expenses	25
	6,235
Surplus	3, 073

Lavushimanda University

(ii) STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER 2023

	ZMW'000	ZMW'000
Assets		
Non- Current Assets		
Plant, Property and Equipment	2,942	
Intangible Assets - Software	8	
Financial Assets	100	
		3,050
Current Assets		
Cash and Bank	1,300	
Inventory (60+40)	100	
Receivables	1,446	
		2,846
		5,896
Liabilities and Accumulated Fund		
Current Liabilities		
Payables	636	
Non – Current Liabilities		
Long Term Liabilities	428	
Total Liabilities		1,064
Accumulated Fund (1,759+3,073)		4832
Total Liabilities and Fund		5,896

Workings

1. Internally Generated Funds

Students	4,450
Sales from Books	1,985
Donation	2,000
Revenue from Library	548
Revenue from Research	148
Consultancy	27
Fixed Deposit	150
	9,308

2. Compensation of Employees

Salaries	4,109
Wages	100
10% Insurance	10
Extra Duty Allowance	578
Repatriation	15
Outstanding Wages	50
	4,862

3. Use of Goods and Services

	Learning Materials	Stationery	Total
Inventory at the Beginning	105	15	120
Purchase of LM/ Stationery	410	55	465
Inventory at the Close	(60)	(40)	(100)
	455	30	485
Travel Costs			10
Conference Costs			420
Cleaning Materials			50
General Maintenance			18
Repairs and Maintainance			105
			1,088

4. Other Expenses	25
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5. Consumption of Fixed Assets

	Building	MV	Software	Total
Costs	1,900	1,200	10	3,110
Depreciation Charge	(38)	(120)	(2)	(160)
	1,862	1,080	8	2,950

6. Payable

Withholding Tax	170
Payable	416
Wages	50
	636

7. Receivable

Receivables	1,421
Loans and Advances	25
	1,446

(b) Explain how each of the transactions (i) to (v) would affect the financial statements of the entity.

Transaction	Qualitative Characteristic	Explanation
(i)	Verifiability	An independent person with knowledge in accounting should be able to verify the financial statements to conclude that it was faithfully represented. A transaction based on phone calls cannot be verified by an independent person.
(ii)	Faithful Representation	Financial information is faithfully represented when it is complete, neutral and free from material errors. The omission of the revenue transaction from the financial statement renders the information incomplete. Therefore, faithful representation will be affected
(iii)	Comparability	The financial information should present at least two phenomena to allow the user to compare the results. In this case, the inclusion of the budget amounts in comparisons with the actuals of the years deepens the comparability of the financial statement in line with IPSAS24.
(iv)	Relevance	A relevant financial information should possess confirmative value or predictive or both. However, the users are turning away from the financial information because it does not help them in confirming their expectation or predicting the future occurrence.
(v)	Faithful Representation	Financial information is faithfully represented when it is complete, neutral and free from material errors. The financial statement suffers from recognition error, where non-current asset was expensed. This affects the faithful representation of the financial statement.

SOLUTION TWO

S/N	
(a)	<p>Discuss conditions for smooth transition from cash-based accounting to accrual accounting.</p> <p>Conditions for smooth transition to accrual basis are</p> <ul style="list-style-type: none"> (a) A clear mandate: There is a need for a clear mandate from the appropriate level of the government stating what the reforms will encompass, the expected timing and the authority of various government bodies to initiate the changes required. A clear mandate gives relevant officials and entities the power to initiate change and oversee the reforms. (b) Political commitment: Political commitment from both the governing body, or those elected representatives who oversee the governing body, and the opposing party is generally required to secure initial approval for the proposed changes and to provide continuing support for the changes when obstacles or opposition are encountered. (c) The commitment of central entities and key officials: One reason the active support and leadership of top governmental officials and politicians is required is that changes to the basis of accounting, together with other financial management reforms such as the devolution of authority for resources, involve changes to the power structure. Key people who are prepared to publicly stand by the changes may also fulfil the role of “fixers” when things go wrong. (d) Adequate resources (human and financial): A variety of skills are required to manage and maintain a change to the accrual basis of accounting. Identification of the types of skills required, and planning to ensure the availability of those skills is critical to the success of the transition. (e) An effective project management structure: Project management generally involves splitting the project into separate components that can then be managed by individuals with the appropriate skills and experience. A reform project should have documented framework or philosophy, an implementation plan and a clear assignment of responsibility. (f) Adequate technological capacity and information systems: The adoption of accrual financial reporting in conjunction with other public sector reforms often involve changes to a wide range of information systems. Entities contemplating a transition to accrual accounting need to perform an assessment of all existing

	<p>systems that link to the financial reporting system.</p> <p>(g) The use of legislation: The process of drafting legislation and consulting key groups on the proposed changes has a number of benefits. The use of legislation provides formal authority for the changes and demonstrates the strength of the government's commitment to the changes. The consultation process that usually accompanies legislative changes provides an opportunity to inform and educate other political parties and influential groups within government of the benefits of the changes.</p>
(b)	<p>As Director and recipient of the letter, provide your response in a memo to the Minister.</p> <p>(i) Qualitative Characteristics of Financial Information Fundamental qualitative characteristics distinguish useful financial reporting Information from information that is not useful or misleading:</p> <ul style="list-style-type: none"> • Relevance, and • Faithful representation <p>Enhancing qualitative characteristics distinguish more useful information from less useful information.</p> <ul style="list-style-type: none"> • Comparability • Verifiability • Timeliness • Understandability <p>Constraints on Information Included in General Purpose Financial Reports</p> <ul style="list-style-type: none"> • Materiality • Cost-Benefit • Balance Between the Qualitative Characteristics <p>(ii) The Bases of Measurement of Public Sector Assets Historical Cost</p> <ul style="list-style-type: none"> • Current Value • Market Value • Replacement cost • NRV/Net selling price • Value in use <p>(iii) The Statutory Role of Internal Auditors of Public Sector Entities</p> <ul style="list-style-type: none"> • Appraise and report on the soundness and application of the system of controls operating in the covered entity; • Evaluate the effectiveness of the risk management and governance process of a covered entity and contribute to the improvement of that risk management and governance process; • Provide assurance on the efficiency, effectiveness and economy in

	<p>the administration of the programmes and operations of a covered entity; and</p> <ul style="list-style-type: none"> • Evaluate compliance of a covered entity with enactments, policies, standards, systems and procedures

SOLUTION THREE

S/N	
(a)	<p>State and Explain Conditions that a grantor can recognize service concession Assets.</p> <p>The grantor shall recognize an asset provided by the operator and an upgrade to an existing asset of the grantor as a service concession asset if:</p> <ul style="list-style-type: none"> (a) The grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and (b) The grantor controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the asset at the end of the term of the arrangement.
(b)	<p>Explain any information that the grantor shall present and disclose in the financial statements.</p> <p>The grantor shall present information in accordance with IPSAS 1.</p> <p>A description of the arrangement;</p> <ul style="list-style-type: none"> (a) Significant terms of the arrangement that may affect the amount, timing, and certainty of future cash flows (e.g., the period of the concession, re-pricing dates, and the basis upon which re-pricing or re-negotiation is determined); (b) The nature and extent (e.g., quantity, time period, or amount, as appropriate) of: Rights to use specified assets; (c) Rights to expect the operator to provide specified services in relation to the service concession arrangement; (d) Service concession assets recognized as assets during the reporting period, including existing assets of the grantor reclassified as service concession assets; (e) Rights to receive specified assets at the end of the service concession arrangement; (f) Renewal and termination options; (g) Other rights and obligations (e.g., major overhaul of service concession assets); and (h) Obligations to provide the operator with access to service concession assets or other revenue-generating assets; and (i) Changes in the arrangement occurring during the reporting period. The disclosures required in accordance with paragraph 32 are provided individually for each material service concession arrangement or in aggregate for each class of service concession arrangements

SOLUTION FOUR

S/N	
(a)	<p>Information needs of users of public sector accounting information:</p> <ul style="list-style-type: none"> • Resource providers: includes tax payers, donors to mention a few and these need to know whether resources have been prudently utilized. • Beneficiaries: include individuals and corporate persons and are likely to be interested in the quality of provided goods or services. • Members of parliament: need public sector information to fulfil their oversight role through appropriate parliamentary committees • Staticians: need Public sector accounting information to help fulfil their mandate of providing analyzed reports to their users • Analysts: also need Public sector accounting information for analysis on behalf of the consumers of their reports • The media: require public sector accounting information to verify facts before reporting among other things • Regulators: use public sector accounting information to help assess compliance levels of public sector entities • Employees: use public sector information to make decisions relating to job security, career progress etc. • Controlling officers: use public sector financial information to fulfil their stewardship role • Lenders: use public sector financial information to assess the debt service capacity of a public sector entity
(b)	<p>Discuss how general purpose financial reporting supports accountability and decision making in the public sector.</p> <p>The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFRs for accountability purposes and decision-making purposes.</p> <p>Accountability</p> <p>The primary function of governments and other public sector entities is to provide services that enhance or maintain the well-being of citizens and other eligible residents. In most cases, these services are provided due to a non-exchange transaction and in a non-competitive environment. Governments and other public sector entities are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term. The discharge of accountability obligations requires the provision of information about the entity's management of the resources entrusted to it for the delivery of services to constituents and others, and its compliance with legislation, regulation, or other authority that governs its service delivery and other operations.</p>

	<p>Decision making</p> <p>Financial information also support decision making of the users, who requires information as input for making decisions. The information will also be useful for decision making by users of GPFRs, including decisions that donors and other financial supporters make about providing resources to the entity.</p> <p>Information about the financial position of a government or other public sector entity will enable users to identify the resources of the entity and claims to those resources at the reporting date. This will provide information useful as input to assessments of such matters as:</p> <ul style="list-style-type: none"> • The extent to which management has discharged its responsibilities for safekeeping and managing the resources of the entity; • The extent to which resources are available to support future service delivery activities, and changes during the reporting period in the amount and composition of those resources and claims to those resources; and • The amounts and timing of future cash flows necessary to service and repay existing claims to the entity's resources

SOLUTION FIVE

S/N	
	<p>You are approached by the board chairperson to explain the following to other to other members of the governing board the main elements of IPSAS 20 and how IPSAS 20 would be applied in this scenario?</p> <p>The main elements of this standard are as follows:</p> <ul style="list-style-type: none"> • A related party is defined in terms of control or significant influence, but several types of exemption are granted, particularly for relationships within a group. • Control is the ability to attain benefits by governing the operating and financial policies of an entity. • Joint control is the sharing of control through a contractual arrangement • Significant influence is the ability to participate in, rather than control, the financial and operating policy decisions. • A party may be related to an entity in numerous ways. Some related party relationships are easy to identify while others may be more difficult. Examples of related parties include: <ul style="list-style-type: none"> i. Key management personnel of an entity or its controlling entity. ii. Close members of the family of an individual defined as those family members who may be expected to influence, or be influenced by, the individual in their dealings with the entity. Examples of close family members include the individual's domestic partner and any dependents of the individual or of his or her partner. <p>. The following are the key related party disclosures:</p> <ul style="list-style-type: none"> (a) The nature of relationships between a parent or controlling entity and subsidiaries or controlled entities, even if there were no transactions between those related parties. (b) The name of the entity's parent or controlling entity and, if different, the ultimate controlling entity. (c) Compensation or remuneration of key management personnel and, if applicable, information about the compensation or remuneration of close family members of key personnel (d) Detail of loans to key management personnel and their close family members, including advances, repayments and closing balances.