International Public Sector Accounting Standards Board

Exposure Draft 26

September 2005

Comments are requested by January 31, 2006

Proposed International Public Sector Accounting Standards – Accrual Basis

Improvements to International Public Sector Accounting Standards

International Federation of Accountants

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COMMENTING ON THIS EXPOSURE DRAFT

This Exposure Draft was approved for issue by the International Public Sector Accounting Standards Board (IPSASB). The proposals in this Exposure Draft may be modified in the final Standard in the light of comments received before being issued in the form of an International Public Sector Accounting Standard (IPSAS).

Comments should be submitted in writing so as to be received by January 31, 2006. E-mail responses are preferred. All comments will be considered a matter of public record. Comments should be addressed to:

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INTRODUCTION TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

The International Federation of Accountants' International Public Sector Accounting Standards Board (IPSASB) develops accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The IPSASB recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs will play a key role in enabling these benefits to be realized. The IPSASB strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in Exposure Drafts.

The IPSASB issues IPSASs dealing with financial reporting under the accrual basis of accounting and the cash basis of accounting. The accrual basis IPSASs are based on the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) where the requirements of those Standards are applicable to the public sector. They also deal with public sector specific financial reporting issues that are not dealt with in IFRSs.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The IPSASB recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The IPSASB encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS.

Due Process and Timetable

An important part of the process of developing IPSASs is for the IPSASB to receive comments on the proposals set out in IPSAS Exposure Drafts from governments, public sector entities, auditors, standard-setters and other parties with an interest in public sector financial reporting. Accordingly, each proposed IPSAS is first released as an Exposure Draft, inviting interested parties to provide their comments. Exposure Drafts will usually have a comment period of four months, although longer periods may be used for certain Exposure Drafts. Upon the closure of the comment period, the IPSASB will consider the comments received on the Exposure Draft and may modify the proposed IPSAS in the light of the comments received before proceeding to issue a final Standard.

Request for Comments

This Exposure Draft proposes improvements to eleven accrual basis International Public Sector Accounting Standards (IPSASs). Comments are invited on the proposals in this Exposure Draft by January 31, 2006. The IPSASB invites comments on all the changes proposed in the Exposure Draft, and would particularly

welcome comments to the questions set out in the "Specific Matters for Comment" section at the front of each IPSAS. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

Until a proposed IPSAS becomes effective, the requirements of the current version of the relevant IPSAS remain in force.

Background and Purpose of the Exposure Draft

In late 1997, the IPSASB's predecessor – the Public Sector Committee (PSC)[1] – commenced a program for the development of IPSASs based on International Accounting Standards (IASs) on issue at August 1997, or their subsequently revised versions, to the extent the requirement of the IASs are relevant for the public sector. The IPSASs maintained the requirements, structure and text of the IASs unless there was a public sector specific reason for a departure. The first phase of the standards development program was completed in late 2002.

The objective of this Exposure Draft is to update 11 IPSASs to converge with the improved IASs issued by the IASB in December 2003 in its General Improvements project. The objectives of the IASB's General Improvements project were to reduce or eliminate alternatives, redundancies and conflicts within IASs, to deal with some convergence issues and to make other improvements.

The following eleven Standards are subject to revision in the IPSAS Improvements Project:

- IPSAS 1, "Presentation of Financial Statements"
- IPSAS 3, "Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies"
- IPSAS 4, "The Effect of Changes in Foreign Exchange Rates"
- IPSAS 6, "Consolidated Financial Statements and Accounting for Controlled Entities"
- IPSAS 7, "Accounting for Investments in Associates"
- IPSAS 8, "Financial Reporting of Interests in Joint Ventures"
- IPSAS 12, "Inventories"
- IPSAS 13, "Leases"
- IPSAS 14, "Events After the Reporting Date"
- IPSAS 16, "Investment Property"

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[1] The PSC was reconstituted as the IPSASB by the IFAC Board in November 2004.

- IPSAS 17, "Property, Plant and Equipment"

An Exposure Draft (ED 25), "Amendment to the Preface to International Public Sector Accounting Standards" is also published together with this Exposure Draft. ED 25 proposes that all the paragraphs in IPSASs in bold type and plain type have equal authority. This Exposure Draft adopts the proposed equal authority approach.

Presentation of the Exposure Draft

This Exposure Draft includes for each of the eleven IPSASs revised in the Improvements Project the following:

- Specific Matters for Comment – Questions focus on whether convergence with the equivalent IAS is appropriate and issues where the IPSAS departs from the equivalent IAS.
- A Summary of Main Changes – This section summarizes the main proposals for change to the IPSAS.
- Revised Text.
- Amendments to Other Pronouncements – Consequential amendments to IPSASs not addressed in the Improvements Project are identified at the end of each proposed IPSAS.

A Basis for Conclusions is included at the end of the Exposure Draft. The Basis for Conclusions presents views considered by the IPSASB on major issues.

Revised text

The presentation of the revised text varies depending on the extent of the proposed changes. When the changes proposed are pervasive, only a clean copy of the full revised text of the IPSAS is presented. When the proposed changes would result in the revision of a limited number of paragraphs, only the relevant paragraphs are presented. A "Table of Concordance" has been prepared for each of the IPSASs presented in clean copy to identify the corresponding contents of the proposed and current versions of each IPSAS. For other IPSASs, changes are identified in mark-up:

(a) Clean copy is presented for:

  i. IPSAS 1, "Presentation of Financial Statements"

  ii. IPSAS 3, "Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies"

  iii. IPSAS 4, "The Effect of Changes in Foreign Exchange Rates".

(b) A marked-up copy of the full text of the IPSAS is presented for:

  i. IPSAS 6, "Consolidated Financial Statements and Accounting for Controlled Entities"

ii. IPSAS 7, "Accounting for Investments in Associates"

iii. IPSAS 8, "Financial Reporting of Interests in Joint Ventures"

iv. IPSAS 16, "Investment Property"

v. IPSAS 17, "Property, Plant and Equipment".

(c) A mark-up copy of the relevant paragraphs is presented for:

i. IPSAS 12, "Inventories"

ii. IPSAS 13, "Leases"

iii. IPSAS 14, "Events After the Reporting Date".

Style

This Exposure Draft reflects the IPSASB's decision to adopt the style of the equivalent IASs and change certain terminology in existing IPSASs. Accordingly, the word 'shall' is used instead of 'should'. By replacing 'should' with 'shall', the IPSASB does not intend to change the requirements in the IPSASs, but to clarify them.

A boxed text (rubric) is set out at the front of each proposed IPSAS. The rubric to an IPSAS identifies the material that constitutes the IPSAS, and the documents that provide the context in which the IPSAS should be read.

Appendices form part of the proposed IPSAS to which they belong. Appendices to some IPSASs that are not revised by the IPSASB remain for illustrative purposes only. They do not form part of the IPSAS. The status of each Appendix is indicated at the head of the Appendix.

The Basis for Conclusions does not form part of an IPSAS. Implementation Guidance and Illustrative Examples accompany an IPSAS and are not part of the IPSAS.

International Public Sector Accounting Standard IPSAS 1

(revised 200X)

Presentation of Financial Statements

Specific Matters for Comment

The IPSASB would particularly value comments on the following questions. It would be helpful to the IPSASB if these comments indicate the specific paragraph number or groups of paragraphs to which they relate, clearly explain the issue and suggest alternative wording, with supporting reasoning, where this is appropriate.

Question 1

Do you agree that IPSAS 1 should be revised as proposed to converge with the equivalent IAS 1 (December 2003)?

Question 2

The proposed IPSAS 1 does not include a definition of the term "extraordinary items", and does not require nor prohibit the presentation of items of revenue and expense as "extraordinary items" either on the face of the statement of financial performance or in the notes.

Do you agree that extraordinary items should not be defined and their presentation either on the face of the statement of financial performance or in the notes should not be explicitly required or prohibited?

SUMMARY OF MAIN CHANGES IPSAS 1 PRESENTATION OF FINANCIAL STATEMENTS

The main changes proposed are:

Scope

- To transfer from IPSAS 1 to IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors" requirements relating to the selection and application of accounting policies.
- To transfer to IPSAS 1 the presentation requirements for surplus or deficit for the period previously contained in IPSAS 3.

Definitions

- In paragraph 7:
  - to define two new terms: "impracticable" and "notes";
  - to change the name of term "materiality" to "material" and amend the definition;
  - to remove the following unnecessary terms: "associates", "borrowing costs", "cash", "cash equivalents", "cash flows", "consolidated financial statements", "control", "controlled entity", "controlling entity", "equity method", "exchange difference", "fair value", "financial assets", "foreign currency", "foreign operation", "minority interest", and "qualifying assets"; and
  - to remove the following terms, which no longer exist: "extraordinary items", "fundamental errors", "net surplus/deficit", "ordinary activities", "reporting currency" and "surplus/deficit from ordinary activities". These definitions have also been eliminated in relevant International Public Sector Accounting Standards (IPSASs), eg IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors" and IPSAS 4, "The Effects of Changes in Foreign Exchange Rates".
- To include in paragraph 13 the interpretation of the term "materiality" and the notion of characteristics of users. Previously, IPSAS 1 did not contain this commentary.

Fair Presentation and Departure from International Public Sector Accounting Standards (IPSASs)

- To clarify in paragraph 27 that fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in IPSASs. Previously, IPSAS 1 did not contain the guidance on the meaning of "fair presentation".
- To require that in the extremely rare circumstances in which management

concludes that compliance with a requirement in an IPSAS would be so misleading that it would conflict with the objective of financial statements set out in IPSAS 1, to depart from the requirement unless departure is prohibited by the relevant regulatory framework. In either case, the entity is required to make specified disclosures. Previously, IPSAS 1 did not set up the criterion for departure from IPSASs and did not distinguish the circumstances in which the regulatory framework permits or prohibits the departure from IPSASs (paragraphs 31-37).

- To transfer previous paragraphs 37-42 in IPSAS 1, which relate to the selection and application of accounting policies, to IPSAS 3.

Classification of Assets and Liabilities

- To require in paragraph 70 that an entity uses the order of liquidity to present assets and liabilities only when a liquidity presentation provides information that is reliable and more relevant than a current/non-current presentation. Previously, IPSAS 1 did not contain such limitation.
- To require in paragraph 80 that a liability held primarily for the purpose of being traded be classified as current. Previously, IPSAS 1 did not specify this criterion for liabilities classified as current.
- To require in paragraphs 83 and 84 that a financial liability that is due within twelve months after the reporting date, or for which the entity does not have an unconditional right to defer its settlement for at least twelve months after the reporting date, is classified as a current liability. This classification is required even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorized for issue. Previously, IPSAS 1 required such liabilities to be classified as non-current.
- To clarify in paragraph 84 that a liability is classified as non-current when the entity has, under the terms of an existing loan facility, the discretion to refinance or roll over its obligations for at least twelve months after the reporting date.
- To require in paragraph 85 that when a long-term financial liability is payable on demand because the entity has breached a condition of its loan agreement on or before the reporting date, the liability is classified as current at the reporting date even if, after the reporting date and before the financial statements are authorized for issue, the lender has agreed not to demand payment as a consequence of the breach. Previously, IPSAS 1 required such liabilities to be classified as non-current.
- To clarify in paragraph 86 that the liability is classified as non-current if the lender agreed by the reporting date to provide a period of grace ending at least twelve months after the reporting date, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

Presentation and Disclosure

Statement of Financial Performance

- To transfer from IPSAS 3 the section that sets out the presentation requirements for surplus or deficit for the period (IPSAS 3 previous paragraphs 10-12) to IPSAS 1 (see paragraphs 99-101).
- To remove the presentation of the following line items from the face of the statement of financial performance in paragraph 102 (previous paragraph 101):
  - surplus or deficit from operating activities;
  - surplus or deficit from ordinary activities; and
  - extraordinary items.
- To require in paragraph 103 the separate presentation, on the face of the statement of financial performance, of the entity's surplus or deficit for the period allocated between: "surplus or deficit attributable to owners of the controlling entity"; and "surplus or deficit attributable to minority interest". Previously, IPSAS 1 did not contain these presentation requirements.

Statement of Changes in Net Assets/Equity

- To require in paragraph 118 the presentation, on the face of the statement of changes in net assets/equity, of the entity's total amount of revenue and expense for the period (including amounts recognized directly in net assets/equity), showing separately the amounts attributable to minority interest and owners of the controlling entity. Previously, IPSAS 1 did not require presentation of these items.

Notes

- To require in paragraphs 137-139 that an entity shall disclose the judgments, apart from those involving estimations, management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognized in the financial statements (eg management's judgment in determining whether assets are investment properties). Previously, IPSAS 1 did not contain these disclosure requirements.
- To require in paragraphs 140-148 that an entity shall disclose the key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Previously, IPSAS 1 did not contain these disclosure requirements.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 1—PRESENTATION OF FINANCIAL STATEMENTS

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International Public Sector Accounting Standard 1, "Presentation of Financial Statements" (IPSAS 1) is set out in paragraphs 1-155 and Appendices A and B. All the paragraphs have equal authority. IPSAS 1 should be read in the context of its objective, the Basis for Conclusions, and the "Preface to International Public Sector Accounting Standards". IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors" provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS 1—PRESENTATION OF FINANCIAL STATEMENTS

Objective

1. The objective of this Standard is to prescribe the manner in which general purpose financial statements should be presented to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. To achieve this objective, this Standard sets out overall considerations for the presentation of financial statements, guidance for their structure, and minimum requirements for the content of financial statements prepared under the accrual basis of accounting. The recognition, measurement and disclosure of specific transactions and other events are dealt with in other International Public Sector Accounting Standards.

Scope

2. **This Standard shall be applied to all general purpose financial statements prepared and presented under the accrual basis of accounting in accordance with International Public Sector Accounting Standards.**

3. 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 particular information needs. Users of general purpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees. General purpose financial statements include those that are presented separately or within another public document such as an annual report. This Standard does not apply to condensed interim financial information.

4. This Standard applies equally to all entities whether or not they need to prepare consolidated financial statements or separate financial statements, as defined in IPSAS 6, "Consolidated and Separate Financial Statements".

5. **This Standard applies to all public sector entities other than Government Business Enterprises.**

6. The "Preface to International Public Sector Accounting Standards" issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). GBEs are defined in paragraph 7 below.

Definitions

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

Accrual basis means a basis of accounting under which transactions and other events are recognized 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 recognized in the financial statements of the periods to which they relate. The elements recognized 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.

Contributions from owners means future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which:

(a) **conveys entitlement both to distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or**

(b) **can be sold, exchanged, transferred or redeemed.**

Distributions to owners means future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.

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

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.

Government Business Enterprise means an entity that has all the following characteristics:

(a) **is an entity with the power to contract in its own name;**

(b) **has been assigned the financial and operational authority to carry on a business;**

(c) **sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;**

(d) **is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and**

(e) **is controlled by a public sector entity.**

Impracticable Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

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.

Material Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature and size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

Net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities.

Notes contain information in addition to that presented in the statement of financial position, statement of financial performance, statement of changes in net assets/equity and cash flow statement. Notes provide narrative descriptions or disaggregations of items disclosed in those statements and information about items that do not qualify for recognition in those statements.

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 other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.

Economic Entity

8. 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.

9. Other terms sometimes used to refer to an economic entity include "administrative entity", "financial entity", "consolidated entity" and "group".

10. An economic entity may include entities with both social policy and commercial objectives. For example, a government housing department may be an economic entity which includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.

Future Economic Benefits or Service Potential

11. Assets 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.

Government Business Enterprises

12. Government Business Enterprises (GBEs) include both trading enterprises, such as utilities, and financial enterprises, such as financial institutions. GBEs are, in substance, no different from entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in the community with goods and services at either no charge or a significantly reduced charge. International Public Sector Accounting Standard IPSAS 6, "Consolidated and Separate Financial Statements" provides guidance on determining whether control exists for financial reporting purposes, and should be referred to in determining whether a GBE is controlled by another public sector entity.

Materiality

13. Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. Users are assumed to have a reasonable knowledge of the public sector and economic activities, accounting, and a willingness to study the information with reasonable diligence. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

Net Assets/Equity

14. "Net assets/equity" is the term used in this Standard to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.

Purpose of Financial Statements

15. Financial statements are a structured representation of the financial position and financial performance of an entity. The objectives of general purpose financial statements are to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically, the objectives of general purpose financial reporting in the public sector should be to provide information useful for decision-making, and to demonstrate the accountability of the entity for the resources entrusted to it by:

    (a) providing information about the sources, allocation and uses of financial resources;

    (b) providing information about how the entity financed its activities and met its cash requirements;

    (c) providing information that is useful in evaluating the entity's ability to finance its activities and to meet its liabilities and commitments;

    (d) providing information about the financial condition of the entity and changes in it; and

    (e) providing aggregate information useful in evaluating the entity's performance in terms of service costs, efficiency and accomplishments.

16. General purpose financial statements can also have a predictive or prospective role, providing information useful in predicting the level of resources required for continued operations, the resources that may be generated by continued operations, and the associated risks and uncertainties. Financial reporting may also provide users with information:

    (a) indicating whether resources were obtained and used in accordance with the legally adopted budget; and

    (b) indicating whether resources were obtained and used in accordance with legal and contractual requirements, including financial limits established by appropriate legislative authorities.

17. To meet these objectives, the financial statements provide information about an entity's:

    (a) assets;

    (b) liabilities;

    (c) net assets/equity;

    (d) revenue;

    (e) expenses;

(f) other changes in net assets/equity; and

(g) cash flows.

18. Whilst the information contained in financial statements can be relevant for the purpose of meeting the objectives in paragraph 15, it is unlikely to enable all these objectives to be met. This is likely to be particularly so in respect of entities whose primary objective may not be to make a profit, as managers are likely to be accountable for the achievement of service delivery as well as financial objectives. Supplementary information, including non-financial statements, may be reported alongside the financial statements in order to provide a more comprehensive picture of the entity's activities during the period.

Responsibility for Financial Statements

19. The responsibility for the preparation and presentation of financial statements varies within and across jurisdictions. In addition, a jurisdiction may draw a distinction between who is responsible for preparing the financial statements and who is responsible for approving or presenting the financial statements. Examples of people or positions who may be responsible for the preparation of the financial statements of individual entities (such as government departments or their equivalent) include the individual who heads the entity (the permanent head or chief executive) and the head of the central finance agency (or the senior finance official, such as the controller or accountant-general).

20. The responsibility for the preparation of the consolidated financial statements of the government as a whole usually rests jointly with the head of the central finance agency (or the senior finance official, such as the controller or accountant-general) and the finance minister (or equivalent).

Components of Financial Statements

21. **A complete set of financial statements comprises:**

(a) **a statement of financial position;**

(b) **a statement of financial performance;**

(c) **a statement of changes in net assets/equity;**

(d) **a cash flow statement; and**

(e) **notes, comprising a summary of significant accounting policies and other explanatory notes.**

22. The components listed in paragraph 21 are referred to by a variety of names both within and across jurisdictions. The statement of financial position may also be referred to as a balance sheet or statement of assets and liabilities.

The statement of financial performance may also be referred to as a statement of revenues and expenses, an income statement, an operating statement, or a profit and loss statement. The notes may include items referred to as "schedules" in some jurisdictions.

23. The financial statements provide users with information about an entity's resources and obligations at the reporting date and the flow of resources between reporting dates. This information is useful for users making assessments of an entity's ability to continue to provide goods and services at a given level, and the level of resources that may need to be provided to the entity in the future so that it can continue to meet its service delivery obligations.

24. Public sector entities are typically subject to budgetary limits in the form of appropriations or budget authorizations (or equivalent), which may be given effect through authorizing legislation. General purpose financial reporting by public sector entities may provide information on whether resources were obtained and used in accordance with the legally adopted budget. Where the financial statements and the budget are on the same basis of accounting, this Standard encourages the inclusion in the financial statements of a comparison with the budgeted amounts for the reporting period. Reporting against budgets may be presented in various different ways, including:

    (a) the use of a columnar format for the financial statements, 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) a statement by the individual(s) responsible for the preparation of the financial statements that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or expenses incurred without appropriation or other form of authority, then details may be disclosed by way of note to the relevant item in the financial statements.

25. Entities are encouraged to present additional information to assist users in assessing the performance of the entity, and its stewardship of assets, as well as making and evaluating decisions about the allocation of resources. This additional information may include details about the entity's outputs and outcomes in the form of performance indicators, statements of service performance, program reviews and other reports by management about the entity's achievements over the reporting period.

26. Entities are also encouraged to disclose information about compliance with legislative, regulatory or other externally-imposed regulations. When information about compliance is not included in the financial statements, it may be useful for a note to refer to any documents that include that information. Knowledge of non-compliance is likely to be relevant for

accountability purposes and may affect a user's assessment of the entity's performance and direction of future operations. It may also influence decisions about resources to be allocated to the entity in the future.

Overall Considerations

Fair Presentation and Compliance with International Public Sector Accounting Standards

27. **Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in International Public Sector Accounting Standards. The application of International Public Sector Accounting Standards, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.**

28. **An entity whose financial statements comply with International Public Sector Accounting Standards shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with International Public Sector Accounting Standards unless they comply with all the requirements of International Public Sector Accounting Standards.**

29. In virtually all circumstances, a fair presentation is achieved by compliance with applicable International Public Sector Accounting Standards. A fair presentation also requires an entity:

    (a) to select and apply accounting policies in accordance with IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors". IPSAS 3 sets out a hierarchy of authoritative guidance that management considers in the absence of an International Public Sector Accounting Standard that specifically applies to an item;

    (b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and

    (c) to provide additional disclosures when compliance with the specific requirements in International Public Sector Accounting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

30. **Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material.**

31. **In the extremely rare circumstances in which management concludes that compliance with a requirement in an International Public Sector Accounting Standard would be so misleading that it would conflict with the objective of financial statements set out in this Standard, the entity shall depart from that requirement in the manner set out in paragraph 32 if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.**

32. **When an entity departs from a requirement of an International Public Sector Accounting Standard in accordance with paragraph 31, it shall disclose:**

    (a) **that management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;**

    (b) **that it has complied with applicable International Public Sector Accounting Standards, except that it has departed from a particular requirement to achieve a fair presentation;**

    (c) **the title of the International Public Sector Accounting Standard from which the entity has departed, the nature of the departure, including the treatment that the International Public Sector Accounting Standard would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in this Standard, and the treatment adopted; and**

    (d) **for each period presented, the financial impact of the departure on each item in the financial statements that would have been reported in complying with the requirement.**

33. **When an entity has departed from a requirement of an International Public Sector Accounting Standard in a prior period, and that departure affects the amounts recognized in the financial statements for the current period, it shall make the disclosures set out in paragraph 32(c) and (d).**

34. Paragraph 33 applies, for example, when an entity departed in a prior period from a requirement in an International Public Sector Accounting Standard for the measurement of assets or liabilities, and that departure affects the measurement of changes in assets and liabilities recognized in the current period's financial statements.

35. **In the extremely rare circumstances in which management concludes that compliance with a requirement in an International Public Sector Accounting Standard would be so misleading that it would conflict with the objective of financial statements set out in this Standard, but the relevant regulatory framework prohibits departure from the**

requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:

(a) **the title of the International Public Sector Accounting Standard in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in this Standard; and**

(b) **for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation.**

36. For the purpose of paragraphs 31-35, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence decisions made by users of financial statements. When assessing whether complying with a specific requirement in an International Public Sector Accounting Standard would be so misleading that it would conflict with the objective of financial statements set out in this Standard, management considers:

(a) why the objective of financial statements is not achieved in the particular circumstances; and

(b) how the entity's circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of the financial statements set out in this Standard.

37. Departures from the requirements of an International Public Sector Accounting Standard in order to comply with statutory/legislative financial reporting requirements in a particular jurisdiction do not constitute departures that conflict with the objective of financial statements set out in this Standard as outlined in paragraph 31. If such departures are material an entity cannot claim to be complying with International Public Sector Accounting Standards.

Going Concern

38. **When preparing financial statements an assessment of an entity's ability to continue as a going concern shall be made. This assessment shall be made by those responsible for the preparation of financial statements. Financial statements shall be prepared on a going concern basis unless there is an intention to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so. When those responsible for the preparation of the financial statements are aware, in making their**

assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.

39. Financial statements are normally prepared on the assumption that the entity is a going concern and will continue in operation and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate, those responsible for the preparation of financial statements take into account all available information about the future, which is at least, but is not limited to, twelve months from the approval of the financial statements.

40. The degree of consideration depends on the facts in each case, and assessments of the going concern assumption are not predicated on the solvency test usually applied to business enterprises. There may be circumstances where the usual going concern tests of liquidity and solvency appear unfavorable, but other factors suggest that the entity is nonetheless a going concern. For example:

    (a) in assessing whether a government is a going concern, the power to levy rates or taxes may enable some entities to be considered as a going concern even though they may operate for extended periods with negative net assets/equity; and

    (b) for an individual entity, an assessment of its statement of financial position at the reporting date may suggest that the going concern assumption is not appropriate. However, there may be multi-year funding agreements, or other arrangements, in place that will ensure the continued operation of the entity.

41. The determination of whether the going concern assumption is appropriate is primarily relevant for individual entities rather than for a government as a whole. For individual entities, in assessing whether the going concern basis is appropriate, those responsible for the preparation of financial statements may need to consider a wide range of factors relating to current and expected performance, potential and announced restructurings of organizational units, estimates of revenue or the likelihood of continued government funding, and potential sources of replacement financing before it is appropriate to conclude that the going concern assumption is appropriate.

Consistency of Presentation

42. **The presentation and classification of items in the financial statements shall be retained from one period to the next unless:**

(a) **it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in IPSAS 3; or**

(b) **an International Public Sector Accounting Standard requires a change in presentation.**

43. A significant acquisition or disposal, or a review of the presentation of the financial statements, might suggest that the financial statements need to be presented differently. For example, an entity may dispose of a savings bank that represents one of its most significant controlled entities and the remaining economic entity conducts mainly administrative and policy advice services. In this case, the presentation of the financial statements based on the principal activities of the economic entity as a financial institution is unlikely to be relevant for the new economic entity.

44. An entity changes the presentation of its financial statements only if the changed presentation provides information that is reliable and is more relevant to users of the financial statements and the revised structure is likely to continue, so that comparability is not impaired. When making such changes in presentation, an entity reclassifies its comparative information in accordance with paragraphs 55 and 56.

Materiality and Aggregation

45. **Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately unless they are immaterial.**

46. Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity and cash flow statement, or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of those statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of those statements may nevertheless be sufficiently material for it to be presented separately in the notes.

47. Applying the concept of materiality means that a specific disclosure requirement in an International Public Sector Accounting Standard need not be satisfied if the information is not material.

Offsetting

48. **Assets and liabilities, and revenue and expenses, shall not be offset unless required or permitted by an International Public Sector Accounting Standard.**

49. It is important that assets and liabilities, and revenue and expenses, are reported separately. Offsetting in the statement of financial performance or the statement of financial position, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity's future cash flows. Measuring assets net of valuation allowances (for example, obsolescence allowances on inventories and doubtful debts allowances on receivables) is not offsetting.

50. IPSAS 9, "Revenue from Exchange Transactions" defines revenue and requires it to be measured at the fair value of consideration received or receivable, taking into account the amount of any trade discounts and volume rebates allowed by the entity. An entity undertakes, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. The results of such transactions are presented, when this presentation reflects the substance of the transaction or other event, by netting any revenue with related expenses arising on the same transaction. For example:

    (a) gains and losses on the disposal of non-current assets, including investments and operating assets, are reported by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses; and

    (b) expenses related to a provision that is recognized in accordance with IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets" and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) may be netted against the related reimbursement.

51. In addition, gains and losses arising from a group of similar transactions are reported on a net basis (for example, foreign exchange gains and losses and gains and losses arising on financial instruments held for trading). Such gains and losses are, however, reported separately if they are material.

52. The offsetting of cash flows is dealt with in IPSAS 2, "Cash Flow Statements".

Comparative Information

53. **Except when an International Public Sector Accounting Standard permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all amounts reported in the**

financial statements. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

54. 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, are disclosed in the current period. Users benefit from information that the uncertainty existed at the last reporting date, and about the steps that have been taken during the period to resolve the uncertainty.

55. **When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified unless the reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose:**

    (a) **the nature of the reclassification;**

    (b) **the amount of each item or class of items that is reclassified; and**

    (c) **the reason for the reclassification.**

56. **When it is impracticable to reclassify comparative amounts, an entity shall disclose:**

    (a) **the reason for not reclassifying the amounts; and**

    (b) **the nature of the adjustments that would have been made if the amounts had been reclassified.**

57. Enhancing the inter-period comparability of information assists users in making and evaluating decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior period to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows reclassification, and it may not be practicable to recreate the information.

58. IPSAS 3 deals with the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.

Structure and Content

Introduction

59. This Standard requires particular disclosures on the face of the statement of financial position, statement of financial performance and statement of changes in net assets/equity and requires disclosure of other line items either

on the face of those statements or in the notes. IPSAS 2 sets out requirements for the presentation of a cash flow statement.

60. This Standard sometimes uses the term "disclosure" in a broad sense, encompassing items presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity and cash flow statement, as well as in the notes. Disclosures are also required by other International Public Sector Accounting Standards. Unless specified to the contrary elsewhere in this Standard, or in another Standard, such disclosures are made either on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity or cash flow statement (whichever is relevant), or in the notes.

Identification of the Financial Statements

61. **The financial statements shall be identified clearly and distinguished from other information in the same published document.**

62. International Public Sector Accounting Standards apply only to financial statements, and not to other information presented in an annual report or other document. Therefore, it is important that users can distinguish information that is prepared using International Public Sector Accounting Standards from other information that may be useful to users but is not the subject of those requirements.

63. **Each component of the financial statements shall be identified clearly. In addition, the following information shall be displayed prominently, 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 and any change in that information from the preceding reporting date;**

    (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 that component of the financial statements;**

    (d) **the presentation currency, as defined in IPSAS 4, "The Effects of Changes in Foreign Exchange Rates"; and**

    (e) **the level of rounding used in presenting amounts in the financial statements.**

64. The requirements in paragraph 63 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 presented electronically, separate pages are not always used; the above items are then presented frequently enough to ensure a proper understanding of the information included in the financial statements.

65. Financial statements are often made more understandable by presenting information in thousands or millions of units of the presentation currency. This is acceptable as long as the level of rounding in presentation is disclosed and material information is not omitted.

Reporting Period

66. **Financial statements shall be presented at least annually. When an entity's reporting date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:**

    (a) **the reason for using a longer or shorter period; and**

    (b) **the fact that comparative amounts for certain statements such as the statement of financial performance, statement of changes in net assets/equity, cash flow statement and related notes are not entirely comparable.**

67. In exceptional circumstances, an entity may be required to, or decide to, change its reporting date, for example in order to align the reporting cycle more closely with the budgeting cycle. When this is the case, it is important that users are aware that the amounts shown for the current period and comparative amounts are not comparable and that the reason for the change in reporting date is disclosed. A further example is where, in making the transition from cash to accrual accounting, an entity changes the reporting date for entities within the economic entity to enable the preparation of consolidated financial statements.

68. Normally, financial statements are consistently prepared covering a one-year period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This Standard does not preclude this practice, because the resulting financial statements are unlikely to be materially different from those that would be presented for one year.

Timeliness

69. The usefulness of financial statements is 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. 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 in many jurisdictions.

Statement of Financial Position

Current/Non-current Distinction

70. **An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement of financial position in accordance with paragraphs 76-87 except when a presentation based on liquidity provides information that is reliable and is more relevant. When that exception applies, all assets and liabilities shall be presented broadly in order of liquidity.**

71. **Whichever method of presentation is adopted, for each asset and liability line item that combines amounts expected to be recovered or settled (a) no more than twelve months after the reporting date and (b) more than twelve months after the reporting date, an entity shall disclose the amount expected to be recovered or settled after more than twelve months.**

72. When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realized within the current operating cycle, and liabilities that are due for settlement within the same period.

73. For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is reliable and is more relevant than a current/non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.

74. In applying paragraph 70, an entity is permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that is reliable and is more relevant. The need for a mixed basis of presentation might arise when an entity has diverse operations.

75. Information about expected dates of realization of assets and liabilities is useful in assessing the liquidity and solvency of an entity. IPSAS 15, "Financial Instruments: Disclosure and Presentation" requires disclosure of the maturity dates of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery and settlement of non-monetary assets and liabilities such as inventories and provisions is

also useful, whether or not assets and liabilities are classified as current or non-current.

Current Assets

76. **An asset shall be classified as current when it satisfies any of the following criteria:**

    (a) **it is expected to be realized in, or is held for sale or consumption in, the entity's normal operating cycle;**

    (b) **it is held primarily for the purpose of being traded;**

    (c) **it is expected to be realized within twelve months after the reporting date; or**

    (d) **it is cash or a cash equivalent (as defined in IPSAS 2, "Cash Flow Statements") unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.**

    All other assets shall be classified as non-current.

77. This Standard uses the term "non-current assets" to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.

78. The operating cycle of an entity is the time taken to convert inputs or resources into outputs. For instance, governments transfer resources to public sector entities so that they can convert those resources into goods and services, or outputs, to meet the government's desired social, political and economic outcomes. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

79. Current assets include assets (such as taxes receivable, user charges receivable, fines and regulatory fees receivable, inventories and accrued investment revenue) that are either realized, consumed or sold, as part of the normal operating cycle even when they are not expected to be realized within twelve months after the reporting date. Current assets also include assets held primarily for the purpose of being traded (guidance on classification of financial assets can be found in the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments) and the current portion of non-current financial assets.

Current Liabilities

80. **A liability shall be classified as current when it satisfies any of the following criteria:**

    (a) **it is expected to be settled in the entity's normal operating cycle;**

    (b) **it is held primarily for the purpose of being traded;**

(c) **it is due to be settled within twelve months after the reporting date; or**

(d) **the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.**

All other liabilities shall be classified as non-current.

81. Some current liabilities, such as government transfers payable and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. Such operating items are classified as current liabilities even if they are due to be settled more than twelve months after the reporting date. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

82. Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting date or held primarily for the purpose of being traded. Examples are financial liabilities classified held for trading (guidance on classification of financial liabilities can be found in the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments), bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting date are non-current liabilities, subject to paragraphs 85 and 86.

83. An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting date, even if:

(a) the original term was for a period longer than twelve months; and

(b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorized for issue.

84. If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting date under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no agreement to refinance), the potential to refinance is not considered and the obligation is classified as current.

85. When an entity breaches an undertaking under a long-term loan agreement on or before the reporting date with the effect that the liability becomes payable

on demand, the liability is classified as current, even if the lender has agreed, after the reporting date and before the authorization of the financial statements for issue, not to demand payment as a consequence of the breach. The liability is classified as current because, at the reporting date, the entity does not have an unconditional right to defer its settlement for at least twelve months after that date.

86. However, the liability is classified as non-current if the lender agreed by the reporting date to provide a period of grace ending at least twelve months after the reporting date, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

87. In respect of loans classified as current liabilities, if the following events occur between the reporting date and the date the financial statements are authorized for issue, those events qualify for disclosure as non-adjusting events in accordance with IPSAS 14, "Events after the Reporting Date":

(a) refinancing on a long-term basis;

(b) rectification of a breach of a long-term loan agreement; and

(c) the receipt from the lender of a period of grace to rectify a breach of a long-term loan agreement ending at least twelve months after the reporting date.

Information to be Presented on the Face of the Statement of Financial Position

88. **As a minimum, the face of the statement of financial position shall include line items that present the following amounts:**

(a) **property, plant and equipment;**

(b) **investment property;**

(c) **intangible assets;**

(d) **financial assets (excluding amounts shown under (e), (g), (h) and (i));**

(e) **investments accounted for using the equity method;**

(f) **inventories;**

(g) **recoverables from non-exchange transactions, including taxes and transfers;**

(h) **receivables from exchange transactions;**

(i) **cash and cash equivalents;**

(j) **taxes and transfers payable;**

(k) **payables under exchange transactions;**

(l) **provisions;**

(m) **financial liabilities (excluding amounts shown under (j), (k) and (l));**

(n) **minority interest, presented within net assets/equity; and**

(o) **net assets/equity attributable to owners of the controlling entity.**

89. **Additional line items, headings and sub-totals shall be presented on the face of the statement of financial position when such presentation is relevant to an understanding of the entity's financial position.**

90. This Standard does not prescribe the order or format in which items are to be presented. Paragraph 88 simply provides a list of items that are sufficiently different in nature or function to warrant separate presentation on the face of the statement of financial position. Illustrative formats are set out in Implementation Guidance to this Standard. In addition:

(a) line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and

(b) the descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position.

91. The judgment on whether additional items are presented separately is based on an assessment of:

(a) the nature and liquidity of assets;

(b) the function of assets within the entity; and

(c) the amounts, nature and timing of liabilities.

92. The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that they should be presented as separate line items. For example, different classes of property, plant and equipment can be carried at cost or revalued amounts in accordance with IPSAS 17, "Property, Plant and Equipment".

Information to be Presented either on the Face of the Statement of Financial Position or in the Notes

93. **An entity shall disclose, either on the face of the statement of financial position or in the notes, further subclassifications of the line items presented, classified in a manner appropriate to the entity's operations.**

94. The detail provided in subclassifications depends on the requirements of International Public Sector Accounting Standards and on the size, nature and

function of the amounts involved. The factors set out in paragraph 91 also are used to decide the basis of subclassification. The disclosures vary for each item, for example:

(a) items of property, plant and equipment are disaggregated into classes in accordance with IPSAS 17;

(b) receivables are disaggregated into amounts receivable from user charges, taxes and other non-exchange revenues, receivables from related parties, prepayments and other amounts;

(c) inventories are subclassified in accordance with IPSAS 12, "Inventories", into classifications such as merchandise, production supplies, materials, work in progress and finished goods;

(d) taxes and transfers payable are disaggregated into tax refunds payable, transfers payable, and amounts payable to other members of the economic entity;

(e) provisions are disaggregated into provisions for employee benefits and other items; and

(f) components of net assets/equity are disaggregated into contributed capital, accumulated surpluses and deficits, and any reserves.

95. **When an entity has no share capital, it shall disclose net assets/equity either on the face of the statement of financial position or in the notes, showing separately:**

(a) **contributed capital, being the cumulative total at the reporting date of contributions from owners, less distributions to owners;**

(b) **accumulated surpluses or deficits;**

(c) **reserves, including a description of the nature and purpose of each reserve within net assets/equity; and**

(d) **minority interest.**

96. Many public sector entities will not have share capital, but the entity will be controlled exclusively by another public sector entity. The nature of the government's interest in the net assets/equity of the entity is likely to be a combination of contributed capital and the aggregate of the entity's accumulated surpluses or deficits and reserves that reflect the net assets/equity attributable to the entity's operations.

97. In some cases, there may be a minority interest in the net assets/equity of the entity. For example, at whole-of-government level, the economic entity may include a government business enterprise that has been partly privatized. Accordingly, there may be private shareholders who have a financial interest in the net assets/equity of the entity.

98. **When an entity has share capital, in addition to the disclosures in paragraph 95, it shall disclose the following, either on the face of the statement of financial position or in the notes:**

    (a) **for each class of share capital:**

        (i) **the number of shares authorized;**

        (ii) **the number of shares issued and fully paid, and issued but not fully paid;**

        (iii) **par value per share, or that the shares have no par value;**

        (iv) **a reconciliation of the number of shares outstanding at the beginning and at the end of the year;**

        (v) **the rights, preferences and restrictions attaching to that class, including restrictions on the distribution of dividends and the repayment of capital;**

        (vi) **shares in the entity held by the entity or by its controlled entities or associates; and**

        (v) **shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts; and**

    (b) **a description of the nature and purpose of each reserve within net assets/equity.**

Statement of Financial Performance

Surplus or Deficit for the Period

99. **All items of revenue and expense recognized in a period shall be included in surplus or deficit unless an International Public Sector Accounting Standard requires otherwise.**

100. Normally, all items of revenue and expense recognized in a period are included in surplus or deficit. This includes the effects of changes in accounting estimates. However, circumstances may exist when particular items may be excluded from surplus or deficit for the current period. IPSAS 3 deals with two such circumstances: the correction of errors and the effect of changes in accounting policies.

101. Other Standards deal with items that may meet definitions of revenue or expense set out in this Standard but are usually excluded from surplus or deficit. Examples include revaluation surpluses (see IPSAS 17), particular gains and losses arising on translating the financial statements of a foreign operation (see IPSAS 4) and gains or losses on remeasuring available-for-sale financial assets (guidance on measurement of financial assets can be found in the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments).

Information to be Presented on the Face of the Statement of Financial Performance

102. **As a minimum, the face of the statement of financial performance shall include line items that present the following amounts for the period:**

 (a) **revenue;**

 (b) **finance costs;**

 (c) **share of the surplus or deficit of associates and joint ventures accounted for using the equity method;**

 (d) **pre-tax gain or loss recognized on the disposal of assets or settlement of liabilities attributable to discontinuing operations; and**

 (e) **surplus or deficit.**

103. **The following items shall be disclosed on the face of the statement of financial performance as allocations of surplus or deficit for the period:**

 (a) **surplus or deficit attributable to minority interest; and**

 (b) **surplus or deficit attributable to owners of the controlling entity.**

104. **Additional line items, headings and subtotals shall be presented on the face of the statement of financial performance when such presentation is relevant to an understanding of the entity's financial performance.**

105. Because the effects of an entity's various activities, transactions and other events differ in terms of their impact on its ability to meet its service delivery obligations, disclosing the components of financial performance assists in an understanding of the financial performance achieved and in making projections of future results. Additional line items are included on the face of the statement of financial performance, and the descriptions used and the ordering of items are amended when this is necessary to explain the elements of performance. Factors to be considered include materiality and the nature and function of the components of revenue and expenses. Revenue and expense items are not offset unless the criteria in paragraph 48 are met.

Information to be Presented either on the Face of the Statement of Financial Performance or in the Notes

106. **When items of revenue and expense are material, their nature and amount shall be disclosed separately.**

107. Circumstances that would give rise to the separate disclosure of items of revenue and expense include:

 (a) write-downs of inventories to net realizable value or of property, plant and equipment to recoverable amount or recoverable service amount as appropriate, as well as reversals of such write-downs;

(b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

(c) disposals of items of property, plant and equipment;

(d) privatizations or other disposals of investments;

(e) discontinuing operations;

(f) litigation settlements; and

(g) other reversals of provisions.

108. **An entity shall present, either on the face of the statement of financial performance or in the notes, a subclassification of total revenue, classified in a manner appropriate to the entity's operations.**

109. **An entity shall present, either on the face of the statement of financial performance or in the notes, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant.**

110. Entities are encouraged to present the analysis in paragraph 109 on the face of the statement of financial performance.

111. Expenses are subclassified to highlight the costs and cost recoveries of particular programs, activities or other relevant segments of the reporting entity. This analysis is provided in one of two ways.

112. The first form of analysis is the nature of expense method. Expenses are aggregated in the statement of financial performance according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and are not reallocated among various functions within the entity. This method may be simple to apply because no allocations of expenses to functional classifications are necessary. An example of a classification using the nature of expense method is as follows:

Revenue		X
Employee benefits costs	X	
Depreciation and amortization expense	X	
Other expenses	X	
Total expenses		(X)
Surplus		X

113. The second form of analysis is the function of expense method and classifies expenses according to the program or purpose for which they were made. This method can provide more relevant information to users than the

classification of expenses by nature, but allocating costs to functions may require arbitrary allocations and involves considerable judgment. An example of a classification using the function of expense method is as follows:

Revenue	X
Expenses:	
Health expenses	(X)
Education expenses	(X)
Other expenses	(X)
Surplus	X

114. The expenses associated with the main functions undertaken by the entity are shown separately. In this example, the entity has functions relating to the provision of health and education services. The entity would present expense line items for each of these functions.

115. **Entities classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortization expense and employee benefits expense.**

116. The choice between the function of expense method and the nature of expense method depends on historical and regulatory factors and the nature of the entity. Both methods provide an indication of those costs that might vary, directly or indirectly, with the outputs of the entity. Because each method of presentation has its merits for different types of entities, this Standard requires management to select the most relevant and reliable presentation. Guidance on the meaning of "employee benefits" specified in paragraph 115 can be found in the relevant international or national accounting standard dealing with employee benefits.

117. **When an entity provides a dividend to its owners and has share capital, it shall disclose, either on the face of the statement of financial performance or the statement of changes in net assets/equity, or in the notes, the amount of dividends recognized as distributions to owners during the period, and the related amount per share.**

Statement of Changes in Net Assets/Equity

118. **An entity shall present a statement of changes in net assets/equity, showing on the face of the statement:**

    (a) **surplus or deficit for the period;**

    (b) **each item of revenue and expense for the period that, as required by other International Public Sector Accounting Standards, is**

recognized directly in net assets/equity, and the total of these items;

(c) **total revenue and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to owners of the controlling entity and to minority interest; and**

(d) **for each component of net assets/equity separately disclosed, the effects of changes in accounting policies and corrections of errors recognized in accordance with IPSAS 3.**

119. **An entity shall also present, either on the face of the statement of changes in net assets/equity or in the notes:**

(a) **the amounts of transactions with owners acting in their capacity as owners, showing separately distributions to owners;**

(b) **the balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date, and the changes during the period; and**

(c) **to the extent that components of net assets/equity are separately disclosed, a reconciliation between the carrying amount of each component of net assets/equity at the beginning and the end of the period, separately disclosing each change.**

120. Changes in an entity's net assets/equity between two reporting dates reflect the increase or decrease in its net assets during the period.

121. The overall change in net assets/equity during a period represents the total amount of surplus or deficit for the period, other revenues and expenses recognized directly as changes in net assets/equity, together with any contributions by, and distributions to, owners in their capacity as owners.

122. Contributions by, and distributions to, owners include transfers between two entities within an economic entity (for example, a transfer from a government, acting in its capacity as owner, to a government department). Contributions by owners, in their capacity as owners, to controlled entities are recognized as a direct adjustment to net assets/equity only where they explicitly give rise to residual interests in the entity in the form of rights to net assets/equity.

123. This Standard requires all items of revenue and expense recognized in a period to be included in surplus or deficit unless another International Public Sector Accounting Standard requires otherwise. Other Standards require some items (such as revaluation increases and decreases, and particular foreign exchange differences) to be recognized directly as changes in net assets/equity. Because it is important to consider all items of revenue and expense in assessing changes in an entity's financial position between two reporting dates, this Standard requires the presentation of a statement of

changes in net assets/equity that highlights an entity's total revenue and expenses, including those that are recognized directly in net assets/equity.

124. IPSAS 3 requires retrospective adjustments to effect changes in accounting policies to the extent practicable, except when the transitional provisions in another International Public Sector Accounting Standard require otherwise. IPSAS 3 also requires that restatements to correct errors are made retrospectively to the extent practicable. Retrospective adjustments and retrospective restatements are made to the balance of accumulated surpluses or deficits, except when an International Public Sector Accounting Standard requires retrospective adjustment of another component of net assets/equity. Paragraph 118(d) requires disclosure in the statement of changes in net assets/equity of the total adjustment to each component of net assets/equity (which are separately disclosed) resulting, separately, from changes in accounting policies and from corrections of errors. These adjustments are disclosed for each prior period and the beginning of the period.

125. The requirements in paragraphs 118 and 119 may be met by using a columnar format that reconciles the opening and closing balances of each element within net assets/equity. An alternative is to present only the items set out in paragraph 118 in the statement of changes in net assets/equity. Under this approach, the items described in paragraph 119 are shown in the notes.

Cash Flow Statement

126. Cash flow information provides users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents, and the needs of the entity to utilize those cash flows. IPSAS 2 sets out requirements for the presentation of the cash flow statement and related disclosures.

Notes

Structure

127. **The notes shall:**

(a) **present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 132-139;**

(b) **disclose the information required by International Public Sector Accounting Standards that is not presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity or cash flow statement; and**

(c) **provide additional information that is not presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity or cash flow statement, but that is relevant to an understanding of any of them.**

128. **Notes shall, as far as practicable, be presented in a systematic manner. Each item on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity and cash flow statement shall be cross-referenced to any related information in the notes.**

129. Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them with financial statements of other entities:

   (a) a statement of compliance with International Public Sector Accounting Standards (see paragraph 28);

   (b) a summary of significant accounting policies applied (see paragraph 132);

   (c) supporting information for items presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity or cash flow statement, in the order in which each statement and each line item is presented; and

   (d) other disclosures, including:

      (i) contingent liabilities (see IPSAS 19), and unrecognized contractual commitments; and

      (ii) non-financial disclosures, for example, the entity's financial risk management objectives and policies (see IPSAS 15).

130. In some circumstances, it may be necessary or desirable to vary the ordering of specific items within the notes. For example, information on changes in fair value recognized in surplus or deficit may be combined with information on maturities of financial instruments, although the former disclosures relate to the statement of financial performance and the latter relate to the statement of financial position. Nevertheless, a systematic structure for the notes is retained as far as practicable.

131. Notes providing information about the basis of preparation of the financial statements and specific accounting policies may be presented as a separate component of the financial statements.

Disclosure of Accounting Policies

132. **An entity shall disclose in the summary of significant accounting policies:**

   (a) **the measurement basis (or bases) used in preparing the financial statements;**

   (b) **the extent to which the entity has applied any transitional provisions in any International Public Sector Accounting Standard; and**

(c) **the other accounting policies used that are relevant to an understanding of the financial statements.**

133. It is important for users to be informed of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realizable value, fair value, recoverable amount or recoverable service amount) because the basis on which the financial statements are prepared significantly affects their analysis. When more than one measurement basis is used in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

134. In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in International Public Sector Accounting Standards. An example is disclosure of whether a venturer recognizes its interest in a jointly controlled entity using proportionate consolidation or the equity method (see IPSAS 8, "Interests in Joint Ventures"). Some Standards specifically require disclosure of particular accounting policies, including choices made by management between the different policies they allow. For example, IPSAS 17 requires disclosure of the measurement bases used for classes of property, plant and equipment. IPSAS 5, "Borrowing Costs" requires disclosure of whether borrowing costs are recognized immediately as an expense or capitalized as part of the cost of qualifying assets.

135. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, public sector entities would be expected to disclose an accounting policy for recognition of taxes, donations and other forms of non-exchange revenue. When an entity has significant foreign operations or transactions in foreign currencies, disclosure of accounting policies for the recognition of foreign exchange gains and losses would be expected. When entity combinations have occurred, the policies used for measuring goodwill and minority interest are disclosed.

136. An accounting policy may be significant because of the nature of the entity's operation even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by International Public Sector Accounting Standards, but is selected and applied in accordance with IPSAS 3.

137. **An entity shall disclose, in the summary of significant accounting policies or other notes, the judgments, apart from those involving estimations (see paragraph 140), management has made in the process of applying the**

entity's accounting policies that have the most significant effect on the amounts recognized in the financial statements.

138. In the process of applying the entity's accounting policies, management makes various judgments, apart from those involving estimations, that can significantly affect the amounts recognized in the financial statements. For example, management makes judgments in determining:

(a) whether assets are investment properties;

(b) whether agreements for the provision of goods and/or services that involve the use of dedicated assets are leases;

(c) whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue; and

(d) whether the substance of the relationship between the reporting entity and other entities indicates that these other entities are controlled by the reporting entity.

139. Some of the disclosures made in accordance with paragraph 137 are required by other International Public Sector Accounting Standards. For example, IPSAS 6 requires an entity to disclose the reasons why the entity's ownership interest does not constitute control, in respect of an investee that is not a controlled entity even though more than half of its voting or potential voting power is owned directly or indirectly through controlled entities. IPSAS 16 requires disclosure of the criteria developed by the entity to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, when classification of the property is difficult.

Key Sources of Estimation Uncertainty

140. **An entity shall disclose in the notes, information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:**

(a) **their nature; and**

(b) **their carrying amount as at the reporting date.**

141. Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the reporting date. For example, in the absence of recently observed market prices used to measure the following assets and liabilities, future-oriented estimates are necessary to measure the recoverable amount of certain classes of property, plant and equipment; the effect of technological obsolescence on inventories; and provisions subject to the future outcome of

litigation in progress. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates used and future changes in prices affecting other costs.

142. The key assumptions and other key sources of estimation uncertainty disclosed in accordance with paragraph 140 relate to the estimates that require management's most difficult, subjective or complex judgments. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgments become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.

143. The disclosures in paragraph 140 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the reporting date, they are measured at fair value based on recently observed market prices (their fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the reporting date).

144. The disclosures in paragraph 140 are presented in a manner that helps users of financial statements to understand the judgments management makes about the future and about other key sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures made are:

(a) the nature of the assumption or other estimation uncertainty;

(b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;

(c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and

(d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

145. It is not necessary to disclose budget information or forecasts in making the disclosures in paragraph 140.

146. When it is impracticable to disclose the extent of the possible effects of a key assumption or another key source of estimation uncertainty at the reporting date, the entity discloses that it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses the nature and

carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.

147. The disclosures in paragraph 137 of particular judgments management made in the process of applying the entity's accounting policies do not relate to the disclosures of key sources of estimation uncertainty in paragraph 140.

148. The disclosure of some of the key assumptions that would otherwise be required in accordance with paragraph 140 is required by other International Public Sector Accounting Standards. For example, IPSAS 19 requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. IPSAS 15 requires disclosure of significant assumptions applied in estimating fair values of financial assets and financial liabilities that are carried at fair value. IPSAS 17 requires disclosure of significant assumptions applied in estimating fair values of revalued items of property, plant and equipment.

Other Disclosures

149. **An entity shall disclose in the notes:**

(a) **the amount of dividends proposed or declared before the financial statements were authorized for issue but not recognized as a distribution to owners during the period, and the related amount per share; and**

(b) **the amount of any cumulative preference dividends not recognized.**

150. **An entity shall 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; and**

(d) **the name of the controlling entity and the ultimate controlling entity of the economic entity (where applicable).**

Transitional Provisions

151. **All provisions of this Standard shall be applied from the date of first adoption of this Standard, except in relation to items that have not been recognized as a result of transitional provisions under another International Public Sector Accounting Standard. The disclosure provisions of this Standard would not be required to apply to such items**

until the transitional provision in the other International Public Sector Accounting Standard expires. Comparative information is not required in respect of the financial statements to which accrual accounting is first adopted in accordance with International Public Sector Accounting Standards.

152. Notwithstanding the existence of transitional provisions under another International Public Sector Accounting Standard, entities that are in the process of adopting the accrual basis of accounting for financial reporting purposes are encouraged to comply in full with the provisions of that other Standard as soon as possible.

Effective Date

153. **An entity shall apply this International Public Sector Accounting Standard for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies this Standard for a period beginning before MM DD, YYYY, it shall disclose that fact.**

154. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Withdrawal of IPSAS 1 (2000)

155. This Standard supersedes IPSAS 1, "Presentation of Financial Statements" issued in 2000.

Appendix A

Amendments to Other International Public Sector Accounting Standards

The amendments in this appendix shall be applied for annual financial statements covering periods beginning on or after MM DD, YYYY. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

A1 In International Public Sector Accounting Standards applicable at MM DD, YYYY:

(a) references to "net surplus or deficit" are amended to "surplus or deficit"; and

(b) references to "notes to the financial statements" are amended to "notes".

Appendix B

Qualitative Characteristics of Financial Reporting

This appendix is an integral part of the Standard.

Paragraph 29 of this Standard requires an entity to present information, including accounting policies, in a manner that meets a number of qualitative characteristics. This guidance summarizes the qualitative characteristics of financial reporting.

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. 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 statements. 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.

However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or revenue, or the deliberate overstatement of liabilities or expenses, because the financial statements would not be neutral and, therefore, not have the quality of reliability.

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 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.

Implementation Guidance – Illustrative Financial Statement Structure

This guidance accompanies, but is not part of, IPSAS 1.

IG1. The Standard sets out the components of financial statements and minimum requirements for disclosure on the face of the statement of financial position and the statement of financial performance as well as for the presentation of changes in net assets/equity. It also describes further items that may be presented either on the face of the relevant financial statement or in the notes. This guidance provides simple examples of the ways in which the requirements of the Standard for the presentation of the statement of financial position, statement of financial performance and changes in net assets/equity might be met. The order of presentation and the descriptions used for line items should be changed when necessary in order to achieve a fair presentation in each entity's particular circumstances. For example, line items of a public sector entity such as a defense department are likely to be significantly different from those for a central bank.

IG2. The illustrative statement of financial position shows one way in which a statement of financial position distinguishing between current and non-current items may be presented. Other formats may be equally appropriate, provided the distinction is clear.

IG3. The financial statements have been prepared for a national government and the statement of financial performance (by function) illustrates the functions of government classifications used in the Government Finance Statistics. These functional classifications are unlikely to apply to all public sector entities. Refer to this Standard for an example of more generic functional classifications for other public sector entities.

IG4. The examples are not intended to illustrate all aspects of International Public Sector Accounting Standards. Nor do they comprise a complete set of financial statements, which would also include a cash flow statement, a summary of significant accounting policies and other explanatory notes.

PUBLIC SECTOR ENTITY – STATEMENT OF ACCOUNTING POLICIES (EXTRACT)

Reporting Entity

These financial statements are for a public sector entity (national government of Country A). The financial statements encompass the reporting entity as specified in the relevant legislation (Public Finance Act 20XX). This comprises:

- central government ministries; and
- government business enterprises.

Basis of Preparation

The financial statements comply with International Public Sector Accounting Standards for the accrual basis of accounting. The measurement basis applied is historical cost adjusted for revaluations of assets.

The financial statements have been prepared on a going concern basis and the accounting policies have been applied consistently throughout the period.

PUBLIC SECTOR ENTITY – STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 20X2

(in thousands of currency units)

	20X2	20X1
ASSETS		
Current assets		
Cash and cash equivalents	X	X
Receivables	X	X
Inventories	X	X
Prepayments	X	X
Other current assets	X	X
	X	X
Non-current assets		
Receivables	X	X
Investments in associates	X	X
Other financial assets	X	X
Infrastructure, plant and equipment	X	X
Land and buildings	X	X
Intangible assets	X	X
Other non-financial assets	X	X
	X	X
Total assets	X	X
LIABILITIES		
Current liabilities		
Payables	X	X
Short-term borrowings	X	X
Current portion of long-term borrowings	X	X
Short-term provisions	X	X
Employee benefits	X	X
Superannuation	X	X
	X	X
Non-current liabilities		
Payables	X	X
Long-term borrowings	X	X
Long-term provisions	X	X
Employee benefits	X	X
Superannuation	X	X
	X	X
Total liabilities	X	X
Net assets	X	X
NET ASSETS/EQUITY		
Capital contributed by other government entities	X	X
Reserves	X	X
Accumulated surpluses/(deficits)	X	X
	X	X
Minority interest	X	X
Total net assets/equity	X	X

PUBLIC SECTOR ENTITY – STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 20X2

(ILLUSTRATING THE CLASSIFICATION OF EXPENSES BY FUNCTION)

(in thousands of currency units)

	20X2	20X1
Revenue		
Taxes	X	X
Fees, fines, penalties and licenses	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
Other revenue	X	X
Total revenue	X	X
Other income		
Gains on sale of property, plant and equipment	X	X
Expenses		
General public services	(X)	(X)
Defense	(X)	(X)
Public order and safety	(X)	(X)
Education	(X)	(X)
Health	(X)	(X)
Social protection	(X)	(X)
Housing and community amenities	(X)	(X)
Recreational, cultural and religion	(X)	(X)
Economic affairs	(X)	(X)
Environmental protection	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
Total expenses	(X)	(X)
Share of surplus of associates*	X	X
Surplus/(deficit) for the period	X	X
Attributable to:		
Owners of the controlling entity	X	X
Minority interest	X	X
	X	X

* This means the share of associates' surplus attributable to owners of the associates, ie it is after tax and minority interest in the associates.

PUBLIC SECTOR ENTITY – STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 20X2

(ILLUSTRATING THE CLASSIFICATION OF EXPENSES BY NATURE)

(in thousands of currency units)

	20X2	**20X1**
Revenue		
Taxes	X	X
Fees, fines, penalties and licenses	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
Other revenue	X	X
Total revenue	X	X
Other income		
Gains on sale of property, plant and equipment	X	X
Expenses		
Wages, salaries and employee benefits	(X)	(X)
Grants and other transfer payments	(X)	(X)
Supplies and consumables used	(X)	(X)
Depreciation and amortization expense	(X)	(X)
Impairment of property, plant and equipment*	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
Total expenses	(X)	(X)
Share of surplus of associates	X	X
Surplus/(deficit) for the period	X	X
Attributable to:		
Owners of the controlling entity	X	X
Minority interest	X	X
	X	X

* In a statement of financial performance in which expenses are classified by nature, an impairment of property, plant and equipment is shown as a separate line item. By contrast, if expenses are classified by function, the impairment is included in the function(s) to which it relates.

PUBLIC SECTOR ENTITY – STATEMENT OF CHANGES IN NET ASSETS/EQUITY FOR THE YEAR ENDED 31 DECEMBER 20X2

(in thousands of currency units)	Attributable to owners of the controlling entity					Minority interest	Total net assets/equity
	Contributed Capital	Other Reserves[1]	Translation Reserve	Accumulated Surpluses/(Deficits)	Total		
Balance at 31 December 20X0	X	X	(X)	X	X	X	X
Changes in accounting policy				(X)	(X)	(X)	(X)
Restated balance	X	X	(X)	X	X	X	X
Changes in net assets/equity for 20X1							
Gain on property revaluation		X			X	X	X
Loss on revaluation of investments		(X)			(X)	(X)	(X)
Exchange differences on translating foreign operations			(X)		(X)	(X)	(X)
Net revenue recognized directly in net assets/equity		X	(X)		X	X	X
Surplus for the period				X	X	X	X
Total recognized revenue and expense for the period		X	(X)	X	X	X	X
Balance at 31 December 20X1 carried forward	X	X	(X)	X	X	X	X

continued

[1] Other reserves are analyzed into their components, if material.

PUBLIC SECTOR ENTITY – STATEMENT OF CHANGES IN NET ASSETS/EQUITY FOR THE YEAR ENDED 31 DECEMBER 20X2

(in thousands of currency units)	Attributable to owners of the controlling entity					Minority interest	Total net assets/equity
	Contributed Capital	Other Reserves[1]	Translation Reserve	Accumulated Surpluses/(Deficits)	Total		
Balance at 31 December 20X1 brought forward	X	X	(X)	X	X	X	X
Changes in net assets/equity for 20X2							
Loss on property revaluation		(X)			(X)	(X)	(X)
Gain on revaluation of investments		X			X	X	X
Exchange differences on translating foreign operations			(X)		(X)	(X)	(X)
Net revenue recognized directly in net assets/equity		(X)	(X)		(X)	(X)	(X)
Deficit for the period				(X)	(X)	(X)	(X)
Total recognized revenue and expense for the period		(X)	(X)	(X)	(X)	(X)	(X)
Balance at 31 December 20X2	X	X	(X)	X	X	X	X

Table of Concordance

This table shows how the contents of the superseded version of IPSAS 1 and the current version of IPSAS 1 correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

Superseded IPSAS 1 paragraph	Current IPSAS 1 paragraph
Objective	1
1	2
2	3
3	4
4	5
5	6
6	7
7	None
8	None
9	None
10	11
11	12
12	14
13	15
14	16
15	17
16	18
17	19
18	20
19	21
20	22
21	23
22	24
23	25
24	26
25	27
26	28

Superseded IPSAS 1 paragraph	Current IPSAS 1 paragraph
27	30
28	31
29	None
30	None
31	37
32	29
33	None
34	36
35	None
36	None
37	IPSAS 3.12
38	IPSAS 3.13
39	IPSAS 3.14
40	IPSAS 3.7
41	IPSAS 3.15
42	IPSAS 3.16
43	38
44	39
45	40
46	41
47	42
48	43
49	44
50	45
51	46
52	None
53	47

Superseded IPSAS 1 paragraph	Current IPSAS 1 paragraph
54	48
55	48
56	49
57	50
58	51
59	52
60	53
61	54
62	55
63	57,58
64	59
65	60
66	61
67	62
68	63
69	64
70	65
71	66
72	67
73	68
74	69
75	70
76	71
77	72
78	75
79	76
80	77

Superseded IPSAS 1 paragraph	Current IPSAS 1 paragraph
81	78
82	79
83	80
84	81
85	82
86	83
87	84
88	85,86
89	88
90	89
91	90
92	None
93	91
94	92
95	93
96	94
97	95
98	96
99	97
100	98
101	102,104
102	None
103	105
104	108
105	109
106	110
107	111
108	112
109	113
110	114
111	115
112	116

Superseded IPSAS 1 paragraph	Current IPSAS 1 paragraph
113	117
114	118
115	119
116	120
117	121
118	122
119	123
120	125
121	126
122	127
123	128
124	None
125	129
126	130
127	131
128	132
129	133
130	134
131	135
132	136
133	150
134	151
135	152
136	153
137	154
Appendix 1	IG
Appendix 2	Appendix B
None	33-35
None	56
None	70 74
None	87

Superseded IPSAS 1 paragraph	Current IPSAS 1 paragraph
IPSAS 3.10-12	99-101
None	103
IPSAS 3.26,28	106, 107
None	124
None	137-139
None	140-148
None	149
None	155
None	Appendix A

Comparison with IAS 1

International Public Sector Accounting Standard IPSAS 1, "Presentation of Financial Statements" (IPSAS 1) is drawn primarily from International Accounting Standard 1 (2003), "Presentation of Financial Statements" (IAS 1). At the time of issuing this Standard, the IPSASB has not considered the applicability of International Financial Reporting Standard 5, "Non-current Assets Held for Sale and Discontinued Operations" ((IFRS 5) to public sector entities, therefore IPSAS 1 does not reflect amendments made to IAS 1 consequent upon the issuing of International Financial Reporting Standard IFRS 5. The main differences between IPSAS 1 and IAS 1 are as follows:

- Commentary additional to that in IAS 1 has been included in IPSAS 1 to clarify the applicability of the standards to accounting by public sector entities, for example, discussion on the application of the going concern concept has been expanded.
- IAS 1 allows the presentation of either a statement showing all changes in net assets/equity, or a statement showing changes in net assets/equity other than those arising from capital transactions with owners and distributions to owners in their capacity as owners. IPSAS 1 requires the presentation of a statement showing all changes in net assets/equity.
- IPSAS 1 uses different terminology, in certain instances, from IAS 1. The most significant examples are the use of the terms "statement of financial performance", "statement of financial position" and "net assets/equity" in IPSAS 1. The equivalent terms in IAS 1 are "income statement", "balance sheet" and "equity".
- IAS 1 defines "International Financial Reporting Standards (IFRSs)" to include IFRSs, IASs and SIC/IFRIC Interpretations. IPSAS 1 does not define "International Public Sector Accounting Standards".
- IPSAS 1 contains a different set of definitions of technical terms from IAS 1 (paragraph 7).
- IPSAS 1 contains commentary on the responsibility for the preparation of financial statements. IAS 1 does not include the same commentary (paragraphs 19-20).
- IPSAS 1 uses the phrase "the objective of financial statements set out in this IPSAS" to replace the equivalent phrase "the objective of financial statement set out in the Framework" in IAS 1. This is because an equivalent Framework in IPSASs does not exist.
- IPSAS 1 contains commentary on timeliness of financial statements because of the lack of an equivalent Framework in IPSASs (paragraph 69).

- IPSAS 1 does not explicitly preclude the presentation of items of revenue and expense as extraordinary items either on the face of the statement of financial performance or in the notes. IAS 1 prohibits any items of income and expense to be presented as extraordinary items either on the face of the income statement or in the notes.
- IPSAS 1 contains a transitional provision allowing the non-disclosure of items which have been excluded from the financial statements due to the application of a transitional provision in another IPSAS (paragraph 151).
- IPSAS 1 contains an authoritative summary of qualitative characteristics (based on the IASB framework) in Appendix B.

International Public Sector Accounting Standard IPSAS 3

(revised 200X)

~~Net Profit or Loss for the Period, Fundamental Errors and Changes in~~ Accounting Policies, Changes in Accounting Estimates and Errors

[Note: Although the text of this Exposure Draft is presented as a “clean” draft, the title above has been marked to show the proposed change.]

Specific Matters for Comment

The IPSASB would particularly value comments on the following question. It would be helpful to the IPSASB if these comments indicate the specific paragraph number or groups of paragraphs to which they relate, clearly explain the issue and suggest alternative wording, with supporting reasoning, where this is appropriate.

Question 1

Do you agree that IPSAS 3 should be revised as proposed to converge with the equivalent IAS 8 (December 2003)?

SUMMARY OF MAIN CHANGES IPSAS 3
ACCOUNTING POLICIES, CHANGES IN ESTIMATES AND ERRORS

The main changes proposed are:

Name of Standard

- To change to "Accounting Policies, Changes in Accounting Estimates and Errors".

Scope

- To transfer into this Standard the criteria for the selection of accounting policies previously contained in IPSAS 1, "Presentation of Financial Statements".
- To transfer from this Standard to IPSAS 1 the requirements on the presentation of items in the statement of financial performance.

Definitions

- To define in paragraph 7 new terms: "change in accounting estimate", "prior period errors", "prospective application", "retrospective application", "retrospective restatement", "impracticable", "material" and "notes".
- To delete in paragraph 7 the terms: "extraordinary items", "ordinary activities", "net surplus/deficit" and "surplus/deficit from ordinary activities".

Materiality

- To stipulate in paragraph 10 that:
  - the accounting policies in IPSASs need not be applied when the effect of applying them is immaterial; and
  - financial statements do not comply with IPSASs if they contain material errors.

Net Surplus or Deficit for the Period

- To transfer this section (paragraphs 10 – 28 previously contained in IPSAS 3) to IPSAS 1.

Accounting Policies

- To specify the hierarchy of IPSASB's pronouncements, and authoritative and non-mandatory guidance, to be considered when selecting accounting policies to apply in the preparation of financial statements. The new hierarchy is now in bold type (paragraphs 15-16).
- To remove allowed alternative treatments for changes in accounting policies (including voluntary changes). An entity is now required (where practicable) to

account for changes in accounting policies retrospectively (paragraph 24).

Errors

- To remove the distinction between fundamental errors and other material errors.
- To remove allowed alternative treatments for the correction of errors. An entity is now required to correct (where practicable) material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery (paragraph 47).

Criteria for Exemptions from Requirements (Impracticability)

- To require that when it is impracticable to determine the cumulative effect at the beginning of the current period of:

  - applying a new accounting policy to all prior periods, or
  - an error on all prior periods,

  the entity changes the comparative information as if the new accounting policy had always been applied (paragraphs 28-32); or the error had been corrected (paragraphs 49-53), prospectively from the earliest date practicable.
- To include guidance on the interpretation of “impracticable” in paragraphs 55-58.

Disclosures

- To require more detailed and additional disclosure of the amounts of adjustments as a consequence of changing accounting policies or correcting prior period errors (paragraphs 34 and 35).
- To require, rather than encourage, the disclosure of:

  - an impending change in accounting policy when an entity has yet to adopt a new International Public Sector Accounting Standard (IPSAS) which has been published but not yet come into effect; and
  - known or reasonably estimable information relevant to assessing the possible impact that application of the new IPSAS will have on the entity’s financial statements in the period of initial application.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 3—ACCOUNTING POLICIES, CHANGES IN ACCOUNTNG ESTIMATES AND ERRORS

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Comparison with IAS 8	

International Public Sector Accounting Standard 3, “Accounting Policies, Changes in Accounting Estimates and Errors” (IPSAS 3) is set out in paragraphs 1-61 and the Appendix. All the paragraphs have equal authority. IPSAS 3 should be read in the context of its objective and the Basis for Conclusions, and the “Preface to the International Public Sector Accounting Standards”.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 3—ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

Objective

1. The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and the corrections of errors. This Standard is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

2. Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in International Public Sector Accounting Standards IPSAS 1, "Presentation of Financial Statements".

Scope

3. **This Standard shall be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.**

4. The tax effects of corrections of prior period errors and of retrospective adjustments made to apply changes in accounting policies are not considered in this Standard as they are not relevant for many public sector entities. International or national accounting standards dealing with income taxes contain guidance on the treatment of tax effects.

5. **This Standard applies to all public sector entities other than Government Business Enterprises.**

6. The "Preface to International Public Sector Accounting Standards" issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board (IASB).

Definitions

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

   <u>Accounting policies</u> are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

   <u>Accrual basis</u> means a basis of accounting under which transactions, other events and conditions are recognized when they occur (and not only

when cash or its equivalent is received or paid). Therefore, the transactions, other events and conditions are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.

A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not correction of errors.

Impracticable Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

(a) **the effects of the retrospective application or retrospective restatement are not determinable;**

(b) **the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or**

(c) **the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:**

   (i) **provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognized, measured or disclosed; and**

   (ii) **would have been available when the financial statements for that prior period were authorized for issue**

   from other information.

Material Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

(a) **was available when financial statements for those periods were authorized for issue; and**

(b) **could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.**

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

<u>Prospective application</u> of a change in accounting policy and of recognizing the effect of a change in an accounting estimate, respectively, are:

(a) **applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and**

(b) **recognizing the effect of the change in the accounting estimate in the current and future periods affected by the change.**

<u>Retrospective application</u> is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

<u>Retrospective restatement</u> is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.

Materiality

8. Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. Users are assumed to have a reasonable knowledge of the public sector and economic activities and accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

Accounting Policies

Selection and Application of Accounting Policies

9. **When an International Public Sector Accounting Standard specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the**

Standard and considering any relevant Implementation Guidance issued by the IPSASB for the Standard.

10. International Public Sector Accounting Standards (IPSASs) set out accounting policies that the IPSASB has concluded result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from IPSASs to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

11. Implementation Guidance for Standards issued by the IPSASB does not form part of those Standards, and therefore does not contain requirements for financial statements.

12. **In the absence of an International Public Sector Accounting Standard that specifically applies to a transaction, other event or condition, management shall use its judgment in developing and applying an accounting policy that results in information that is:**

    (a) **relevant to the decision-making needs of users; and**

    (b) **reliable, in that the financial statements:**

        (i) **represent faithfully the financial position, financial performance and cash flows of the entity;**

        (ii) **reflect the economic substance of transactions, other events and conditions and not merely the legal form;**

        (iii) **are neutral, ie free from bias;**

        (iv) **are prudent; and**

        (v) **are complete in all material respects.**

13. Paragraph 12 requires the development of accounting policies to ensure that the financial statements provide information that meets a number of qualitative characteristics. Appendix B in IPSAS 1 summarizes the qualitative characteristics of financial reporting.

14. **In making the judgment described in paragraph 12, management shall refer to, and consider the applicability of, the following sources in descending order:**

    (a) **the requirements and guidance in International Public Sector Accounting Standards dealing with similar and related issues; and**

    (b) **the definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described in other International Public Sector Accounting Standards.**

15. **In making the judgment described in paragraph 12, management may also consider the most recent pronouncements of other standard-setting bodies and accepted public or private sector practices to the extent, but only to the extent, that these do not conflict with the sources in paragraph 14. For example, pronouncements of the International Accounting Standards Board (IASB), including the "Framework for the Preparation and Presentation of Financial Statements", International Financial Reporting Standards and Interpretations issued by the IASB's International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).**

Consistency of Accounting Policies

16. **An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an International Public Sector Accounting Standard specifically requires or permits categorization of items for which different policies may be appropriate. If a Standard requires or permits such categorization, an appropriate accounting policy shall be selected and applied consistently to each category.**

Changes in Accounting Policies

17. **An entity shall change an accounting policy only if the change:**

    (a) **is required by an International Public Sector Accounting Standard; or**

    (b) **results in the financial statements providing reliable and more relevant information about the effects of transactions, other events and conditions on the entity's financial position, financial performance or cash flows.**

18. Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, performance and cash flows. Therefore, the same accounting policies are applied within each period and from one period to the next unless a change in accounting policy meets one of the criteria in paragraph 17.

19. A change from one basis of accounting to another basis of accounting is a change in accounting policy.

20. A change in the accounting treatment, recognition or measurement of a transaction, event or condition within a basis of accounting is regarded as a change in accounting policy.

21. **The following are not changes in accounting policies:**

(a) **the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and**

(b) **the application of a new accounting policy for transactions, other events or conditions that did not occur previously or that were immaterial.**

22. **The initial application of a policy to revalue assets in accordance with IPSAS 17, "Property, Plant and Equipment" or the relevant international or national accounting standard dealing with intangible assets is a change in accounting policy to be dealt with as a revaluation in accordance with IPSAS 17 or that relevant Standard, rather than in accordance with this Standard.**

23. Paragraphs 24-36 do not apply to the change in accounting policy described in paragraph 22.

Applying Changes in Accounting Policies

24. **Subject to paragraph 28:**

(a) **an entity shall account for a change in accounting policy resulting from the initial application of an International Public Sector Accounting Standard in accordance with the specific transitional provisions, if any, in that Standard; and**

(b) **when an entity changes an accounting policy upon initial application of an International Public Sector Accounting Standard that does not include specific transitional provisions applying to that change, or changes an accounting policy voluntarily, it shall apply the change retrospectively.**

25. For the purpose of this International Public Sector Accounting Standard, early application of a Standard is not a voluntary change in accounting policy.

26. In the absence of an International Public Sector Accounting Standard that specifically applies to a transaction, other event or condition, management may, in accordance with paragraph 15, apply an accounting policy from the most recent pronouncements of other standard-setting bodies and accepted public or private sector practices to the extent, but only to the extent, that these are consistent with paragraph 14. For example, pronouncements of the International Accounting Standards Board (IASB), including the "Framework for the Preparation and Presentation of Financial Statements", International Financial Reporting Standards and Interpretations issued by the IASB's International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC). If, following an amendment of such a pronouncement, the entity chooses to change an accounting policy,

that change is accounted for and disclosed as a voluntary change in accounting policy.

Retrospective application

27. **Subject to paragraph 28, when a change in accounting policy is applied retrospectively in accordance with paragraph 24(a) or (b), the entity shall adjust the opening balance of each affected component of net assets/equity for the earliest period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.**

Limitations on retrospective application

28. **When retrospective application is required by paragraph 24(a) or (b), a change in accounting policy shall be applied retrospectively except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.**

29. **When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of net assets/equity for that period.**

30. **When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.**

31. When an entity applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information for prior periods as far back as is practicable. Retrospective application to a prior period is not practicable unless it is practicable to determine the cumulative effect on the amounts in both the opening and closing statement of financial positions for that period. The amount of the resulting adjustment relating to periods before those presented in the financial statements is made to the opening balance of each affected component of net assets/equity of the earliest prior period presented. Usually the adjustment is made to accumulated surpluses or deficits. However, the adjustment may be made to another component of net assets/equity (for example, to comply with an International Public Sector Accounting Standard). Any other information about prior periods, such as historical summaries of financial data, is also adjusted as far back as is practicable.

32. When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the entity, in accordance with paragraph 30, applies the new policy prospectively from the start of the earliest period practicable. It therefore disregards the portion of the cumulative adjustment to assets, liabilities and net assets/equity arising before that date. Changing an accounting policy is permitted even if it is impracticable to apply the policy prospectively for any prior period. Paragraphs 55-58 provide guidance when it is impracticable to apply a new accounting policy to one or more prior periods.

Disclosure

33. **When initial application of an International Public Sector Accounting Standard has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:**

    (a) **the title of the Standard;**

    (b) **when applicable, that the change in accounting policy is made in accordance with its transitional provisions;**

    (c) **the nature of the change in accounting policy;**

    (d) **when applicable, a description of the transitional provisions;**

    (e) **when applicable, the transitional provisions that might have an effect on future periods;**

    (f) **for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;**

    (g) **the amount of the adjustment relating to periods before those presented, to the extent practicable; and**

    (h) **if retrospective application required by paragraph 24(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.**

    Financial statements of subsequent periods need not repeat these disclosures.

34. **When a voluntary change in accounting policy has an effect on the current period or any prior period, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:**

(a) **the nature of the change in accounting policy;**

(b) **the reasons why applying the new accounting policy provides reliable and more relevant information;**

(c) **for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;**

(d) **the amount of the adjustment relating to periods before those presented, to the extent practicable; and**

(e) **if retrospective application is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.**

Financial statements of subsequent periods need not repeat these disclosures.

35. **When an entity has not applied a new International Public Sector Accounting Standard that has been issued but is not yet effective, the entity shall disclose:**

(a) **this fact; and**

(b) **known or reasonably estimable information relevant to assessing the possible impact that application of the new Standard will have on the entity's financial statements in the period of initial application.**

36. In complying with paragraph 35, an entity considers disclosing:

(a) the title of the new International Public Sector Accounting Standard;

(b) the nature of the impending change or changes in accounting policy;

(c) the date by which application of the Standard is required;

(d) the date as at which it plans to apply the Standard initially; and

(e) either:

(i) a discussion of the impact that initial application of the Standard is expected to have on the entity's financial statements; or

(ii) if that impact is not known or reasonably estimable, a statement to that effect.

Changes in Accounting Estimates

37. As a result of the uncertainties inherent in delivering services, conducting trading or other activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves

judgments based on the latest available, reliable information. For example, estimates may be required of:

(a) tax revenue due to government, bad debts arising from uncollected taxes;

(b) inventory obsolescence;

(c) the fair value of financial assets or financial liabilities;

(d) the useful lives of, or expected pattern of consumption of future economic benefits or service potential embodied in depreciable assets, or the percentage completion of road construction; and

(e) warranty obligations.

38. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

39. An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.

40. A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

41. **The effect of a change in an accounting estimate, other than a change to which paragraph 42 applies, shall be recognized prospectively by including it in surplus or deficit in:**

(a) **the period of the change, if the change affects the period only; or**

(b) **the period of the change and future periods, if the change affects both.**

42. **To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets/equity, it shall be recognized by adjusting the carrying amount of the related asset, liability or net assets/equity item in the period of change.**

43. Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events and conditions from the date of the change in estimate. A change in an accounting estimate may affect only the current period's surplus or deficit, or the surplus or deficit of both the current period and future periods. For example, a change in the estimate of the amount of bad debts affects only the current period's surplus or deficit and therefore is recognized in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of

economic benefits or service potential embodied in, a depreciable asset affects the depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognized as revenue or expense in the current period. The effect, if any, on future periods is recognized as revenue or expense in those future periods.

Disclosure

44. **An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.**

45. **If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact.**

Errors

46. Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with IPSASs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorized for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs 47-54).

47. **Subject to paragraph 48, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:**

    (a) **restating the comparative amounts for prior period(s) presented in which the error occurred; or**

    (b) **if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.**

Limitations of Retrospective Restatement

48. **A prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.**

49. **When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities**

and net assets/equity for the earliest period for which retrospective restatement is practicable (which may be the current period).

50. **When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.**

51. The correction of a prior period error is excluded from surplus or deficit for the period in which the error is discovered. Any information presented about prior periods, including any historical summaries of financial data, is also restated as far back as is practicable.

52. When it is impracticable to determine the amount of an error (eg a mistake in applying an accounting policy) for all prior periods, the entity, in accordance with paragraph 50, restates the comparative information prospectively from the earliest date practicable. It therefore disregards the portion of the cumulative restatement of assets, liabilities and net assets/equity arising before that date. Paragraphs 55-58 provide guidance on when it is impracticable to correct an error for one or more prior periods.

53. Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, the gain or loss recognized on the outcome of a contingency is not the correction of an error.

Disclosure of Prior Period Errors

54. **In applying paragraph 47, an entity shall disclose the following:**

    (a) **the nature of the prior period error;**

    (b) **for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;**

    (c) **the amount of the correction at the beginning of the earliest prior period presented; and**

    (d) **if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.**

    Financial statements of subsequent periods need not repeat these disclosures.

Impracticability in Respect of Retrospective Application and Retrospective Restatement

55. In some circumstances, it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows either retrospective application of a new accounting policy (including, for the purpose of paragraphs 56-58, its prospective application to prior periods) or retrospective restatement to correct a prior period error, and it may be impracticable to recreate the information.

56. It is frequently necessary to make estimates in applying an accounting policy to elements of financial statements recognized or disclosed in respect of transactions, other events or conditions. Estimation is inherently subjective, and estimates may be developed after the reporting date. Developing estimates is potentially more difficult when retrospectively applying an accounting policy or making a retrospective restatement to correct a prior period error, because of the longer period of time that might have passed since the affected transaction, other event or condition occurred. However, the objective of estimates related to prior periods remains the same as for estimates made in the current period, namely, for the estimate to reflect the circumstances that existed when the transaction, other event or condition occurred.

57. Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that

    (a) provides evidence of circumstances that existed on the date(s) as at which the transaction, other event or condition occurred, and

    (b) would have been available when the financial statements for that prior period were authorized for issue

    from other information. For some types of estimates (eg an estimate of fair value not based on an observable price or observable inputs), it is impracticable to distinguish these types of information. When retrospective application or retrospective restatement would require making a significant estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy or correct the prior period error retrospectively.

58. Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognized, measured or disclosed in a prior period. For example, when an entity corrects a prior period error in classifying a government building as an investment property (the building was previously classified as property, plant and equipment), it does not change the basis of classification for that period, if management decided later to use that building as an owner-

occupied office building. In addition, when an entity corrects a prior period error in calculating its liability for provision of cleaning costs of pollution resulting from government operations in accordance with IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets", it disregards information about an unusually large oil leak from a naval supply ship during the next period that became available after the financial statements for the prior period were authorized for issue. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.

Effective Date

59. **An entity shall apply this International Public Sector Accounting Standard for annual periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies this Standard for a period beginning before MM DD, YYYY, it shall disclose that fact.**

60. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Withdrawal of IPSAS 3 (issued 2000)

61. This Standard supersedes IPSAS 3, "Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies" issued in 2000.

Appendix

Amendments to Other International Public Sector Accounting Standards

The amendments in this appendix shall be applied for annual periods beginning on or after MM DD, YYYY. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

A1. IPSAS 2, "Cash Flow Statements" is amended as follows:

Paragraphs 40 and 41 on extraordinary items are deleted.

The Appendix in IPSAS 2 which illustrates a cash flow statement for an entity, is amended to remove an extraordinary item. The revised appendix is set out below.

Direct Method Cash Flow Statement (paragraph 27(a))

Notes to the Cash Flow Statement

(c) *Reconciliation of Net Cash Flows from Operating Activities to Surplus/(Deficit)*

(in thousands of currency units)	**20X2**	**20X1**
Surplus/(deficit) from ordinary activities	X	X
Non-cash movements		
Depreciation	X	X
Amortization	X	X
Increase in provision for doubtful debts	X	X
Increase in payables	X	X
Increase in borrowings	X	X
Increase in provisions relating to employee costs	X	X
(Gains)/losses on sale of property, plant and equipment	(X)	(X)
(Gains)/losses on sale of investments	(X)	(X)
Increase in other current assets	(X)	(X)
Increase in investments due to revaluation	(X)	(X)
Increase in receivables	(X)	(X)
~~Extraordinary item~~[1]	~~(X)~~	–
Net cash flows from operating activities	**X**	**X**

[1] ~~This extraordinary item falls within the definition of operating activities.~~

Indirect Method Cash Flow Statement (paragraph 27(b))

PUBLIC SECTOR ENTITY – CONSOLIDATED CASH FLOW STATEMENT

FOR YEAR ENDED 31 DECEMBER 20X2

(in thousands of currency units)	**20X2**	**20X1**
CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus/(deficit)	X	X
Non-cash movements		
Depreciation	X	X
Amortization	X	X
Increase in provision for doubtful debts	X	X
Increase in payables	X	X
Increase in borrowings	X	X
Increase in provisions relating to employee costs	X	X
(Gains)/losses on sale of property, plant and equipment	(X)	(X)
(Gains)/losses on sale of investments	(X)	(X)
Increase in other current assets	(X)	(X)
Increase in investments due to revaluation	(X)	(X)
Increase in receivables	(X)	(X)
~~Extraordinary item~~[1]	~~(X)~~	–
Net cash flows from operating activities	**X**	**X**

A2. IPSAS 18, "Segment Reporting" is amended as described below.

The definition of accounting policies in paragraph 8 is amended to read as follows:

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

Paragraph 57 is amended to read as follows:

57. IPSAS ~~3~~1 requires that when items of revenue or expense are material~~within net surplus (deficit) from ordinary activities are of such size, nature, or incidence that their disclosure is relevant to explain the performance of the entity for the period~~, their nature and amount of such items ~~should~~shall be disclosed separately. IPSAS 1~~3~~ identifies a number of examples of such items, including write-downs of inventories and property, plant~~,~~ and equipment; provisions for restructurings; disposals of property, plant~~,~~ and equipment;

[1] ~~This extraordinary item falls within the definition of operating activities.~~

privatizations and other disposals of long-term investments; discontinuing~~ed~~ operations; litigation settlements; and reversals of provisions. The encouragement in paragraph 56 is not intended to change the classification of any such items ~~of revenue or expense from ordinary to extraordinary (as defined in IPSAS 3)~~ or to change the measurement of such items. The disclosure encouraged by that paragraph, however, does change the level at which the significance of such items is evaluated for disclosure purposes from the entity level to the segment level.

Paragraphs 69 and 70 are amended to read as follows:

69. Changes in accounting policies adopted by the entity are dealt with in IPSAS 3. IPSAS 3 requires that changes in accounting policy ~~should~~ shall be made ~~only if required by statute, or~~ by an International Public Sector Accounting Standard~~accounting standard-setting body~~, or if the change will result in reliable and ~~a~~ more ~~appropriate presentation~~relevant information about~~ of events or~~ transactions, other events or conditions in the financial statements of the entity.

70. Changes in accounting policies ~~adopted~~ applied at the entity level that affect segment information are dealt with in accordance with IPSAS 3. Unless a new International Public Sector Accounting Standard specifies otherwise, IPSAS 3 requires that:

(a) a change in accounting policy ~~should~~shall be applied retrospectively and that prior period information ~~be~~ restated unless it is impracticable to determine either ~~do so (benchmark treatment) or that~~ the cumulative effect or the ~~adjustment resulting from the change be included in determining the entity's net surplus (deficit) for the current~~ period-specific effects of the change~~ (allowed alternative treatment)~~;~~.~~

(b) ~~I~~if retrospective application is not practicable for all ~~the benchmark treatment is followed, prior~~ periods presented, the new accounting policy shall be applied retrospectively from the earliest practicable date~~ segment information will be restated.~~; and

(c) ~~I~~if it is impracticable to determine~~the allowed alternative is followed,~~ the cumulative effect of applying the new accounting policy at the start of the current period, the policy shall be applied prospectively from the earliest date practicable. ~~adjustment that is included in determining the entity's net surplus (deficit) is included as an item of segment revenue or expense if it is an operating item that can be attributed or reasonably allocated to segments. In the latter case, IPSAS 3 may require separate disclosure if its size, nature, or incidence is~~

~~such that the disclosure is relevant to explain the performance of the entity for the period.~~

The following changes are made to remove references to extraordinary items:

(a) in paragraph 27, in the definition of segment revenue, subparagraph (a) is deleted;

(b) in paragraph 27, in the definition of segment expense, subparagraph (a) is deleted; and

(c) in Appendix 1, the second last paragraph is deleted.

A3. In IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets", paragraph 111 is deleted.

A4. The rubrics of all other International Public Sector Accounting Standards that are not within this Exposure Draft will have the following form:

International Public Sector Accounting Standards X, "Title in Words" (IPSAS X) is set out in paragraphs 1-000 [and Appendices A-C]*. All the paragraphs have equal authority but retain the former PSC format of the Standard when it was adopted by the IPSASB. IPSAS X should be read in the context of [its objective and the Basis for Conclusions,]# the *Preface to International Public Sector Accounting Standards*. IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors" provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

* used only for those appendices that are part of the Standard.

used only where the Standard contains an objective or is accompanied by a Basis for Conclusions.

A5. In International Public Sector Accounting Standards, applicable at DD MM YYYY, references to the current version of IPSAS 3, "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies" are amended to IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors".

Guidance on Implementing IPSAS 3

This guidance accompanies, but is not part of, IPSAS 3.

Example 1 – Retrospective Restatement of Errors

1.1. During 20X2, the entity discovered that revenue from income taxes was incorrect. Income taxes of CU[1]6,500 that should have been recognized in 20X1 were incorrectly omitted from 20X1 and recognized as revenue in 20X2.

1.2. The entity's accounting records for 20X2 show revenue from taxation of CU60,000 (including the CU6,500 taxation which should have been recognized in opening balances), and expenses of CU86,500.

1.3. In 20X1, the entity reported:

	CU
Revenue from taxation	34,000
User charges	3,000
Other operating revenue	30,000
Total revenue	67,000
Expenses	(60,000)
Net surplus	7,000

1.4. 20X1 opening accumulated surplus was CU20,000 and closing accumulated surplus was CU27,000.

1.5. The entity had no other revenue or expenses.

1.6. The entity had CU5,000 of contributed capital throughout, and no other components of net assets/equity except for accumulated surplus.

Public Sector Entity – Statement of Financial Performance

	20X2	(restated) 20X1
	CU	CU
Revenue from taxation	53,500	40,500
User charges	4,000	3,000
Other operating revenue	40,000	30,000
Total revenue	97,500	73,500
Expenses	(86,500)	(60,000)
Net surplus	11,000	13,500

[1] In these examples, monetary amounts are denominated in 'currency units' (CU).

Public Sector Entity - Statement of Changes in Equity

	Contributed capital	Accumulated Surpluses	Total
	CU	CU	CU
Balance at 31 December 20X0	5,000	20,000	25,000
Surplus for the year ended 31 December 20X1 as restated	-	13,500	13,500
Balance at 31 December 20X1	5,000	33,500	38,500
Surplus for the year ended 31 December 20X2	-	11,000	11,000
Balance at 31 December 20X2	5,000	44,500	49,500

Extracts from the Notes

1. Revenue from taxation of CU6,500 was incorrectly omitted from the financial statements of 20X1. The financial statements of 20X1 have been restated to correct this error. The effect of the restatement on those financial statements is summarized below. There is no effect in 20X2.

	Effect on 20X1
	CU
Increase in revenue	6,500
Increase in surplus	6,500
Increase in debtors	6,500
Increase in net assets/equity	6,500

Example 2 - Change in Accounting Policy with Retrospective Application

2.1. During 20X2, the entity changed its accounting policy for the treatment of borrowing costs that are directly attributable to the acquisition of a hydro-electric power station which is under construction. In previous periods, the entity had capitalized such costs. The entity has now decided to expense, rather than capitalize them. Management judges that the new policy is preferable because it results in a more transparent treatment of finance costs and is consistent with local industry practice, making the entity’s financial statements more comparable.

2.2. The entity capitalized borrowing costs incurred of CU2,600 during 20X1 and CU5,200 in periods prior to 20X1. All borrowing costs incurred in previous years in respect to the acquisition of the power station were capitalized.

2.3. The accounting records for 20X2 show surplus before interest of CU30,000 and interest expense of CU3,000 (which relates only to 20X2).

2.4. The entity has not recognized any depreciation on the power station because it is not yet in use.

2.5. In 20X1, the entity reported:

	CU
Surplus before interest	18,000
Interest expense	–
Surplus from ordinary activities	18,000

2.6. 20X1 opening accumulated surplus was CU20,000 and closing accumulated surpluses was CU38,000.

2.7. The entity had CU10,000 of contributed capital throughout, and no other components of net assets/equity except for accumulated surplus.

Public Sector Entity – Statement of Financial Performance

		(restated)
	20X2	20X1
	CU	CU
Surplus before interest	30,000	18,000
Interest expense	(3,000)	(2,600)
Surplus from ordinary activities	27,000	15,400

Public Sector Entity – Statement of Changes in Net Assets/Equity

		(restated)	
	Contributed capital	Accumulated Surplus	Total
	CU	CU	CU
Balance at 31 December 20X0 as previously reported	10,000	20,000	30,000
Change in accounting policy in respect to the capitalization of interest (Note 1)	-	(5,200)	(5,200)
Balance at 31 December 20X0 as restated	10,000	14,800	24,800
Surplus for the year ended 31 December 20X1 (restated)	-	15,400	15,400
Balance at 31 December 20X1	10,000	30,200	40,200
Surplus for the year ended 31 December 20X2	-	27,000	27,000
Closing at 31 December 20X2	10,000	57,200	67,200

Extracts from the Notes

1. During 20X2, the entity changed its accounting policy for the treatment of borrowing costs related to a hydro-electric power station. Previously, the entity capitalized such costs. They are now written off as expenses as incurred. Management judges that this policy provides reliable and more relevant information because it results in a more transparent treatment of finance costs and is consistent with local industry practice, making the entity's financial statements more comparable. This change in accounting policy has been accounted for retrospectively and the comparative statements for 20X1 have been restated. The effect of the change on 20X1 is tabulated below. Opening accumulated surpluses for 20X1 have been reduced by CU5,200 which is the amount of the adjustment relating to periods prior to 20X1.

Effect on 20-1	CU
(Increase) in interest expense	(2,600)
(Decrease) in surplus	(2,600)
Effect on periods prior to 20X1	
(Decrease) in surplus	(5,200)
(Decrease) in assets in the course of construction and in retained earnings	(7,800)

Example 3 – Prospective Application of a Change in Accounting Policy When Retrospective Application is not Practicable

3.1. During 20X2, the entity changed its accounting policy for depreciating property, plant and equipment, so as to apply much more fully a components approach, whilst at the same time adopting the revaluation model.

3.2. In years before 20X2, the entity's asset records were not sufficiently detailed to apply a components approach fully. At the end of year 20X1, management commissioned an engineering survey, which provided information on the components held and their fair values, useful lives, estimated residual values and depreciable amounts at the beginning of 20X2. However, the survey did not provide a sufficient basis for reliably estimating the cost of those components that had not previously been accounted for separately, and the existing records before the survey did not permit this information to be reconstructed.

3.3. Management considered how to account for each of the two aspects of the accounting change. They determined that it was not practicable to account for the change to a fuller components approach retrospectively, or to account for that change prospectively from any earlier date than the start of 20X2. Also, the change from a cost model to a revaluation model is required to be

accounted for prospectively. Therefore, management concluded that it should apply the entity's new policy prospectively from the start of 20X2.

3.4. Additional information:

	CU
Property, plant and equipment	
Cost	25,000
Depreciation	(14,000)
Net book value	11,000
Prospective depreciation expense for 20X2 (old basis)	1,500
Some results of the engineering survey	
Valuation	17,000
Estimated residual value	3,000
Average remaining assets life (years)	7
Depreciation expense on existing property, plant and equipment for 20X2 (new basis)	2,000

Extract from the Notes

1. From the start of 20X2, the entity changed its accounting policy for depreciating property, plant and equipment, so as to apply much more fully a components approach, whilst at the same time adopting the revaluation model. Management takes the view that this policy provides reliable and more relevant information because it deals more accurately with the components of property, plant and equipment and is based on up-to-date values. The policy has been applied prospectively from the start of 20X2 because it was not practicable to estimate the effects of applying the policy either retrospectively, or prospectively from any earlier date. Accordingly, the adoption of the new policy has no effect on prior periods. The effect on the current year is to increase the carrying amount of property, plant and equipment at the start of the year by CU6,000; create a revaluation reserve at the start of the year of CU6,000; and increase depreciation expense by CU500.

Table of Concordance

This table shows how the contents of the current version of IPSAS 3 and the proposed version of IPSAS 3 correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

Current IPSAS 3 paragraph	Proposed IPSAS 3 paragraph
Objective	1
1	3
2	2
3	4
4	5
5	6
6	7
7	None
8	None
9	None
10	IPSAS 1.96
11	IPSAS 1.97
12	IPSAS 1.98
13	None
14	None
15	None
16	None
17	None
18	None
19	None
20	None
21	None
22	None
23	None
24	None
25	None
26	IPSAS 1.103
27	None
28	IPSAS 1.104
29	None
30	37, 38
31	39
32	40
33	41
34	43
35	None
36	None
37	44, 45
38	46
39	46
40	53
41	47
42	51
43	None
44	54
45	None
46	None
47	None
48	18
49	19
50	20
51	17
52, 53	21-23
54	None
55	24
56	None
57	None
58	36, 36
59	27
60	28
61	31
62	None
63	29, 30
64	33, 34
65	None
66	None
67	None
68	None
69	58
Appendix A	Guidance on Implementing IPSAS 3
None	61
None	42

Comparison with IAS 8

International Public Sector Accounting Standard 3, "Accounting Policies, Changes in Accounting Estimates and Errors" (IPSAS 3) is drawn primarily from International Accounting Standard 8 (2003), "Accounting Policies, Changes in Accounting Estimates and Errors" (IAS 8). The main differences between IPSAS 3 and IAS 8 are as follows:

- Commentary additional to that in IAS 8 has been included in IPSAS 3 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 3 uses different terminology, in certain instances, from IAS 8. The most significant examples are the use of the terms "statement of financial performance", "statement of financial position" and "net assets/equity" in IPSAS 3. The equivalent terms in IAS 8 are "income statement", "balance sheet", and "equity".
- IPSAS 3 contains a different set of definitions of technical terms from IAS 8 (paragraph 7).
- IPSAS 3 has a similar hierarchy to IAS 8, except that the IPSASB does not have a conceptual framework.
- IPSAS 3 does not require disclosures about adjustments to basic or diluted earnings per share. IAS 8 requires disclosure of amount of adjustment or correction for basic or diluted earnings per share.

International Public Sector Accounting Standard IPSAS 4

(revised 200X)

The Effects of Changes in Foreign Exchange Rates

Specific Matters for Comment

The IPSASB would particularly value comments on the following questions. It would be helpful to the IPSASB if these comments indicate the specific paragraph number or groups of paragraphs to which they relate, clearly explain the issue and suggest alternative wording, with supporting reasoning, where this is appropriate.

Question 1

Do you agree that IPSAS 4 should be revised as proposed to converge with the equivalent IAS 21 (December 2003)?

Question 2

Currently, IPSAS 4 does not deal with hedge accounting for foreign currency items other than the classification of certain exchange differences accounted for as a hedge of net investment in a foreign entity. It also notes that guidance on such types of transactions can be found in IAS 39, "Financial Instruments: Recognition and Measurement".

Do you agree that the proposed IPSAS 4 should not apply to derivative transactions and balances that are within the scope of the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments (see paragraph 3(a))?

SUMMARY OF MAIN CHANGES IPSAS 4
THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

The main changes proposed are:

Scope

- To now exclude in paragraph 3 foreign currency derivatives that are within the scope of international or national accounting standard dealing with the recognition and measurement of financial instruments. (Hedge accounting that was previously excluded in IPSAS 4 will remain excluded in IPSAS 4 because it is a form of derivative.)

Definitions

- To replace the term “reporting currency” with two notions (in paragraph 10):
  - functional currency – currency of the primary economic environment in which the entity operates; and
  - presentation currency – currency in which the financial statements are presented.
- To modify the terms in paragraph 10 “exchange difference”, “foreign currency”, and “net investment in a foreign operation”.

Functional Currency

- To require each reporting entity to determine its functional currency and measure its results and financial position in that currency in paragraphs 23 and 26. Consequently, the entity:
  - does not have a free choice of functional currency (paragraphs 11-16); and
  - cannot avoid restatement when reporting in a hyperinflationary economy (paragraphs 16, 47-48).
- To disclose the functional currency of the entity when the functional currency is different from its presentation currency and to clarify why (paragraph 61).
- To disclose when there has been a change in functional currency, and the reasons for the change (paragraph 62).
- To replace the previous requirement to account for a change in the classification of a foreign operation with a requirement that a change in functional currency is accounted for prospectively (paragraph 39).

Integral Foreign Operations vs Foreign Entities

- To eliminate the distinction between integral foreign operations and foreign entities. Consequently, an entity that was previously classified as an integral

foreign operation will have the same functional currency as the reporting entity only one translation method is used.

Reporting Foreign Currency Transactions in the Functional Currency – Recognition of Exchange Differences

- To remove the allowed alternative treatment where an entity can capitalize exchange differences resulting from a severe devaluation or depreciation of a currency against which there is no means of hedging. Now, the Standard requires that such exchange differences, where applicable, be reflected in the surplus or deficit in paragraph 31.

Use of a Presentation Currency other than the Functional Currency

- To clarify in paragraph 42 that this Standard permits an entity to present its financial statements in any currency (or currencies).
- To require that goodwill and fair value adjustments to assets and liabilities that arise on the acquisition of a foreign entity only be treated as part of the assets and liabilities of the acquired entity and translated at the closing rate in paragraph 55. Previously, an entity was also allowed to treat these types of goodwill and fair value adjustments as assets and liabilities of the reporting entity.

Disclosure

- To require in paragraph 65 that when the entity discloses financial information where the presentation currency is not its functional currency and the translation method does not comply with each applicable IPSAS, the entity shall:
  - clearly identify the information as supplementary information to distinguish it from other information that complies with IPSASs;
  - disclose the currency in which supplementary information is displayed; and
  - disclose the entity's functional currency and the method of translation used to determine the supplementary information.

Transitional Provisions

- To allow first-time adopters of IPSASs in paragraph 66 to deem the cumulative translation differences that existed at the date they first adopt IPSASs as zero.
- To provide a new transitional provision in paragraph 68 for those entities which previously applied the eliminated alternative treatment for goodwill and fair value adjustments arising on the acquisition of a foreign operation. An entity, on first application of this Standard, is allowed to apply prospectively these types of goodwill and fair value adjustments in accordance to the new requirements in this Standard. (Retrospective application is allowed.)

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 4—THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

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International Public Sector Accounting Standard 4, "The Effects of Changes in Foreign Exchange Rates" (IPSAS 4) is set out in paragraphs 1-72 and the Appendix. All the paragraphs have equal authority. IPSAS 4 should be read in the context of its objective, the Basis for Conclusions and the "Preface to the International Public Sector Accounting Standards". IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors" provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 4—THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

Objective

1. An entity may carry on foreign activities in two ways. It may have transactions in foreign currencies or it may have foreign operations. In addition, an entity may present its financial statements in a foreign currency. The objective of this Standard is to prescribe how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency.

2. The principal issues are which exchange rate(s) to use and how to report the effects of changes in exchange rates in the financial statements.

Scope

3. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard:**

   (a) **in accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments;**

   (b) **in translating the results and financial position of foreign operations that are included in the financial statements of the entity by consolidation, proportionate consolidation or by the equity method; and**

   (c) **in translating an entity's results and financial position into a presentation currency.**

4. International or national accounting standard dealing with the recognition and measurement of financial instruments applies to many currency derivatives and, accordingly, these are excluded from the scope of this Standard. However, those foreign currency derivatives that are not within the scope of this international or national accounting standard (eg some foreign currency derivatives that are embedded in other contracts) are within the scope of this Standard. In addition, this Standard applies when an entity translates amounts relating to derivatives from its functional currency to its presentation currency.

5. This Standard does not apply to hedge accounting for foreign currency items including the hedging of a net investment in a foreign operation. Accordingly,

entities may apply the relevant international or national accounting standard dealing with hedge accounting.

6. **This Standard applies to all public sector entities other than Government Business Enterprises.**

7. The "Preface to International Public Sector Accounting Standards" issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). GBEs are defined in IPSAS 1, "Presentation of Financial Statements".

8. This Standard applies to the presentation of an entity's financial statements in a foreign currency and sets out requirements for the resulting financial statements to be described as complying with International Public Sector Accounting Standards. For translations of financial information into a foreign currency that do not meet these requirements, this Standard specifies information to be disclosed.

9. This Standard applies to the presentation of revenue and expenses arising from transactions in a foreign currency and translating the financial statements of a foreign operation. It does not apply to the presentation in a cash flow statement of cash flows arising from transactions in a foreign currency, or to the translation of cash flows of a foreign operation (see IPSAS 2, "Cash Flow Statements").

Definitions

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

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

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

Exchange difference is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.

Exchange rate is the ratio of exchange for two currencies.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Foreign currency is a currency other than the functional currency of the entity.

Foreign operation is an entity that is a controlled entity, associate, joint venture or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

Functional currency is the currency of the primary economic environment in which the entity operates.

Monetary items are units of currency held and assets and liabilities to be received or paid in fixed or determinable number of units of currency.

Net investment in a foreign operation is the amount of the reporting entity's interest in the net assets/equity of that operation.

Presentation currency is the currency in which the financial statements are presented.

Spot exchange rate is the exchange rate for immediate delivery.

Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.

Elaboration on the Definitions

Functional Currency

11. The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. An entity considers the following factors in determining its functional currency:

    (a) the currency:

        (i) that revenue is raised from, such as taxes, grants and fines;

        (ii) that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and

        (iii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.

    (b) the currency that mainly influences labor, material and other costs of providing goods and services (this will often be the currency in which such costs are denominated and settled).

12. The following factors may also provide evidence of an entity's functional currency:

    (a) the currency in which funds from financing activities (ie issuing debt and equity instruments) are generated.

(b) the currency in which receipts from operating activities are usually retained.

13. The following additional factors are considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the reporting entity (the reporting entity, in this context, being the entity that has the foreign operation as its controlled entity, branch, associate or joint venture):

(a) whether the activities of the foreign operation are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy. An example of the former is when a department of defense has a number of overseas bases which conduct activities on behalf of a national government. The defense bases might conduct their activities substantially in the functional currency of the reporting entity. For example, military personnel may be paid in the functional currency and receive only a small allowance in local currency. Purchases of supplies and equipment might be largely obtained via the reporting entity with purchases in local currency being kept to a minimum. Another example would be an overseas campus of a public university which operates under the management and direction of the domestic campus. In contrast, a foreign operation with a significant degree of autonomy may accumulate cash and other monetary items, incurs expenses, generates revenue and perhaps arranges borrowings, all substantially in its local currency. Some examples of government-owned foreign operations which may operate independently of other government agencies include tourist offices, petroleum exploration companies, trade boards and broadcasting operations. Such entities may be established as Government Business Enterprises.

(b) whether transactions with the reporting entity are a high or a low proportion of the foreign operation's activities.

(c) whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting entity and are readily available for remittance to it.

(d) whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting entity.

14. When the above indicators are mixed and the functional currency is not obvious, management uses its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. As part of this approach, management gives priority to the primary indicators in paragraph 11 before considering the

(b) the currency in which receipts from operating activities are usually retained.

13. The following additional factors are considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the reporting entity (the reporting entity, in this context, being the entity that has the foreign operation as its controlled entity, branch, associate or joint venture):

(a) whether the activities of the foreign operation are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy. An example of the former is when a department of defense has a number of overseas bases which conduct activities on behalf of a national government. The defense bases might conduct their activities substantially in the functional currency of the reporting entity. For example, military personnel may be paid in the functional currency and receive only a small allowance in local currency. Purchases of supplies and equipment might be largely obtained via the reporting entity with purchases in local currency being kept to a minimum. Another example would be an overseas campus of a public university which operates under the management and direction of the domestic campus. In contrast, a foreign operation with a significant degree of autonomy may accumulate cash and other monetary items, incurs expenses, generates revenue and perhaps arranges borrowings, all substantially in its local currency. Some examples of government-owned foreign operations which may operate independently of other government agencies include tourist offices, petroleum exploration companies, trade boards and broadcasting operations. Such entities may be established as government business enterprises;

(b) whether transactions with the reporting entity are a high or a low proportion of the foreign operation's activities;

(c) whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting entity and are readily available for remittance to it; and

(d) whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting entity.

14. When the above indicators are mixed and the functional currency is not obvious, management uses its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. As part of this approach, management gives priority to the primary indicators in paragraph 11 before considering the

20. Many reporting entities comprise a number of individual entities (eg an economic entity is made up of a controlling entity and one or more controlled entities). Various types of entities, whether members of an economic entity or otherwise, may have investments in associates or joint ventures. They may also have branches. It is necessary for the results and financial position of each individual entity included in the reporting entity to be translated into the currency in which the reporting entity presents its financial statements. This Standard permits the presentation currency of a reporting entity to be any currency (or currencies). The results and financial position of any individual entity within the reporting entity whose functional currency differs from the presentation currency are translated in accordance with paragraphs 42-58.

21. This Standard also permits a stand-alone entity preparing financial statements or an entity preparing separate financial statements in accordance with IPSAS 6, "Consolidated and Separate Financial Statements" to present its financial statements in any currency (or currencies). If the entity's presentation currency differs from its functional currency, its results and financial position are also translated into the presentation currency in accordance with paragraphs 42-58.

Reporting Foreign Currency Transactions in the Functional Currency

Initial Recognition

22. A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when an entity:

    (a) buys or sells goods or services whose price is denominated in a foreign currency;

    (b) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or

    (c) otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

23. **A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.**

24. The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with International Public Sector Accounting Standards. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency

occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

25. Exchange rate changes may have an impact on cash or cash equivalents held or due in a foreign currency. The presentation of such exchange differences is dealt with in IPSAS 2. Although these changes are not cash flows, the effect of exchange rate changes on cash or cash equivalents held or due in a foreign currency are reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. These amounts are presented separately from cash flows from operating, investing and financing activities and include the differences, if any, had those cash flows been reported at end-of-period exchange rates.

Reporting at Subsequent Reporting Dates

26. **At each reporting date:**

    (a) **foreign currency monetary items shall be translated using the closing rate;**

    (b) **non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and**

    (c) **non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.**

27. The carrying amount of an item is determined in conjunction with other relevant International Public Sector Accounting Standards. For example, property, plant and equipment may be measured in terms of fair value or historical cost in accordance with IPSAS 17, "Property, Plant and Equipment". Whether the carrying amount is determined on the basis of historical cost or on the basis of fair value, if the amount is determined in a foreign currency it is then translated into the functional currency in accordance with this Standard.

28. The carrying amount of some items is determined by comparing two or more amounts. For example, the carrying amount of inventories held for sale is the lower of cost and net realizable value in accordance with IPSAS 12, "Inventories". Similarly, in accordance with IPSAS 21, "Impairment of Non-Cash-Generating Assets", the carrying amount of a non-cash generating asset for which there is an indication of impairment is the lower of its carrying amount before considering possible impairment losses and its recoverable service amount. When such an asset is non-monetary and is measured in a foreign currency, the carrying amount is determined by comparing:

(a) the cost or carrying amount, as appropriate, translated at the exchange rate at the date when that amount was determined (ie the rate at the date of the transaction for an item measured in terms of historical cost); and

(b) the recoverable service amount, as appropriate, translated at the exchange rate at the date when that value was determined (eg the closing rate at the reporting date).

The effect of this comparison may be that an impairment loss is recognized in the functional currency but would not be recognized in the foreign currency, or vice versa.

29. When several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. If exchangeability between two currencies is temporarily lacking, the rate used is the first subsequent rate at which exchanges could be made.

Recognition of Exchange Differences

30. As noted in paragraph 3, this Standard does not deal with hedge accounting for foreign currency items. Guidance in relation to other aspects of hedge accounting, including the criteria to use hedge accounting, can be found in the relevant international or national accounting standard dealing with the measurement and recognition of financial instruments.

31. **Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognized in surplus or deficit in the period in which they arise, except as described in paragraph 36.**

32. When monetary items arise from a foreign currency transaction and there is a change in the exchange rate between the transaction date and the date of settlement, an exchange difference results. When the transaction is settled within the same accounting period as that in which it occurred, all the exchange difference is recognized in that period. However, when the transaction is settled in a subsequent accounting period, the exchange difference recognized in each period up to the date of settlement is determined by the change in exchange rates during each period.

33. The treatment of foreign currency exchange rate changes in a cash flow statement is described in paragraph 25.

34. **When a gain or loss on a non-monetary item is recognized directly in net assets/equity, any exchange component of that gain or loss shall be recognized directly in net assets/equity. Conversely, when a gain or loss on a non-monetary item is recognized in surplus or deficit, any exchange component of that gain or loss shall be recognized in surplus or deficit.**

35. Other Standards require some gains and losses to be recognized directly in net assets/equity. For example, IPSAS 17 requires some gains and losses arising on a revaluation of property, plant and equipment to be recognized directly in net assets/equity. When such an asset is measured in a foreign currency, paragraph 26(c) of this Standard requires the revalued amount to be translated using the rate at the date the value is determined, resulting in an exchange difference that is also recognized in net assets/equity.

36. **Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation (see paragraph 18) shall be recognized in surplus or deficit in the separate financial statements of the reporting entity or the individual financial statements of the of the foreign operation, as appropriate. In the financial statements that include the foreign operation and the reporting entity (eg consolidated financial statements when the foreign operation is a controlled entity), such exchange differences shall be recognized initially in a separate component of net assets/equity and recognized in surplus or deficit on disposal of the net investment in accordance with paragraph 56.**

37. When a monetary item forms part of a reporting entity's net investment in a foreign operation and is denominated in the functional currency of the reporting entity, an exchange difference arises in the foreign operation's individual financial statements in accordance with paragraph 31. Similarly, if such an item is denominated in the functional currency of the foreign operation, an exchange difference arises in the reporting entity's separate financial statements in accordance with paragraph 31. Such exchange differences are reclassified to the separate component of net assets/equity in the financial statements that include the foreign operation and the reporting entity (ie financial statements in which the foreign operation is consolidated, proportionally consolidated or accounted for using the equity method). However, a monetary item that forms part of the reporting entity's net investment in a foreign operation may be denominated in a currency other than the functional currency of either the reporting entity or the foreign operation. The exchange differences that arise on translating the monetary item into the functional currencies of the reporting entity and the foreign operation are not reclassified to the separate component of net assets/equity in the financial statements that include the foreign operation and the reporting entity (ie they remain recognized in surplus or deficit).

38. When an entity keeps its books and records in a currency other than its functional currency, at the time the entity prepares its financial statements all amounts are translated into the functional currency in accordance with paragraphs 22-29. This produces the same amounts in the functional currency as would have occurred had the items been recorded initially in the functional currency. For example, monetary items are translated into the functional

currency using the closing rate, and non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction that resulted in their recognition.

Change in Functional Currency

39. **When there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.**

40. As noted in paragraph 15, the functional currency of an entity reflects the underlying transactions, events and conditions that are relevant to the entity. Accordingly, once the functional currency is determined, it can be changed only if there is a change to those underlying transactions, events and conditions. For example, a change in the currency that mainly influences the sales prices or the provision of goods and services may lead to a change in an entity's functional currency.

41. The effect of a change in functional currency is accounted for prospectively. In other words, an entity translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost. Exchange differences arising from the translation of a foreign operation previously classified in net assets/equity in accordance with paragraphs 36 and 43(c) are not recognized in surplus or deficit until the disposal of the operation.

Use of a Presentation Currency Other than the Functional Currency

Translation to the Presentation Currency

42. An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency. For example, when an economic entity contains individual entities with different functional currencies, the results and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.

43. **The results and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:**

    (a) **assets and liabilities for each statement of financial position presented (ie including comparatives) shall be translated at the closing rate at the date of that statement of financial position;**

(b) **revenue and expenses for each statement of financial performance (ie including comparatives) shall be translated at exchange rates at the dates of the transactions; and**

(c) **all resulting exchange differences shall be recognized as a separate component of net assets/equity.**

44. In translating the cash flows, that is the cash receipts and cash payments, of a foreign operation for incorporation in its cash flow statement, the reporting entity shall comply with the procedures in IPSAS 2. IPSAS 2 requires that the cash flows of a controlled entity which satisfies the definition of a foreign operation shall be translated at the exchange rates between the reporting currency and the foreign currency at the dates of the cash flows. IPSAS 2 also outlines the presentation of unrealized gains and losses arising from changes in foreign currency exchange rates on cash and cash equivalents held or due in a foreign currency.

45. For practical reasons, a rate that approximates the exchange rates at the dates of the transactions, for example an average rate for the period, is often used to translate revenue and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

46. The exchange differences referred to in paragraph 43(c) result from:

(a) translating revenue and expenses at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate. Such exchange differences arise both on revenue and expense items recognized in surplus or deficit and on those recognized directly in net assets/equity.

(b) translating the opening net assets/equity at a closing rate that differs from the previous closing rate.

These exchange differences are not recognized in surplus or deficit because the changes in exchange rates have little or no direct effect on the present and future cash flows from operations. When the exchange differences relate to a foreign operation that is consolidated but is not wholly-owned, accumulated exchange differences arising from translation and attributable to minority interests are allocated to, and recognized as part of, minority interest in the consolidated statement of financial position.

47. **The results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:**

(a) **all amounts (ie assets, liabilities, net assets/equity items, revenue and expenses, including comparatives) shall be translated at the closing rate at the date of the most recent statement of financial position, except that**

(b) **when amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts shall be those that were presented as current year amounts in the relevant prior year financial statements (ie not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).**

48. **When an entity's functional currency is the currency of a hyperinflationary economy, the entity shall restate its financial statements in accordance with IPSAS 10, "Financial Reporting in Hyperinflationary Economies" before applying the translation method set out in paragraph 47, except for comparative amounts that are translated into a currency of a non-hyperinflationary economy (see paragraph 47(b). When the economy ceases to be hyperinflationary and the entity no longer restates its financial statements in accordance with IPSAS 10, it shall use as the historical costs for translation into the presentation currency the amounts restated to the price level at the date the entity ceased restating its financial statements.**

Translation of a Foreign Operation

49. Paragraphs 50-55, in addition to paragraphs 42-48, apply when the results and financial position of a foreign operation are translated into a presentation currency so that the foreign operation can be included in the financial statements of the reporting entity by consolidation, proportional consolidation or the equity method.

50. The incorporation of the results and financial position of a foreign operation with those of the reporting entity follows normal consolidation procedures, such as the elimination of balances and transactions within an economic entity (see IPSAS 6 and IPSAS 8, "Financial Reporting of Interests in Joint Ventures").

51. However, a monetary asset (or liability) within an economic entity, whether short-term or long-term, cannot be eliminated against the corresponding liability (or asset) within an economic entity without showing the results of currency fluctuations in the consolidated financial statements. This is because the monetary item represents a commitment to convert one currency into another and exposes the reporting entity to a gain or loss through currency fluctuations. Accordingly, in the consolidated financial statements of the reporting entity, such an exchange difference continues to be recognized in surplus or deficit or, if it arises from the circumstances described in paragraph 36, it is classified as net assets/equity until the disposal of the foreign operation.

52. When the financial statements of a foreign operation are as of a date different from that of the reporting entity, the foreign operation often prepares additional statements as of the same date as the reporting entity's financial statements. When this is not done, IPSAS 6 allows the use of a different

reporting date provided that the difference is no greater than three months and adjustments are made for the effects of any significant transactions or other events that occur between the different dates.

53. When there is a difference between the reporting date of the reporting entity and the foreign operation, the assets and liabilities of the foreign operation are translated at the exchange rate at the reporting date of the foreign operation.

54. Adjustments are made for significant changes in exchange rates up to the reporting date of the reporting entity in accordance with IPSAS 6. The same approach is used in applying the equity method to associates and joint ventures and in applying proportionate consolidation in joint ventures in accordance with IPSAS 7, "Accounting for Investments in Associates" and IPSAS 8.

55. **Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operation. Thus they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraphs 43 and 47.**

Disposal of a Foreign Operation

56. **On the disposal of a foreign operation, the cumulative amount of the exchange differences deferred in the separate component of net assets/equity relating to that foreign operation shall be recognized in surplus or deficit when the gain or loss on disposal is recognized.**

57. An entity may dispose of its interest in a foreign operation through sale, liquidation, repayment of contributed capital or abandonment of all, or part of, that entity. The payment of a dividend is part of a disposal only when it constitutes a return of the investment, for example when the dividend is paid out of pre-acquisition surplus. In the case of a partial disposal, only the proportionate share of the related accumulated exchange difference is included in the gain or loss. A write-down of the carrying amount of a foreign operation does not constitute a partial disposal. Accordingly, no part of the deferred foreign exchange gain or loss is recognized in surplus or deficit at the time of a write-down.

Tax Effects of Exchange Differences

58. For reporting entities subject to income taxes, guidance on the treatment of tax effects associated with the gains and losses on foreign currency transactions and exchange differences arising on translating the results and financial position of an entity (including a foreign operation) into a different currency can be found in the relevant international or national accounting standard dealing with income taxes.

Disclosure

59. **In paragraphs 61 and 63-65 references to "functional currency" apply, in the case of an economic entity, to the functional currency of the controlling entity.**

60. **The entity shall disclose:**

    (a) **the amount of exchange differences recognized in surplus or deficit except for those arising on financial instruments measured at fair value through surplus or deficit in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments; and**

    (b) **net exchange differences classified in a separate component of net assets/equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.**

61. **When the presentation currency is different from the functional currency, that fact shall be stated, together with disclosure of the functional currency and the reason for using a different presentation currency.**

62. **When there is a change in the functional currency of either the reporting entity or a significant foreign operation, that fact and the reason for the change in functional currency shall be disclosed.**

63. **When an entity presents its financial statements in a currency that is different from its functional currency, it shall describe the financial statements as complying with International Public Sector Accounting Standards only if they comply with all the requirements of each applicable Standard including the translation method set out in paragraphs 43 and 47.**

64. An entity sometimes presents its financial statements or other financial information in a currency that is not its functional currency without meeting the requirements of paragraph 63. For example, an entity may convert into another currency only selected items from its financial statements. Or, an entity whose functional currency is not the currency of a hyperinflationary economy may convert the financial statements into another currency by translating all items at the most recent closing rate. Such conversions are not in accordance with International Public Sector Accounting Standards and the disclosures set out in paragraph 65 are required.

65. **When an entity displays its financial statements or other financial information in a currency that is different from either its functional currency or its presentation currency and the requirements of paragraph 63 are not met, it shall:**

(a) **clearly identify the information as supplementary information to distinguish it from the information that complies with International Public Sector Accounting Standards;**

(b) **disclose the currency in which the supplementary information is displayed; and**

(c) **disclose the entity's functional currency and the method of translation used to determine the supplementary information.**

Transitional Provisions

Initial Adoption of Accrual Accounting

66. **A reporting entity need not comply with the requirements for cumulative translation differences that existed at the date of first adoption of accrual accounting in accordance with International Public Sector Accounting Standards. If a first-time adopter uses this exemption:**

    (a) **the cumulative translation differences for all foreign operations are deemed to be zero at the date of first adoption to International Public Sector Accounting Standards; and**

    (b) **the gain and loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of first adoption to International Public Sector Accounting Standards, and shall include later translation differences.**

67. This Standard requires entities to:

    (a) classify some translation differences as a separate component of net assets/equity; and

    (b) on disposal of a foreign operation, to transfer the cumulative translation difference for that foreign operation to the statement of financial performance as part of the gain or loss on disposal.

    This transitional provision provides first-time adopters of IPSASs with relief from this requirement.

Transitional Provisions for All Entities

68. **An entity shall apply paragraph 55 prospectively to all acquisitions occurring after the beginning of the financial reporting period in which this International Public Sector Accounting Standard is first applied. Retrospective application of paragraph 55 to earlier acquisitions is permitted. For an acquisition of a foreign operation treated prospectively but which occurred before the date on which this Standard is first applied, the entity shall not restate prior years and accordingly may, when appropriate, treat goodwill and fair value adjustments arising on**

that acquisition as assets and liabilities of the entity rather than as assets and liabilities of the foreign operation. Therefore, those goodwill and fair value adjustments either are already expressed in the entity's functional currency or are non-monetary foreign currency items, which are reported using the exchange rate at the date of the acquisition.

69. **All other changes resulting from the application of this International Public Sector Accounting Standard shall be accounted for in accordance with the requirements of IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors".**

Effective Date

70. **An entity shall apply this International Public Sector Accounting Standard for annual periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies this Standard for a period beginning before MM DD, YYYY, it shall disclose that fact.**

71. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Withdrawal of IPSAS 4 (issued 2000)

72. This Standard supersedes IPSAS 4, "The Effects of Changes in Foreign Exchange Rates" issued in 2000.

Appendix

Amendments to Other International Public Sector Accounting Standards

The amendments in this appendix shall be applied for annual financial statements covering periods beginning on or after MM DD, YYYY. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

A1. In IPSAS 2, "Cash Flow Statements", paragraphs 36 and 37 are amended to read as follows:

36. **Cash flows arising from transactions in a foreign currency ~~should~~shall be recorded in an entity's ~~reporting~~functional currency by applying to the foreign currency amount the exchange rate between the ~~reporting~~functional currency and the foreign currency at the date of the cash flow.**

37. **The cash flows of a foreign controlled entity ~~should~~shall be translated at the exchange rates between the ~~reporting~~functional currency and the foreign currency at the dates of the cash flows.**

A2. IPSAS 10, "Financial Reporting in Hyperinflationary Economies" is amended as described below:

Paragraph 1 is amended to read as follows:

1. **An entity which prepares and presents financial statements under the accrual basis of accounting ~~should~~shall apply this Standard to the ~~primary~~individual financial statements, including the consolidated financial statements, of any entity ~~that reports~~whose functional currency is ~~in~~ the currency of a hyperinflationary economy.**

Paragraph 11 is amended to read as follows:

11. **The financial statements of an entity ~~that reports~~whose functional currency is ~~in~~ the currency of a hyperinflationary economy ~~should~~shall be stated in terms of the measuring unit current at the reporting date. The corresponding figures for the previous period required by International Public Sector Accounting Standard IPSAS 1, "Presentation of Financial Statements", and any information in respect of earlier periods, ~~should~~shall also be stated in terms of the measuring unit current at the reporting date. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 47(b) and 48 of International**

Public Sector Accounting Standard IPSAS 4, "The Effects of Changes in Foreign Exchange Rates" apply.

Paragraph 20 is amended to read as follows:

20. A general price index may not be available for the periods for which the restatement of property, plant and equipment is required by this Standard. In these ~~rare~~ circumstances, it may be necessary to use an estimate based, for example, on the movements in the exchange rate between the ~~reporting~~functional currency and a relatively stable foreign currency.

Paragraph 26 is deleted.

Paragraph 33 is amended to read as follows:

33. Corresponding figures for the previous reporting period, whether they were based on a historical cost approach or a current cost approach, are restated by applying a general price index so that the comparative financial statements are presented in terms of the measuring unit current at the end of the reporting period. Information that is disclosed in respect of earlier periods is also expressed in terms of the measuring unit current at the end of the reporting period. For the purpose of presenting comparative amounts in a different presentation currency, paragraphs 47(b) and 48 of IPSAS 4, "The Effects of Changes in Foreign Exchange Rates" apply.

Paragraph 38 is amended to read as follows:

38. **The following disclosures ~~should~~shall be made:**

(a) the fact that the financial statements and the corresponding figures for previous periods have been restated for the changes in the general purchasing power of the ~~reporting~~functional currency and, as a result, are stated in terms of the measuring unit current at the reporting date; and …

Table of Concordance

This table shows how the contents of the current version of IPSAS 4 and the proposed version of IPSAS 4 correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

Current IPSAS 4 paragraph	Proposed IPSAS 4 paragraph
Objective	1, 2
1	3
2	4, 5
3	None
4	6
5	7
6	8
7	None
8	9
9	10
10	None
11	None
12	None
13	None
14	None
15	None
16	22
17	23
18	24
19	25
20	26
21	27
22	None
23	30
24	31
25	32
26	33
27	36
28	18

Current IPSAS 4 paragraph	Proposed IPSAS 4 paragraph
29	None
30	None
31	None
32	None
33	None
34	13
35	13
36	13
37	None
38	None
39	None
40	None
41	43
42	None
43	44
44	45
45	46
46	55
47	50
48	51
49	52
50	53
51	54
52	48
53	None
54	None
55	56
56	57
57	None

Current IPSAS 4 paragraph	Proposed IPSAS 4 paragraph
58	None
59	None
60	58
61	60
62	61, 62
63	None
64	None
65	None
66	68, 69
67	70
68	71
None	11-12
None	14-16
None	17
None	19-21
None	28, 29
None	34, 35
None	37-41
None	42
None	47
None	49
None	59
None	63-65
None	66-67
None	72

Comparison with IAS 21

International Public Sector Accounting Standard 4, "The Effects of Changes in Foreign Exchange Rates" (IPSAS 4) is drawn primarily from International Accounting Standard 21 (2003), "The Effects of Changes in Foreign Exchange Rates" (IAS 21). The main differences between IPSAS 4 and IAS 21 are as follows:

- Commentary additional to that in IAS 21 has been included in IPSAS 4 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 4 uses different terminology, in certain instances, from IAS 21. The most significant examples are the use of the terms "revenue", "statement of financial performance", "statement of financial position" and "net assets/equity" in IPSAS 4. The equivalent terms in IAS 21 are "income", "income statement", "balance sheet" and "equity".
- IPSAS 4 contains a different set of definitions of technical terms from IAS 21 (paragraph 10).
- IPSAS 4 contains an additional transitional provision allowing an entity, when first adopting IPSASs to deem cumulative translation differences existing at the date of first adoption of accrual IPSASs as zero (paragraph 66). This transitional provision is adapted from IFRS 1, "First-time Adoption of International Financial Reporting Standards".

International Public Sector Accounting Standard IPSAS 6

(revised 200X)

Consolidated and Separate Financial Statements and Accounting for Investments in Controlled Entities

[Note: For the purpose of this Exposure Draft, the new text is underlined and deleted text is struck through.]

Specific Matters for Comment

The IPSASB would particularly value comments on the following questions. It would be helpful to the IPSASB if these comments indicate the specific paragraph number or groups of paragraphs to which they relate, clearly explain the issue and suggest alternative wording, with supporting reasoning, where this is appropriate.

Question 1

Do you agree that IPSAS 6 should be revised as proposed to converge with the equivalent IAS 27 (December 2003)?

Question 2

Do you agree that in the investor's separate financial statements, investments in controlled entities, jointly controlled entities and associates should be accounted for either:

(a) at cost, or

(b) as financial instruments in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments?

Alternatively, do you agree that these investments should be accounted for as investments as specified in the existing IPSAS 6 (see paragraphs 58 and 61 in the proposed IPSAS 6 and paragraph 53 in the existing IPSAS 6)?

Question 3

Do you agree that a list of significant controlled entities should be disclosed in the controlling entity's consolidated financial statements (see paragraph 62)?

SUMMARY OF MAIN CHANGES IPSAS 6

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The main changes proposed are:

Name of Standard

- To change to "Consolidated and Separate Financial Statements".

Scope

- To clarify in paragraph 3 that the Standard applies to accounting for controlled entities, jointly controlled entities and associates in the separate financial statements of a controlling entity, a venturer or an investor.

Definitions

- In paragraph 7:
  - to define two new terms: "cost method" and "separate financial statements".
  - to remove the following unnecessary definitions: "accounting policies", "accrual basis", "assets", "associates", "cash", "contributions from owners", "distributions to owners", "equity method", "expenses", "government business enterprises", "investor in a joint venture", "joint control", "joint venture", "liabilities", "net assets/equity", "reporting date", "revenue" and "significant influence".
  - to remove the term "net surplus/deficit", which no longer exists. This definition has also been eliminated from IPSAS 1, "Presentation of Financial Statements" and IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors".
- To include in paragraphs 8-11 further illustrations of the term "separate financial statements".

Exemptions from Preparing Consolidated Financial Statements

- To clarify and tighten in paragraph 16 the circumstances in which a controlling entity is exempted from preparing consolidated financial statements. A controlling entity need not present consolidated financial statements if, and only if:
  - the controlling entity is itself a wholly-owned controlled entity and users of such financial statements are unlikely to exist or their information needs are met by its controlling entity's consolidated financial statements; or the controlling entity is a partially-owned controlled entity of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the controlling entity not preparing

consolidated financial statements;

- o the controlling entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
- o the controlling entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and
- o the ultimate or any intermediate controlling entity of the controlling entity produces consolidated financial statements available for public use that comply with International Public Sector Accounting Standards.

Previously, IPSAS 6 specified that a controlling entity that is a wholly owned controlled entity, or is virtually wholly owned, 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; or, in the case of one that is virtually wholly owned, the controlling entity obtains the approval of the owners of the minority interest.

Exemptions from Consolidation

- To clarify in paragraph 21 that a controlled entity shall be excluded from consolidation when there is evidence that (a) control is intended to be temporary because the controlled entity is acquired and held exclusively with a view to its disposal within twelve months from acquisition; and (b) management is actively seeking a buyer. The proposed IPSAS 6 further specifies that when a controlled entity previously excluded from consolidation is not disposed of within twelve months, it must be consolidated as from the acquisition date unless narrowly specified circumstances apply.

  The words "in the near future" used in previous IPSAS 6 were replaced with the words "within twelve months". In addition, there was no similar requirement to (b) in previous IPSAS 6 for exclusion from consolidation.
- To clarify in paragraph 26 that the requirement to consolidate investments in controlled entities applies to venture capital organizations, mutual funds, unit trusts and similar entities.
- To remove the previous exemption from consolidating for an entity which operates under external long-term severe restrictions which prevents the controlling entity from benefiting from its activities (existing IPSAS 6 paragraphs 22(b) and 25).

Consolidation Procedures

- To require an entity to consider the existence and effect of potential voting rights currently exercisable or convertible when assessing whether it has the

power to govern the financial and operating policies of another entity (see paragraphs 33-34). Previously, IPSAS 6 did not contain these requirements.

- To clarify in paragraph 49 that an entity shall use uniform accounting policies for reporting like transactions and other events in similar circumstances. Previously, IPSAS 6 provided an exception to this requirement when it was "not practicable to use uniform accounting policies".
- To require in paragraph 54 that minority interests shall be presented in the consolidated statement of financial position within net assets/equity, separately from the controlling entity's net assets/equity. Previously, though IPSAS 6 precluded presentation of minority interests within liabilities, it did not require presentation within net assets/equity.

Separate Financial Statements

- To require in paragraph 58 investments in controlled entities, jointly controlled entities and associates in separate financial statements to be accounted for at cost or as financial instruments. The equity method contained in previous IPSAS 6 has been removed.
- To require in paragraph 60 that controlled entities, jointly controlled entities and associates that are accounted for as financial instruments in the consolidated financial statements shall be accounted for in the same way in the investor's separate financial statements. Previously, IPSAS 6 did not contain this requirement.

Disclosure

- To require additional disclosures in respect of separate financial statements (paragraphs 63-64)

Implementation Guidance

- To include an Implementation Guidance, which illustrates how to consider the impact of potential voting rights on an entity's power to govern the financial and operating policies of another entity when implementing IPSAS 6, IPSAS 7, "Investments in Associates" and IPSAS 8, "Interests in Joint Ventures".

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 6—CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS ~~AND ACCOUNITNG FOR INVESTMENTS IN CONTROLLED ENTITIES~~

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Appendix: Amendments to Other IPSASs

Implementation Guidance–Consideration of Potential Voting Rights

Comparison with IAS 27

International Public Sector Accounting Standard 6, "Consolidated and Separate Financial Statements" (IPSAS 6) is set out in paragraphs 1-71 and the Appendix. All the paragraphs have equal authority. IPSAS 6 should be read in the context of the Basis for Conclusions and the "Preface to International Public Sector Accounting Standards". IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors" provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 6—CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

~~*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 International Public Sector Accounting Standards". International Public Sector Accounting Standards are not intended to apply to immaterial items.*~~

Scope

1. **An entity ~~which~~ that prepares and presents financial statements under the accrual basis of accounting ~~should~~ shall apply this Standard in the preparation and presentation of consolidated financial statements for an economic entity.**

~~7~~2. This Standard does not deal with~~:~~

~~(a)~~ methods of accounting for entity combinations and their effects on consolidation, including goodwill arising on a entity combination (guidance on accounting for entity combinations can be found in the relevant i~~I~~nternational or national ~~A~~accounting ~~S~~standard dealing with ~~IAS 22, B~~business ~~C~~combinations)~~;~~.

~~2~~3. **This Standard ~~should~~ shall also be applied in accounting for controlled entities, jointly controlled entities and associates when an entity elects, or is required by local regulations, to present ~~in a controlling entity's~~ separate financial statements.**

~~3.~~ [deleted]

4. **This Standard applies to ~~the preparation and presentation of consolidated financial statements, and accounting for controlled entities, by~~ all public sector entities other than Government Business Enterprises.**

5. The "Preface to International Public Sector Accounting Standards" issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). ~~Government Business Enterprises (~~GBEs~~)~~ are defined in IPSAS 1, "Presentation of Financial Statements". ~~required to comply with International Accounting Standards (IASs) issued by the International Accounting Standards Committee. The Public Sector Committee's Guideline No. 1 *Financial Reporting by Government Business Enterprises* notes that IASs are relevant to all business enterprises, regardless of whether they are in the private or public sector. Accordingly, Guideline No. 1 recommends that GBEs should present financial statements that conform, in all material respects, to IASs.~~

6. This Standard establishes requirements for the preparation and presentation of consolidated financial statements, and for accounting for controlled entities, jointly controlled entities and associates in the separate financial statements of the controlling entity, the venturer and the investor. Although GBEs are not required to comply with this Standard in their own financial statements, the provisions of this Standard will apply where a public sector entity that is not a GBE has one or more controlled entities, jointly controlled entities and associates that are GBEs. In these circumstances, this Standard ~~should~~ shall be applied in consolidating GBEs into the financial statements of the economic entity, and in accounting for investments in GBEs in the controlling entity's, the venturer's and the investor's separate financial statements.

~~7.~~ [deleted]

Definitions

~~8~~7. **The following terms are used in this Standard with the meanings specified:**

~~Accounting policies~~ [deleted]

~~Accrual basis~~ [deleted]

~~Assets~~ [deleted]

~~Associate~~ [deleted]

~~Cash~~ [deleted]

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

~~Contributions from owners~~ [deleted]

Control 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, including an unincorporated entity such as a partnership, 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.

The cost method is a method of accounting for an investment whereby the investment is recognized at cost. The investor recognizes revenue from the investment only to the extent that the investor is entitled to receive distributions from accumulated surpluses of the investee arising after the date of acquisition. Entitlements due or received in excess of such surpluses are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

Distributions to owners [deleted]

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

Equity method [deleted]

Expenses [deleted]

Government Business Enterprise [deleted]

Investor in a joint venture [deleted]

Joint venture [deleted]

Liabilities [deleted]

Minority interest is that part portion of the net surplus (or deficit) and of net assets/equity of a controlled entity attributable to net assets/equity interests which that are not owned, directly or indirectly through controlled entities, by the controlling entity.

Net assets/equity [deleted]

Reporting date [deleted]

Revenue [deleted]

Separate financial statements are those presented by a controlling entity, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct net assets/equity interest rather than on the basis of the reported results and net assets of the investees.

Significant influence [deleted]

Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.

Consolidated Financial Statements and Separate Financial Statements

8. A controlling entity or its controlled entity may be an investor in an associate or a venturer in a jointly controlled entity. In such cases, consolidated financial statements prepared and presented in accordance with this Standard are also prepared so as to comply with IPSAS 7, "Investments in Associates" and IPSAS 8, "Interests in Joint Ventures".

9. For an entity described in paragraph 8, separate financial statements are those prepared and presented in addition to the financial statements referred to in

paragraph 8. Separate financial statements need not be appended to, or accompany, those statements.

10. The financial statements of an entity that does not have a controlled entity, associate or venturer's interest in a jointly controlled entity are not separate financial statements.

11. A controlling entity that is exempted in accordance with paragraph 16 from presenting consolidated financial statements may present separate financial statements as its only financial statements.

Economic Entity

912. 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.

1013. Other terms sometimes used to refer to an economic entity include "administrative entity", "financial entity", "consolidated entity" and "group".

1114. An economic entity may include entities with both social policy and commercial objectives. For example, a government housing department may be an economic entity which includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.

Future Economic Benefits or Service Potential

12. [deleted]

Government Business Enterprises

13. [deleted]

Net Assets/Equity

14. [deleted]

Presentation of Consolidated Financial Statements

15. **A controlling entity, other than a controlling entity mentioned described in paragraph 16, should shall present consolidated financial statements in which it consolidates its controlled entities in accordance with this Standard.**

16. **A controlling entity that is a wholly owned controlled entity, or is virtually wholly owned, need not present consolidated financial statements provided if, and only if:**

    (a) **the controlling entity is:**

(i) **itself a wholly-owned controlled entity and users of such financial statements are unlikely to exist or their information needs are met by the its controlling entity's consolidated financial statements; or**

(ii) **a partially- owned controlled entity of, the controlling another entity obtains the approval of the and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the controlling entity not presenting consolidated financial statements; of the minority interest. Such a controlling entity should disclose the reasons why consolidated financial statements have not been presented together with the bases on which controlled entities are accounted for in its separate financial statements. The name and the principal address of its controlling entity that publishes consolidated financial statements should also be disclosed.**

(b) **the controlling entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);**

(c) **the controlling entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and**

(d) **the ultimate or any intermediate controlling entity of the controlling entity produces consolidated financial statements available for public use that comply with International Public Sector Accounting Standards.**

17. [deleted]

1817. A controlling entity that is itself wholly owned by another entity may not always present consolidated financial statements since such statements may not be 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, iIn the public sector, many controlling entities that are either wholly owned or virtually wholly partially owned, represent key sectors or activities of a government and the purpose of this Standard is not to exempt such entities from preparing consolidated financial statements. In this situation, the information needs of certain users may not be served by the consolidated financial statements at a whole-of-government level alone. In many jurisdictions, governments have recognized this and have legislated the financial reporting requirements of such entities.

~~19.~~ [deleted]

~~20~~18. In some instances, an economic entity will include a number of intermediate controlling entities. For example, whilst a department of health may be the ultimate controlling entity, there may be intermediate controlling entities at the local or regional health authority level. Accountability and reporting requirements in each jurisdiction may specify which entities are required to (or exempted from the requirement to) prepare consolidated financial statements. Where there is no specific reporting requirement for an intermediate controlling entity to prepare consolidated financial statements for which users are likely to exist, intermediate controlling entities are to prepare and publish consolidated financial statements.

19. A controlling entity that elects in accordance with paragraph 16 not to present consolidated financial statements, and presents only separate financial statements, complies with paragraphs 58-64.

Scope of Consolidated Financial Statements

~~21~~20. **~~A controlling entity which issues c~~Consolidated financial statements ~~should~~ shall ~~consolidate~~ include all controlled entities of the controlling entity, ~~foreign and domestic,~~ ~~other than~~ except those referred to in paragraph ~~22~~21.**

~~22~~21. **A controlled entity ~~should~~ shall be excluded from consolidation when ~~:~~**

~~(a)~~ there is evidence that (a) control is intended to be temporary because the controlled entity is acquired and held exclusively with a view to its ~~subsequent~~ disposal within twelve months from acquisition; and (b) management is actively seeking a buyer. ~~in the near future; or~~

~~(b) it operates under severe external long-term restrictions which prevent the controlling entity from benefiting from its activities.~~

~~23~~22. Such controlled entities ~~should~~ shall be classified and accounted for as ~~if they are investments~~ financial instruments. The relevant ~~I~~international or national ~~A~~accounting s~~S~~tandard dealing with the recognition and measurement of financial instruments ~~IAS 39, Financial Instruments: Recognition and Measurement~~ provides guidance on classification and accounting for ~~investments~~ financial instruments.

~~24~~23. An example of temporary control is where a controlled entity is acquired with a firm plan to dispose of it ~~in the short term~~ within twelve months. This may occur where an economic entity is acquired and an entity within it is to be disposed of because its activities are dissimilar to those of the acquirer. Temporary control also occurs where the controlling entity intends to cede control over a controlled entity to another entity - for example a national government may transfer its interest in a controlled entity to a local

government. For this exemption to apply, 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.

24. When a controlled entity previously excluded from consolidation in accordance with paragraph 21 is not disposed of within twelve months, it shall be consolidated as from the acquisition date (guidance on the acquisition date can be found in the relevant international or national accounting standard dealing with business combinations). Financial statements for the periods since acquisition shall be restated.

25. Exceptionally, an entity may have found a buyer for a controlled entity excluded from consolidation in accordance with paragraph 21, but may not have completed the sale within twelve months of acquisition because of the need for approval by regulators or others. The entity is not required to consolidate such a controlled entity if the sale is in process at the reporting date and there is no reason to believe that it will not be completed shortly after the reporting date.

26. A controlled entity is not excluded from consolidation simply because the investor is a venture capital organization, mutual fund, unit trust or similar entity.

~~38~~27. ~~Sometimes a~~A controlled entity is not excluded from consolidation ~~when~~ because its activities are dissimilar to those of the other entities within the economic entity, for example, the consolidation of GBEs with entities in the budget sector. ~~Exclusion on these grounds is not justified because better~~ Relevant information ~~would be~~ is provided by consolidating such controlled entities and disclosing additional information in the consolidated financial statements about the different activities of controlled entities. For example, ~~disaggregated~~ the disclosures required by IPSAS 18, "Segment Reporting" ~~can~~ help to explain the significance of different activities within the economic entity.

~~25.~~ [deleted]

Establishing Control of Another Entity for Financial Reporting Purposes

~~26~~28. 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).

~~27~~29. 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. For example, a GBE may provide a controlling entity with a dividend and also enable it to achieve some of its social policy objectives.

Control for Financial Reporting Purposes

~~28~~30. 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.

~~29~~31. 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 the controlled entity and its controlling entity.

~~30~~32. For example, a government department may have an ownership interest in a rail authority, which operates as a GBE. The rail authority is allowed to operate autonomously and does not rely on the government for funding but has raised capital through significant borrowings that are guaranteed by the government. The rail authority has not returned a dividend to government for several years. The government has the power to appoint and remove a majority of the members of the governing body of the rail authority. The government has never exercised the power to remove members of the governing body and would be reluctant to do so because of sensitivity in the electorate regarding the previous government's involvement in the operation of the rail network. In this case, the power to control is presently exercisable

but under the existing relationship between the controlled entity and controlling entity, an event has not occurred to warrant the controlling entity exercising its powers over the controlled entity. Accordingly, control exists because the power to control is sufficient even though the controlling entity may choose not to exercise that power.

33. An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the entity voting power or reduce another party's voting power over the financial and operating policies of another entity (potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by another entity, are considered when assessing whether an entity has the power to govern the financial and operating policies of another entity. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.

34. In assessing whether potential voting rights contribute to control, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential voting rights, except the intention of management and the financial ability to exercise or convert.

~~31~~35. The existence of separate legislative powers does not, of itself, preclude an entity from being controlled by another entity. For example, the Office of the Government Statistician usually has statutory powers to operate independently of the government. That is, the Office of the Government Statistician may have the power to obtain information and report on its findings without recourse to government or any other body. 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.

~~32~~36. 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

~~33~~37. Governments and their agencies 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 public sector entities include only those resources that they control 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. Such power does not constitute control by a public sector entity of the assets deployed by these entities. 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) entities that are economically dependent on a public sector entity. That is, where an entity retains discretion as to whether it will take funding from, or do business with, a public sector entity, that entity has the ultimate power to govern its own financial or operating policies, and accordingly is not controlled by the public sector entity. For example, a government department may be able to influence the financial and operating policies of an entity which is dependent on it for funding (such as a charity) or a profit-orient~~at~~ed entity that is economically dependent on business from it. Accordingly, the government department has some power as a purchaser but not to govern the entity's financial and operating policies.

Determining Whether Control Exists for Financial Reporting Purposes

~~34~~38. 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 ~~35~~39 and ~~36~~40 provide guidance to help determine whether or not control exists for financial reporting purposes.

~~35~~39. 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) The entity has, directly or indirectly through controlled entities, ownership of a majority voting interest in the other entity.

(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 board of directors or equivalent governing body and control of the other entity is by that board or by that body.

(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 general 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 and control of the other entity is by that board or by that 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.

3640. When one or more of the circumstances listed in paragraph 3539 does 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) The entity holds a "golden share"[1] (or equivalent) in the other entity that confers rights to govern the financial and operating policies of that other entity.

[1] "Golden share" refers to a class of share that entitles the holder to specified powers or rights generally exceeding those normally associated with the holder's ownership interest or representation on the governing body.

Benefit indicators

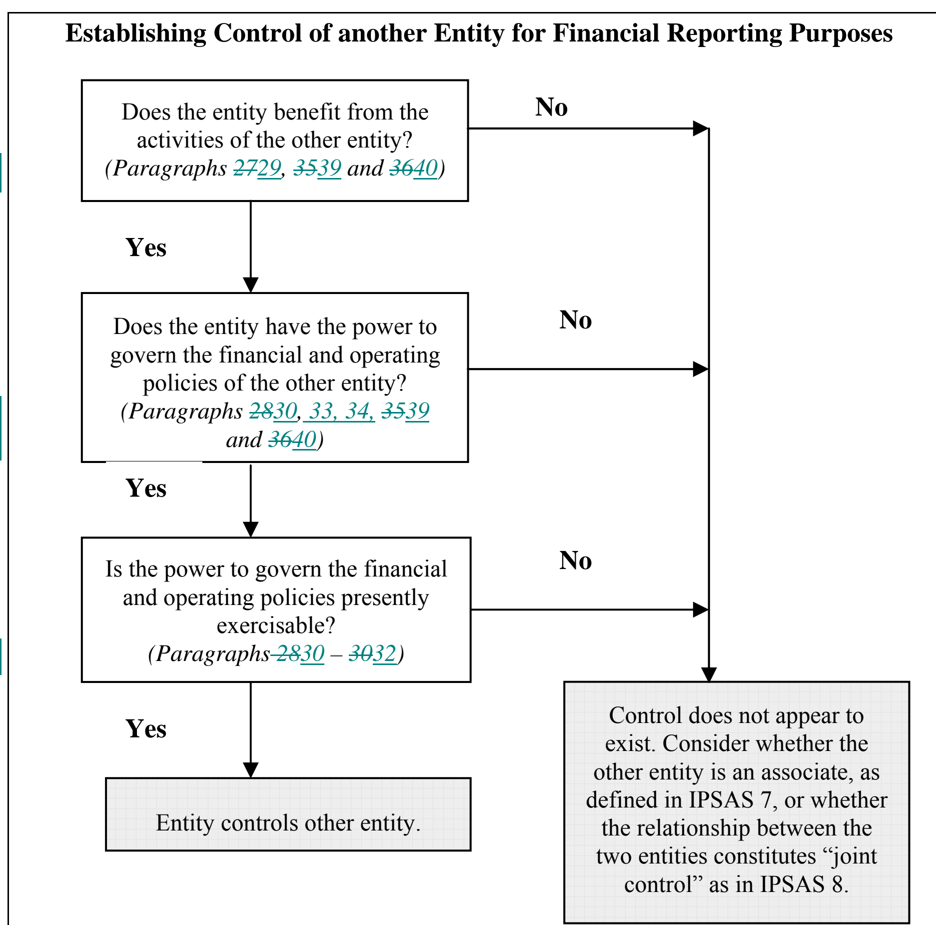
(a) The entity holds direct or indirect title to the net assets/equity of the other entity with an ongoing right to access these.

(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.

~~37~~41. The following diagram indicates the basic steps involved in establishing control of another entity. It should be read in conjunction with paragraphs ~~26~~28 to ~~36~~40.



42. A controlling entity loses control when it loses the power to govern the financial and operating policies of a controlled entity so as to benefit from its activities. The loss of control can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when a controlled entity becomes subject to the control of another government, a court, administrator or regulator. It could also occur as a result of a contractual agreement or, for example, a foreign government may sequester the operating assets of a foreign controlled entity so that the controlling entity loses the power to govern the operating policies of the controlled entity. In this case, control is unlikely to exist.

Consolidation Procedures

3943. In preparing consolidated financial statements, an entity combines the financial statements of the controlling entity and its controlled entities are combined on a line-_by-_line basis by adding together like items of assets, liabilities, net assets/equity, revenue and expenses. In order that the consolidated financial statements present financial information about the economic entity as that of a single entity, the following steps are then taken:

(a) the carrying amount of the controlling entity's investment in each controlled entity and the controlling entity's portion of net assets/equity of each controlled entity are eliminated (IAS 22 the relevant international or national accounting standard dealing with business combinations provides guidance on the treatment of any resultant goodwill);

(b) minority interests in the net surplus or deficit of consolidated controlled entities for the reporting period are identified and adjusted against the net surplus or deficit of the economic entity in order to arrive at the net surplus or deficit attributable to the owners of the controlling entity; and

(c) minority interests in the net assets/equity of consolidated controlled entities are identified and presented in the consolidated statement of financial position separately from liabilities and the controlling entity's net assets/equity in them. Minority interests in the net assets/equity consist of:

(i) the amount of those minority interests at the date of the original combination (IAS 22the relevant international or national accounting standard dealing with business combinations provides guidance on calculating this amount); and

(ii) the minority's share of movements changes in net assets/equity since the date of combination.

44. When potential voting rights exist, the proportions of surplus or deficit and changes in net assets/equity allocated to the controlling entity and minority interests are determined on the basis of present ownership interests and do not reflect the possible exercise or conversion of potential voting rights.

40. [deleted]

4145. **Balances, and transactions, revenues and expenses between entities within the economic entity and resulting unrealized gains should shall be eliminated in full. Unrealized losses resulting from transactions within the economic entity should also be eliminated unless cost cannot be recovered.**

4246. Balances and transactions between entities within the economic entity, including revenues from sales, and transfers, and revenues recognized consequent to an appropriation or other budgetary authority, expenses and dividends, are eliminated in full. Unrealized sSurpluses and deficits resulting from transactions within the economic entity that are included recognized in the carrying amount of assets, such as inventory and fixed assets, are eliminated in full. Unrealized dDeficits within the economic entity may indicate an impairment that requires recognition in the consolidated financial statements. resulting from transactions within the economic entity that are deducted in arriving at the carrying amount of assets are also eliminated unless cost cannot be recovered Guidance on accounting for timing temporary differences that arise from the elimination of unrealized surpluses and deficits resulting from transactions within the economic entity, can be found in IAS 12 the relevant international or national accounting standard dealing with Iincome Ttaxes.

4347. **When tThe financial statements of the controlling entity and its controlled entities used in the consolidation preparation of the consolidated financial statements shall be prepared as of the same reporting date. When the reporting dates of the controlling entity and a controlled entity are drawn up to different reporting dates, the controlled entity prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the controlling entity, unless it is impracticable to do so.adjustments should be made for the effects of significant transactions or other events that occur between those dates and the date of the controlling entity's financial statements. In any case the difference between reporting dates should be no more than three months.**

4448. **When in accordance with paragraph 47, Tthe financial statements of the controlling entity and its a controlled entityies used in the preparation of the consolidated financial statements are usually drawn up to the same date. When prepared as of the a reporting dates are different from that**

of the controlling entity, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the controlling entity's financial statements. ~~the controlled entity often prepares, for consolidation purposes, statements as at the same date as the economic entity. When it is impracticable to do this, financial statements drawn up to different~~ In any case, the difference between the reporting date~~s~~ of the controlled entity and that of the controlling entity~~may~~ shall be~~ used provided the difference is~~ no~~ greater~~ more than three months. ~~The consistency principle dictates that t~~The length of the reporting periods and any difference in the reporting dates~~ should~~ shall be the same from period to period.

~~45~~49. **Consolidated financial statements~~ should~~ shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances.~~ If it is not practicable to use uniform accounting policies (other than the bases of accounting) 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.~~**

~~46~~50. If a member of the economic entity uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements~~ when they are used~~ in preparing the consolidated financial statements.

~~47~~51. The ~~net surplus or deficit~~ revenue and expenses of a controlled entity~~ is~~ are included in the consolidated financial statements~~ as~~ from the acquisition date ~~on which control becomes effective~~ (the relevant international or national accounting standard dealing with business combinations provides guidance on the meaning of the acquisition date). The~~ surplus or deficit from operating activities~~ revenue and expenses of a controlled entity~~ disposed of is~~ are included in the consolidated financial statement~~s~~ ~~of financial performance~~ until the date~~ of disposal, which is the date~~ on which the controlling entity ceases to~~ have~~ control~~ of~~ the controlled entity. The difference between the proceeds from the disposal of the controlled entity and its ~~the~~ carrying amount ~~of its assets less liabilities~~ as of the date of disposal, including the cumulative amount of any exchange differences that relate to the controlled entity recognized in net assets/equity in accordance with IPSAS 4, "The Effects of Changes in Foreign Exchange Rates", is recognized in the consolidated statement of financial performance as the~~ net surplus~~ gain or~~ deficit~~ loss on the disposal of the controlled entity.~~ In order to ensure the comparability of the financial statements from one accounting period to the next, supplementary information is often provided about the effect of the acquisition and disposal of controlled entities on the financial position at the~~

~~reporting date and the results for the reporting period and on the corresponding amounts for the preceding period.~~

~~48~~52. From the date an entity ceases to ~~fall within the definition of~~ be a controlled entity, ~~and~~ provided that it does not become an associate as defined in IPSAS 7~~,~~ or a jointly controlled entity as defined in IPSAS 8, it ~~should~~ shall be accounted for as ~~an investment~~ a financial instrument. ~~IAS 39~~ The relevant international or national accounting standard dealing with the recognition and measurement of financial instruments provides guidance on accounting for ~~investments~~ financial instruments.

~~49~~53. The carrying amount of the investment at the date that ~~it~~ the entity ceases to be a controlled entity ~~is~~ shall be regarded as the cost ~~thereafter~~ on initial measurement of a financial instrument.

~~50~~54. **Minority interests ~~should~~ shall be presented in the consolidated statement of financial position within net assets/equity, separately from ~~liabilities and~~ the controlling entity's net assets/equity. Minority interests in the ~~net~~ surplus or deficit of the economic entity ~~should~~ shall also be separately ~~presented~~ disclosed.**

55. The surplus or deficit is attributed to the controlling entity and minority interests. Because both are net assets/equity, the amount attributed to minority interests is not revenue or expense.

~~51~~56. ~~The l~~Losses applicable to the minority in a consolidated controlled entity may exceed the minority interest in ~~the net assets/equity of~~ the controlled entity's net assets/equity. The excess, and any further losses applicable to the minority, are ~~charged~~ allocated against the majority interest except to the extent that the minority has a binding obligation ~~to,~~ and is able to~~,~~ make ~~good~~ an additional investment to cover the losses. If the controlled entity subsequently reports surpluses, ~~the majority interest is allocated all~~ such surpluses are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.

~~52~~57. If a controlled entity has outstanding cumulative ~~preferred~~ preference shares ~~which~~ that are held ~~outside the economic entity~~ by minority interests and classified as net assets/equity, the controlling entity computes its share of surpluses or ~~and losses~~deficits after adjusting for the ~~controlled entity's preferred~~ dividends on such shares, whether or not dividends have been declared.

Accounting for Controlled Entities, Jointly Controlled Entities and Associates in ~~a Controlling Entity's~~ Separate Financial Statements

~~53~~58. **~~In a controlling entity's~~When separate financial statements are prepared, investments in controlled entities, jointly controlled entities and associates ~~that are included in the consolidated financial statements should~~ shall be accounted for either:**

(a) **at cost, ~~accounted for using the equity method as described in IPSAS 7~~ or**

(b) **~~accounted for~~ as ~~an investment~~ financial instruments.**

The same accounting shall be applied for each category of investments.

59. This Standard does not mandate which entities produce separate financial statements available for public use. Paragraphs 58 and 60-64 apply when an entity prepares separate financial statements that comply with International Public Sector Accounting Standards. The entity also produces consolidated financial statements available for public use as required by paragraph 15, unless the exemption provided in paragraph 16 is applicable.

~~54~~60. **Controlled entities, jointly controlled entities and associates that are ~~excluded from consolidation should be~~ accounted for as ~~investments~~ financial instruments in the ~~controlling entity's separate~~ consolidated financial statements shall be accounted for in the same way in the investor's separate financial statements.**

~~55~~61. Guidance on accounting for ~~investments~~ financial instruments can be found in the relevant international ~~and/~~or national accounting standard~~s~~ dealing with the recognition and measurement of financial instruments.

~~56.~~ [deleted]

Disclosure

~~57~~62. **~~In addition to those disclosures required by paragraph 16, t~~The following disclosures ~~should~~ shall be made in consolidated financial statements:**

(a) **~~in consolidated financial statements,~~ a list of significant controlled entities ~~including the name, the jurisdiction in which it operates (when it is different from that of the controlling entity), proportion of ownership interest 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) **the fact that a controlled entity is not consolidated in accordance with paragraph 21;**

(c) **summarized financial information of controlled entities, either individually or in groups, that are not consolidated, including the amounts of total assets, total liabilities, revenues and surplus or deficit;**

(b) **in consolidated financial statements, where applicable:**

(i) **the reasons for not consolidating a controlled entity;**

(iid) **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;**

(iiie) **the name of any entity in whichthe reasons why an the ownership interest of more than 50% of the voting or potential voting power of an investee is held but which is does not constitute a controlled entity, together with an explanation of why control does not exist; and**

(iv) the effect of the acquisition and disposal of controlled entities on the financial position at the reporting date, the results for the reporting period and on the corresponding amounts for the preceding period; and

(c) in the controlling entity's separate financial statements, a description of the method used to account for controlled entities.

(f) **the reporting date of the financial statements of a controlled entity when such financial statements are used to prepare consolidated financial statements and are as of a reporting date or for a period that is different from that of the controlling entity, and the reason for using a different reporting date or period; and**

(g) **the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of controlled entities to transfer funds to the controlling entity in the form of cash dividends or to repay loans or advances.**

63. **When separate financial statements are prepared for a controlling entity that, in accordance with paragraph 16, elects not to prepare consolidated financial statements, those separate financial statements shall disclose:**

(a) **the fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name of the entity whose consolidated financial statements that comply with International Public Sector Accounting Standards have been produced for public use and the jurisdiction in which the entity operates (when it is different from that of the controlling**

entity); and the address where those consolidated financial statements are obtainable;

(b) **a list of significant controlled entities, jointly controlled entities and associates, including the name, the jurisdiction in which the entity operates (when it is different from that of the controlling entity), proportion of ownership interest 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); and**

(c) **a description of the method used to account for the entities listed under (b).**

64. **When a controlling entity (other than a controlling entity covered by paragraph 63), venturer with an interest in a jointly controlled entity or an investor in an associate prepares separate financial statements, those separate financial statements shall disclose:**

(a) **the fact that the statements are separate financial statements and the reasons why those statements are prepared, if not required by law, legislation or other authority;**

(b) **a list of significant controlled entities, jointly controlled entities and associates, including the name, the jurisdiction in which the entity operates (when it is different from that of the controlling entity), proportion of ownership interest 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); and**

(c) **a description of the method used to account for the entities listed under (b);**

and shall identify the financial statements prepared in accordance with paragraph 15 of this Standard, IPSAS 7 and IPSAS 8 to which they relate.

Transitional Provisions

5865. **Entities are not required to comply with the requirement in paragraph 4145 concerning the elimination of 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 accrual accounting in accordance with International Public Sector Accounting Standards.**

~~59~~66. Controlling entities that adopt ~~this Standard~~ accrual accounting for the first time in accordance with International Public Sector Accounting Standards may have many controlled entities with significant number of transactions between these entities. Accordingly, it may be difficult to identify some 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 ~~58~~65 provides relief from the requirement to eliminate balances and transactions between entities within the economic entity in full.

~~60~~67. **Where entities apply the transitional provision in paragraph ~~58~~65, they ~~should~~ shall disclose the fact that not all balances and transactions occurring between entities within the economic entity have been eliminated.**

68. Transitional provisions in IPSAS 6 (2000) provide entities with a period of up to three years to fully eliminate balances and transactions between entities within the economic entity from the date of its first application. Entities that have previously applied IPSAS 6 (2000) may continue to take advantage of this three year transitional period from the date of first application of IPSAS 6 (2000).

Effective Date

~~61~~69. **An entity shall apply ~~T~~this International Public Sector Accounting Standard ~~becomes effective~~ for annual financial statements covering periods beginning on or after ~~1 July 2001~~ MM DD, YYYY. Earlier application is encouraged. If an entity applies this Standard for a period beginning before MM DD, YYYY, it shall disclose that fact.**

~~62~~70. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Withdrawal of IPSAS 6 (2000)

71. This Standard supersedes IPSAS 6, "Consolidated Financial Statements and Accounting for Controlled Entities" issued in 2000.

Appendix

Amendments to Other IPSASs

The amendments in this appendix shall be applied for annual financial statements covering periods beginning on or after MM DD, YYYY. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

A1. In International Public Sector Accounting Standards applicable at MM YYYY, references to the current version of IPSAS 6, "Consolidated Financial Statements and Accounting for Controlled Entities" are amended to IPSAS 6, "Consolidated and Separate Financial Statements".

A2. The following is added to paragraph 4(f) of IPSAS 15, "Financial Instruments: Disclosure and Presentation":

However, entities shall apply this Standard to an interest in a controlling entity, associate or joint venture that according to IPSAS 6, IPSAS 7 or IPSAS 8 is accounted for as a financial instrument. In these cases, entities shall apply the disclosure requirements in IPSAS 6, IPSAS 7 and IPSAS 8 in addition to those in this Standard.

Implementation Guidance – Consideration of Potential Voting Rights

Guidance on implementing IPSAS 6, "Consolidated and Separate Financial Statements", IPSAS 7, "Investments in Associates" and IPSAS 8, "Interests in Joint Ventures".

This guidance accompanies IPSAS 6, IPSAS 7 and IPSAS 8, but is not part of them.

Introduction

IG1 Most public sector entities do not issue financial instruments with potential voting rights. However, they may be issued by GBEs. Therefore, a government or other public sector entity may hold potential voting rights of GBEs.

IG2. Paragraphs 33, 34 and 44 of IPSAS 6, "Consolidated and Separate Financial Statements" and paragraphs 14 and 15 of IPSAS 7, "Investments in Associates" require an entity to consider the existence and effect of all potential voting rights that are currently exercisable or convertible. They also require all facts and circumstances that affect potential voting rights to be examined, except the intention of management and the financial ability to exercise or convert potential voting rights. Because the definition of joint control in paragraph 6 of IPSAS 8, "Interests in Joint Ventures" depends upon the definition of control, and because that Standard is linked to IPSAS 7 for application of the equity method, this guidance is also relevant to IPSAS 8.

Guidance

IG3. Paragraph 7 of IPSAS 6 defines control as the power to govern the financial and operating policies of an entity so as to benefit from its activities. Paragraph 7 of IPSAS 7 defines significant influence as the power to participate in the financial and operating policy decisions of the investee but not to control those policies. Paragraph 6 of IPSAS 8 defines joint control as the agreed sharing of control over an activity by a binding agreement. In these contexts, power refers to the ability to do or effect something. Consequently, an entity has control, joint control or significant influence when it currently has the ability to exercise that power, regardless of whether control, joint control or significant influence is actively demonstrated or is passive in nature. Potential voting rights held by an entity that are currently exercisable or convertible provide this ability. The ability to exercise power does not exist when potential voting rights lack economic substance (eg the exercise price is set in a manner that precludes exercise or conversion in any feasible scenario). Consequently, potential voting rights are considered when, in substance, they provide the ability to exercise power.

IG4. Control and significant influence also arise in the circumstances described in paragraphs 39 and 40 of IPSAS 6 and paragraphs 12 and 13 of IPSAS 7 respectively, which include consideration of the relative ownership of voting rights. IPSAS 8 depends on IPSAS 6 and IPSAS 7 and references to IPSAS 6 and IPSAS 7 from this point onwards should be read as being relevant to IPSAS 8. Nevertheless it should be borne in mind that joint control involves sharing of control by a binding agreement and this aspect is likely to be the critical determinant. Potential voting rights such as share call options and convertible debt are capable of changing an entity's voting power over another entity - if the potential voting rights are exercised or converted, then the relative ownership of the ordinary shares carrying voting rights changes. Consequently, the existence of control (the definition of which permits only one entity to have control of another entity) and significant influence are determined only after assessing all the factors described in paragraphs 39 and 40 of IPSAS 6 and paragraphs 12 and 13 of IPSAS 7 respectively, and considering the existence and effect of potential voting rights. In addition, the entity examines all facts and circumstances that affect potential voting rights except the intention of management and the financial ability to exercise or convert. The intention of management does not affect the existence of power and the financial ability of an entity to exercise or convert is difficult to assess.

IG5. An entity may initially conclude that it controls or significantly influences another entity after considering the potential voting rights that it can currently exercise or convert. However, the entity may not control or significantly influence the other entity when potential voting rights held by other parties are also currently exercisable or convertible. Consequently, an entity considers all potential voting rights held by it and by other parties that are currently exercisable or convertible when determining whether it controls or significantly influences another entity. For example, all share call options are considered, whether held by the entity or another party. Furthermore, the definition of control in paragraph 7 of IPSAS 6 permits only one entity to have control of another entity. Therefore, when two or more entities each hold significant voting rights, both actual and potential, the factors in paragraphs 39 and 40 of IPSAS 6 are reassessed to determine which entity has control.

IG6. The proportion allocated to the controlling entity and minority interests in preparing consolidated financial statements in accordance with IPSAS 6, and the proportion allocated to an investor that accounts for its investment using the equity method in accordance with IPSAS 7, are determined solely on the basis of present ownership interests. The proportion allocated is determined taking into account the eventual exercise of potential voting rights and other derivatives that, in substance, give access at present to the economic benefits associated with an ownership interest.

IG7. In some circumstances an entity has, in substance, a present ownership as a result of a transaction that gives it access to the economic benefits or service potential associated with an ownership interest. In such circumstances, the proportion allocated is determined taking into account the eventual exercise of those potential voting rights and other derivatives that give the entity access to the economic benefits at present.

IG8. The relevant international or national accounting standard dealing with the recognition and measurement of financial instruments provides guidance on accounting for financial instruments. However, it does not apply to interests in controlled entities, associates and jointly controlled entities that are consolidated, accounted for using the equity method or proportionately consolidated in accordance with IPSAS 6, IPSAS 7 and IPSAS 8 respectively. When instruments containing potential voting rights in substance currently give access to the economic benefits or service potential associated with an ownership interest, and the investment is accounted for in one of the above ways, the instruments are not subject to the requirements of the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments. In all other cases, guidance on accounting for instruments containing potential voting rights can be found in the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.

Illustrative Examples

IG9. The ten examples below each illustrate one aspect of a potential voting right. In applying IPSAS 6, IPSAS 7 or IPSAS 8, an entity considers all aspects. The existence of control, significant influence and joint control can be determined only after assessing the other factors described in IPSAS 6, IPSAS 7 and IPSAS 8. For the purpose of these examples, however, those other factors are presumed not to affect the determination, even though they may affect it when assessed.

Example 1A: Options are out of the money

Entities A and B own 80 per cent and 20 per cent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity C. Entity A sells one-half of its interest to Entity D and buys call options from Entity D that are exercisable at any time at a premium to the market price when issued, and if exercised would give Entity A its original 80 per cent ownership interest and voting rights.

Though the options are out of the money, they are currently exercisable and give Entity A the power to continue to set the operating and financial policies of Entity C, because Entity A could exercise its options now. The existence of the potential voting rights, as well as the other factors described in

paragraphs 39 and 40 of IPSAS 6, are considered and it is determined that Entity A controls Entity C.

Example 1B: Right to Purchase at Premium to Fair Value

The municipalities of Dunelm and Eboracum own 80 per cent and 20 per cent respectively of Dunelm-Eboracum General Hospital, a public sector entity established by charter. The hospital is managed by a board of ten trustees, appointed by the municipalities in proportion to their ownership interest of the hospital. The charter permits either municipality to sell part or its entire ownership interest in the hospital to another municipality within the region. Dunelm sells one-half of its interest to the municipality of Formio, however, the sale contract gives Dunelm the right to repurchase Formio's interest in the hospital at an amount equal to 115 per cent of the fair value of the ownership interest determined by an independent valuer. This right is exercisable at any time and, if exercised, would give Dunelm its original 80 per cent ownership interest and the right to appoint trustees accordingly.

Although the right to reacquire the ownership interest sold to Formio would involve paying a premium over the fair value, the right is currently exercisable and gives Dunelm the power to continue to set the operating and financial policies of the Dunelm-Eboracum General Hospital, because Dunelm could exercise its right to reacquire Formio's interest now. The existence of the potential right to appoint trustees, as well as the other factors described in paragraphs 39 and 40 of IPSAS 6, are considered and it is determined that the municipality of Dunelm controls the Dunelm-Eboracum General Hospital.

Example 2A: Possibility of exercise or conversion

Entities A, B and C own 40 per cent, 30 per cent and 30 per cent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity D. Entity A also owns call options that are exercisable at any time at the fair value of the underlying shares and if exercised would give it an additional 20 per cent of the voting rights in Entity D and reduce Entity B's and Entity C's interests to 20 per cent each. If the options are exercised, Entity A will have control over more than one-half of the voting power. The existence of the potential voting rights, as well as the other factors described in paragraphs 39 and 40 of IPSAS 6 and paragraphs 12 and 13 of IPSAS 7, are considered and it is determined that Entity A controls Entity D.

Example 2B: Possibility of exercise of rights

The federal government of Arandis, in agreement with the state governments of Brixia and Mutina, establishes the University of Pola-Iluro. The University of Pola-Iluro is near the cities of Pola (in Brixia) and Iluro (in Mutina), which are located next to each other on the border between the two states. The federal legislation that establishes the University of Pola-Iluro provides that

the federal minister of education has the right to appoint four of the ten governors that manage the university. The state ministers of education of Brixia and Mutina are given the right to appoint three governors each. The legislation also provides that the federal government has ownership of 40 per cent of the university's net assets, with the state governments having 30 per cent each. The federal legislation gives the federal minister of education the right to acquire an additional 20 percent of the ownership in the university's net assets, with the right to appoint an additional two governors. This right is exercisable at any time, at the discretion of the federal minister. It requires the federal government to pay each state government the fair value of the net assets of the university acquired. If the federal government exercises its right, it would own 60 per cent of the net assets of the university, and have the right to appoint six of the ten governors. This would reduce the state governments' ownership to 20 per cent each, with the right to appoint only two governors each.

The existence of the potential right to appoint the majority of the university's governors, as well as the other factors described in paragraphs 39 and 40 of IPSAS 6 and paragraphs 12 and 13 of IPSAS 7, are considered and it is determined that the federal government of Arandis controls the University of Pola-Iluro.

Example 3A: Other rights that have the potential to increase an entity's voting power or reduce another entity's voting power

Entities A, B and C own 25 per cent, 35 per cent and 40 per cent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity D. Entities B and C also have share warrants that are exercisable at any time at a fixed price and provide potential voting rights. Entity A has a call option to purchase these share warrants at any time for a nominal amount. If the call option is exercised, Entity A would have the potential to increase its ownership interest, and thereby its voting rights, in Entity D to 51 per cent (and dilute Entity B's interest to 23 per cent and Entity C's interest to 26 per cent).

Although the share warrants are not owned by Entity A, they are considered in assessing control because they are currently exercisable by Entities B and C. Normally, if an action (eg purchase or exercise of another right) is required before an entity has ownership of a potential voting right, the potential voting right is not regarded as held by the entity. However, the share warrants are, in substance, held by Entity A, because the terms of the call option are designed to ensure Entity A's position. The combination of the call option and share warrants gives Entity A the power to set the operating and financial policies of Entity D, because Entity A could currently exercise the option and share warrants. The other factors described in paragraphs 39 and 40 of IPSAS 6 and

paragraphs 12 and 13 of IPSAS 7 are also considered, and it is determined that Entity A, not Entity B or C, controls Entity D.

Example 3B: Other rights that have the potential to increase an entity's voting power or reduce another entity's voting power

The cities of Deva, Oxonia and Isca own 25 per cent, 35 per cent and 40 per cent respectively of the Deva-Oxonia-Isca Electricity Generating Authority, a public sector entity established by charter. The charter gives the cities voting rights in the management of the Authority and the right to receive the electricity generated by the Authority. The voting rights and electricity access are in proportion to their ownership in the Authority. The charter gives Oxonia and Isca rights to increase their ownership (and therefore voting rights) in the Authority each by 10 per cent at any time at a commercial price agreed by the three cities. The charter also gives Deva the right to acquire 15 per cent interest of the Authority from Oxonia and 20 per cent from Isca at any time for a nominal consideration. If Deva exercised the right, Deva would increase its ownership interest, and thereby its voting rights, in the Authority to 60 per cent. This would dilute Oxonia's ownership to 20 per cent and Isca's to 20 per cent.

Although the charter gives Oxonia and Isca the right to increase their proportion of ownership, the overarching right of Deva to acquire a majority interest in the Authority for a nominal consideration set out in the charter is, in substance, designed to ensure Deva's position. The right held by Deva gives Deva the capacity to set the operating and financial policies of the the Authority, because Deva could exercise the right to increase its ownership and therefore voting rights at any time. The other factors described in paragraphs 39 and 40 of IPSAS 6 and paragraphs 12 and 13 of IPSAS 7 are also considered, and it is determined that Deva, not Oxonia or Isca, controls the Deva-Oxonia-Isca Electricity Generating Authority.

Example 4A: Management intention

Entities A, B and C each own 33⅓ per cent of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity D. Entities A, B and C each have the right to appoint two directors to the board of Entity D. Entity A also owns call options that are exercisable at a fixed price at any time and if exercised would give it all the voting rights in Entity D. The management of Entity A does not intend to exercise the call options, even if Entities B and C do not vote in the same manner as Entity A. The existence of the potential voting rights, as well as the other factors described in paragraphs 39 and 40 of IPSAS 6 and paragraphs 12 and 13 of IPSAS 7, are considered and it is determined that Entity A controls Entity D. The intention of Entity A's management does not influence the assessment.

Example 4B: Management intention

The cities of Tolosa, Lutetia and Massilia each own 33⅓ per cent of TLM Water Commission, a public sector entity established by charter to reticulate drinking water to the cities of Tolosa, Lutetia and Massilia and a number of outlying towns and villages. The charter gives each city an equal vote in the governance of the Commission, and the right to appoint two Commissioners each. The Commissioners manage the Commission on behalf of the cities. The charter also gives the city of Tolosa the right to acquire the ownership of Lutetia and Massilia at a fixed price, exercisable at any time by the Mayor of Tolosa. If exercised, Tolosa would have sole governance of the Commission with the right to appoint all the Commissioners. The Mayor of Tolosa does not intend to exercise the right to acquire full ownership of the Commission, even if the Commissioners appointed by Lutetia and Massilia vote against those appointed by Tolosa. The existence of the potential voting rights, as well as the other factors described in paragraphs 39 and 40 of IPSAS 6 and paragraphs 12 and 13 of IPSAS 7, are considered and it is determined that Tolosa controls TLM Water Commission. The intention of the Mayor of Tolosa does not influence the assessment.

Example 5A: Financial ability

Entities A and B own 55 per cent and 45 per cent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity C. Entity B also holds debt instruments that are convertible into ordinary shares of Entity C. The debt can be converted at a substantial price, in comparison with Entity B's net assets, at any time and if converted would require Entity B to borrow additional funds to make the payment. If the debt were to be converted, Entity B would hold 70 per cent of the voting rights and Entity A's interest would reduce to 30 per cent.

Although the debt instruments are convertible at a substantial price, they are currently convertible and the conversion feature gives Entity B the power to set the operating and financial policies of Entity C. The existence of the potential voting rights, as well as the other factors described in paragraphs 39 and 40 of IPSAS 6, are considered and it is determined that Entity B, not Entity A, controls Entity C. The financial ability of Entity B to pay the conversion price does not influence the assessment.

Example 5B: Financial ability

The cities of Melina and Newton own 55 per cent and 45 per cent respectively of the interests that carry voting rights of MN Broadcasting Authority, a public sector entity established by charter to provide broadcasting and television services for the regions. The charter gives the city of Newton the option to buy additional 25 per cent interest of the

Authority from the city of Melina at a substantial price, in comparison with the city of Newton's net assets, at any time. If exercised, it would require the city of Newton to borrow additional funding to make the payment. If the option were to be exercised, the city of Newton would hold 70 per cent of the voting rights and the city of Melina's interest would reduce to 30 per cent.

Although the option is exercisable at a substantial price, it is currently exercisable and the exercise feature gives the city of Newton the power to set the operating and financial policies of MN Broadcasting Authority. The existence of potential voting rights, as well as the other factors described in paragraphs 39 and 40 of IPSAS 6, are considered and it is determined that the city of Newton, not the city of Melina, controls MN Broadcasting Authority. The financial ability of the city of Newton to pay the exercise price does not influence the assessment.

Comparison with IAS 27

International Public Sector Accounting Standard 6, “Consolidated and Separate Financial Statements~~ and Accounting for Controlled Entities~~” (IPSAS 6) is drawn primarily from International Accounting Standard IAS 27 (2003), “Consolidated and Separate Financial Statements~~ and Accounting for Investments in Subsidiaries~~” (IAS 27). At the time of issuing this Standard, the IPSASB has not considered the applicability of International Financial Reporting Standard IFRS 5, “Non-current Assets Held for Sale and Discontinued Operations”, to public sector entities, therefore IPSAS 6 does not reflect amendments made to IAS 27 consequent upon the issue of IFRS 5. The main differences between IPSAS 6 and IAS 27 are as follows:

- Commentary additional to that in IAS 27 has been included in IPSAS 6 to clarify the applicability of the ~~s~~Standard~~s~~ to accounting by public sector entities.
- IPSAS 6 contains specific guidance on whether control exists in a public sector context (paragraphs 28-42).
- IPSAS 6 uses different terminology, in certain instances, from IAS 27. The most significant examples are the use of the terms ~~“entity”, “revenue”,~~ “statement of financial performance”, “statement of financial position”, “net assets/equity”, “economic entity”, “controlling entity” and “controlled entity” in IPSAS 6. The equivalent terms in IAS 27 are ~~“enterprise”, “income”,~~ “income statement”, “balance sheet”, “equity”, “group”, “parent” and “subsidiary”.
- ~~IPSAS 6 contains a different set of definitions of technical terms from IAS 27 (paragraph 8).~~
- IPSAS 6 requires controlling entities to disclose a list of significant controlled entities in consolidated financial statements (paragraph 62(a)). IAS 27 does not require this disclosure.
- IPSAS 6 includes a transitional provision that permits entities to not eliminate all 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 (paragraphs 65-68). IAS 27 does not contain transitional provisions.
- IPSAS 6 contains five additional illustrative examples that reflect the public sector context in Implementation Guidance.

International Public Sector Accounting Standard IPSAS 7

(revised 200X)

~~Accounting for~~ Investments in Associates

[Note: For the purpose of this Exposure Draft, the new text is underlined and the deleted text is struck through.]

Specific Matters for Comment

The IPSASB would particularly value comments on the following questions. It would be helpful to the IPSASB if these comments indicate the specific paragraph number or groups of paragraphs to which they relate, clearly explain the issue and suggest alternative wording, with supporting reasoning, where this is appropriate.

Question 1

Do you agree that IPSAS 7 should be revised as proposed to converge with the equivalent IAS 28 (December 2003)?

Question 2

Do you agree that the scope of this proposed IPSAS 7 should not apply to certain investments that otherwise would be associates held by venture capital organizations, mutual funds, unit trusts and similar entities if these investments are measured at fair value in accordance with the relevant international or national accounting standard dealing with financial instruments (see paragraph 1)?

Question 3

Do you agree that an investor need not equity account its investment if all the criteria in paragraph 19 are met?

SUMMARY OF MAIN CHANGES IPSAS 7 INVESTMENTS IN ASSOCIATES

The main changes proposed are:

Name of Standard

- To change to "Investments in Associates".

Scope

- To now exclude in paragraph 1 investments that would otherwise be associates or joint ventures held by venture capital organizations, mutual funds, unit trusts and similar entities that are measured at fair value in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.
- To provide exemptions from application of the equity method to certain:
  - controlling entities, similar to those provided for financial statements in IPSAS 6, "Consolidated and Separate Financial Statements" (in paragraph 19(b)); and
  - investors which satisfy the same type of conditions that exempt controlling entities in preparing consolidated financial statements in paragraph 19(c).

Definitions

- To modify the definitions of "equity method" and "significant influence" for uniform definitions in IPSASs in paragraph 7.

Significant Influence

- To require in paragraphs 14-16 for an entity to consider the existence and effect of potential voting rights currently exercisable or convertible when assessing whether it has the power to participate in the financial and operating policy decisions of the investee (associate).

Application of the Equity Method

- To clarify in paragraph 19 that investments that are held exclusively with a view to its disposal within twelve months of acquisition and that management is actively seeking a buyer shall be classified as "held for trading" and will be accounted for in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.
- To clarify in paragraph 24 that when an investor ceases to significantly influence its investment, the cost of the investment shall be accounted for in accordance with the relevant international or national accounting standard

dealing with the recognition and measurement of financial instruments.

- To require in paragraph 28 that surpluses and deficits resulting from "upstream" and "downstream" transactions between an investor and an associate to be eliminated to the extent of the investor's interest in the associate.
- To allow a maximum of three months between the reporting period of the investor and its associate when applying the equity method (paragraph 31).
- To remove the 'impracticable" notion in paragraph 33, such that an investor has to make appropriate adjustments for transactions and other events in the associate's financial statements when the accounting policies in both entities are not similar.
- To require in paragraphs 35 and 36 to consider the carrying amount of its investment in the equity of the associate and its other long-term interests in the associate when recognizing its share of losses of the associate.

Impairment Losses

- To provide guidance in paragraphs 37-40 on when and how an entity tests for impairment of its associate.

Separate Financial Statements

- To move the requirements and guidance for separate financial statements into IPSAS 6 in paragraphs 41 and 42. Entities will now have to refer to IPSAS 6 for guidance on how to prepare an investor's separate financial statements.

Disclosure

- To require in paragraph 43 more detailed disclosures on investments in associates, including:
    - nature and extent of any significant restrictions (eg resulting from borrowing arrangements) on the ability of associates to transfer funds to the investor;
    - unrecognized share of losses of an associate if any investor has discontinued recognition of its share of losses of an associate; and
    - the reasons why:
        - an investment is considered to have significant influence when it holds less than 20 per cent of the voting or potential voting power of the investee;
        - an investment is not considered to have significant influence when it holds less than 20 per cent of the voting or potential voting power of the investee; and
        - the reporting date of the financial statements of the associate and investor is different.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 7—~~ACCOUNTING FOR~~ INVESTMENTS IN ASSOCIATES

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Appendix: Amendments to Other International Public Sector Accounting Standards

Comparison with IAS 28

International Public Sector Accounting Standard 7, “Investments in Associates” (IPSAS 7) is set out in paragraphs 1-49 and the Appendix. All the paragraphs have equal authority. IPSAS 7 should be read in the context of the Basis for Conclusions and the “Preface to the International Public Sector Accounting Standards”. IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 7—~~ACCOUNTING FOR~~ INVESTMENTS IN ASSOCIATES

~~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 International Public Sector Accounting Standards". International Public Sector Accounting Standards are not intended to apply to immaterial items.~~

Scope

1. **An entity ~~which~~that prepares and presents financial statements under the accrual basis of accounting shall~~should~~ apply this Standard in accounting by an investor for investments in associates where the investment in the associate leads to the holding of an ownership interest in the form of a shareholding or other formal equity structure. However, it does not apply to investments in associates held by:**

   (a) **venture capital organizations, or**

   (b) **mutual funds, unit trusts and similar entities including investment-linked insurance funds**

   that are measured at fair value, with changes in fair value recognized in surplus or deficit in the period of the change, in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.

2. Guidance on recognition and measurement of interests identified in paragraph 1 that are measured at fair value, with changes in fair value recognized in surplus or deficit in the period of the change, can be found in the relevant international or national accounting standard dealing with financial instruments.

3. ~~2.~~ This Standard provides the basis for accounting for ownership interests in associates. That is, the investment in the other entity confers on the investor the risks and rewards incidental to an ownership interest. The Standard applies only to investments in the formal equity structure (or its equivalent) of an investee. A formal equity structure means share capital or an equivalent form of unitized capital, such as units in a property trust, but may also include other equity structures in which the investor's interest can be measured reliably. Where the equity structure is poorly defined, it may not be possible to obtain a reliable measure of the ownership interest.

4. ~~3.~~ Some contributions made by public sector entities may be referred to as an "investment" but may not give rise to an ownership interest. For example, a public sector entity may make a substantial investment in the development of

a hospital that is owned and operated by a charity. Whilst such contributions are non-exchange~~reciprocal~~ in nature, they allow the public sector entity to participate in the operation of the hospital, and the charity is accountable to the public sector entity for its use of public monies. However, the contributions made by the public sector entity do not constitute an ownership interest, as the charity could seek alternative funding and thereby prevent the public sector entity from participating in the operation of the hospital. Accordingly, the public sector entity is not exposed to the risks nor does it enjoy the rewards which are incidental to an ownership interest.

5. **~~4.~~This Standard applies to all public sector entities other than Government Business Enterprises.**

6. ~~5.~~The "Preface to International Public Sector Accounting Standards" issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). ~~Government Business Enterprises (~~GBEs~~)~~ are defined in IPSAS 1, "Presentation of Financial Statements". ~~required to comply with International Accounting Standards (IASs) issued by the International Accounting Standards Committee.The Public Sector Committee's Guideline No. 1 *Financial Reporting by Government Business Enterprises* notes that IASs are relevant to all business enterprises, regardless of whether they are in the private or public sector. Accordingly, Guideline No. 1 recommends that GBEs should present financial statements that conform, in all material respects, to IASs~~

Definitions

7. **~~6.~~The following terms are used in this Standard with the meanings specified:**

~~Accounting policies~~ [deleted]

~~Accrual basis~~ [deleted]

~~Assets~~ [deleted]

An ~~A~~associate is an entity, including an unincorporated entity such as a partnership, over~~in~~ which the investor has significant influence and that~~which~~ is neither a controlled entity nor an interest in a joint venture ~~of the investor~~.

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

~~Contributions from owners~~ [deleted]

Control 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, including an unincorporated entity such as a partnership, that is subject to the control of another entity (known as the controlling entity).

~~Controlling entity~~ [deleted]

~~Cost method~~ [deleted]

~~Distributions to owners~~ [deleted]

~~Economic entity~~ [deleted]

The ~~E~~equity method is a method of accounting whereby the investment is initially recognized~~recorded~~ at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets/equity of the investee. The ~~statement of financial performance~~surplus or deficit ~~reflects~~of the investor includes the investor's share of the ~~results of operations~~surplus or deficit of the investee.

~~Expenses~~ [deleted]

~~Fair value~~ [deleted]

~~Government Business Enterprise~~ [deleted]

~~Investor~~ [deleted]

~~Joint venture~~ [deleted]

~~Liabilities~~ [deleted]

~~Net assets/equity~~ [deleted]

~~Reporting date~~ [deleted]

~~Revenue~~ [deleted]

Separate financial statements are those presented by a controlling entity, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct net assets/equity interest rather than on the basis of the reported results and net assets of the investees.

Significant influence (for the purpose of this Standard) is the power to participate in the financial and operating policy decisions of the investee~~,~~ but is not control or joint control over those policies.

Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.

8. Financial statements in which the equity method is applied are not separate financial statements, nor are the financial statements of an entity that does not have a controlled entity, associate or venturer's interest in a joint venture.

9. Separate financial statements are those presented in addition to consolidated financial statements, financial statements in which investments are accounted for using the equity method and financial statements in which the venturer's interests in joint ventures are proportionately consolidated. Separate financial statements may or may not be appended to, or accompany, those financial statements.

10. Entities that are exempted in accordance with paragraph 16 of IPSAS 6, "Consolidated and Separate Financial Statements" from consolidation, paragraph 3 of IPSAS 8, "Interests in Joint Ventures" from applying proportionate consolidation or paragraph 19(c) of this Standard from applying the equity method may present separate financial statements as their only financial statements.

~~Cost Method~~ **[deleted]**

~~7.~~ [deleted]

~~Economic Entity~~ **[deleted]**

~~8.~~ [deleted]

~~9.~~ [deleted]

~~Future Economic Benefits or Service Potential~~ **[deleted]**

~~12.~~ [deleted]

~~Government Business Enterprises~~ **[deleted]**

~~13.~~ [deleted]

~~Net Assets/Equity~~ [deleted]

~~14.~~ [deleted]

Significant Influence

11. ~~15.~~ Whether an investor has significant influence over the investee is a matter of judgment based on the nature of the relationship between the investor and the investee, and on the definition of significant influence in this Standard. This Standard applies only to those associates in which an entity holds an ownership interest.

12. ~~16.~~ The existence of significant influence by an investor is usually evidenced in one or more of the following ways:

(a) representation on the board of directors or equivalent governing body of the investee;

(b) participation in policy-making processes, including participation in decisions about dividends or other distributions;

(c) material transactions between the investor and the investee;

(d) interchange of managerial personnel; or

(e) provision of essential technical information.

13. 17. If the investor's ownership interest is in the form of shares and it holds, directly or indirectly (eg through controlled entities), 20% per cent or more of the voting power of the investee, it is presumed that the investor hasdoes have significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly (eg through controlled entities), less than 20% per cent of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.

14. An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the entity additional voting power or reduce another party's voting power over the financial and operating policies of another entity (ie potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.

15. In assessing whether potential voting rights contribute to significant influence, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other binding arrangements whether considered individually or in combination) that affect potential rights, except the intention of management and the financial ability to exercise or convert.

16. An entity loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee. The loss of significant influence can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when an associate becomes subject to the control of another government, a court, administrator or regulator. It could also occur as a result of a binding agreement.

Equity Method

17. 11. Under the equity method, the investment in an associate is initially recordedrecognized at cost and the carrying amount is increased or decreased to recognize the investor's share of net surpluses or deficits of the investee after the date of acquisition. The investor's share of the surplus or deficit of the investee is recognized in the investor's surplus or deficit. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for alterationschanges in the investor's proportionate interest in the investee arising from changes in the investee's equity that have not been recognizedincluded in the investee's surplus or deficitstatement of financial performance. Such changes include those arising from the revaluation of property, plant and, equipment and investments, from foreign exchange translation differences and from the adjustment of differences arising from business combinations. The investor's share of those changes is recognized directly in net assets/equity of the investor.

18. When potential voting rights exist, the investor's share of surplus or deficit of the investee and of changes in the investee's net assets/equity is determined on the basis of present ownership interests and does not reflect the possible exercise or conversion of potential voting rights.

Consolidated Financial StatementsApplication of the Equity Method

19. **18. An investment in an associate shouldshall be accounted for in consolidated financial statements using under the equity method except when:**

(a) **there is evidence that the investment is acquired and held exclusively with a view to its disposal in the near future, in which case it should be accounted for under the cost method within twelve months from acquisition and that management is actively seeking a buyer.;**

(b) **the exception in paragraph 16 of IPSAS 6, allowing a controlling entity that also has an investment in an associate not to present consolidated financial statements, applies; or**

(c) **all of the following apply:**

(i) **the investor is:**

- **a wholly-owned controlled entity and users of financial statements prepared by applying the equity method are unlikely to exist or their information needs are met by the controlling entity's consolidated financial statements, or is**

- **a partially-owned controlled entity of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the investor not applying the equity method;**

(ii) **the investor's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);**

(iii) **the investor did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization, for the purpose of issuing any class of instruments in a public market; and**

(iv) **the ultimate or any intermediate controlling entity of the investor produces consolidated financial statements available for public use that comply with International Public Sector Accounting Standards.**

20. **Investments described in paragraph 19(a) shall be classified as held for trading and accounted for in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.**

21. When an investment in an associate previously accounted for in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments is not disposed of within twelve months, it shall be accounted for using the equity method as from the date of acquisition. Financial statements for the periods since acquisition shall be restated.

22. Exceptionally, an entity may have found a buyer for an associate described in paragraph 19(a), but may not have completed the sale within twelve months because of the need for approval by regulators or others. The entity is not required to apply the equity method to an investment in such an associate if the sale is in process at the reporting date and there is no reason to believe that it will not be completed shortly after the reporting date.

23. ~~19.~~ The recognition of revenue on the basis of distributions received may not be an adequate measure of the revenue earned by an investor on an investment in an associate because the distributions received may bear little relation~~ship~~ to the performance of the associate. In particular, where the associate has not-for-profit objectives, investment performance will be determined by factors such as the cost of outputs and overall service delivery. ~~As~~Because the investor has significant influence over the associate, the investor has an interest in ~~measure of responsibility for~~ the associate's

performance and, as a result, the return on its investment. The investor accounts for this stewardshipinterest by extending the scope of its consolidated financial statements to include its share of net surpluses or deficits of such an associate and so provides an analysis of earnings and investment from which more useful ratios can be calculated. As a result, the application of the equity method provides more informative reporting of the net assets/equity and net surplus or deficit of the investor.

20. [deleted]

24. **21. An investor should shall discontinue the use of the equity method from the date that:**

(a) it ceases to have significant influence inover an associate and shall account for the investment in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments from that date, provided the associate does not become a controlled entity or a joint venture as defined in IPSAS 8.but retains, either in whole or in part, its investment; or

(b) the use of the equity method is no longer appropriate because the associate operates under severe long-term restrictions that significantly impair its ability to transfer funds or provide other non-financial benefits to, or on behalf of, the investor.

The carrying amount of the investment at that date should be regarded as cost thereafter.

25. **The carrying amount of the investment at the date that it ceases to be an associate shall be regarded as its cost on initial measurement as a financial asset in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.**

22. [deleted]

Separate Financial Statements of the Investor

23. [deleted]

24. [deleted]

25. [deleted]

26. [deleted]

27. [deleted]

28. [deleted]

~~Application of the Equity Method~~

26. ~~29.~~ Many of the procedures appropriate for the application of the equity method are similar to the consolidation procedures ~~set out~~described in IPSAS 6. Furthermore, the ~~broad~~ concepts underlying the ~~consolidation~~ procedures used in ~~the~~ accounting for the acquisition of a controlled entity are also adopted ~~on~~in ~~the~~ accounting for the acquisition of an investment in an associate.

~~30.~~ [deleted]

27. An economic entity's share in an associate is the aggregate of the holdings in that associate by the controlling entity and its controlled entities. The holdings of the economic entity's other associates or joint ventures are ignored for this purpose. When an associate has controlled entities, associates or joint ventures, the surpluses or deficits and net assets taken into account in applying the equity method are those recognized in the associate's financial statements (including the associate's share of the surpluses or deficits and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies (see paragraphs 32 and 33).

28. Surpluses and deficits resulting from "upstream" and "downstream" transactions between an investor (including its consolidated controlled entities) and an associate are recognized in the investor's financial statements only to the extent of unrelated investors' interests in the associate. "~~'~~Upstream"~~'~~ transactions are, for example, sales of assets from an associate to the investor. "~~'~~Downstream"~~'~~ transactions are, for example, sales of assets from the investor to an associate. The investor's share in the associate's surpluses and deficits resulting from these transactions is eliminated.

29. ~~31.~~ An investment in an associate is accounted for ~~under~~using the equity method from the date on which it ~~falls within the definition of~~becomes an associate. Guidance on accounting for any difference (whether positive or negative) between the cost of acquisition and the investor's share of the fair values of the net identifiable assets of the associate is treated as goodwill (guidance can be found in the relevant ~~I~~international or national ~~A~~accounting ~~S~~standard ~~IAS 22, "~~dealing with ~~B~~business ~~C~~combinations~~"~~). Goodwill relating to an associate is included in the carrying amount of the investment. Appropriate adjustments to the investor's share of the surpluses or deficits after acquisition are made to account, for example, ~~:~~

~~(a)~~ for depreciation of the depreciable assets, based on their fair values at the date of acquisition. ~~; and~~

~~(b) amortization of the difference between the cost of the investment and the investor's share of the fair values of the net identifiable assets.~~

30. 32. **The most recent available financial statements of the associate are used by the investor in applying the equity method; they are usually drawn up to the same date as the financial statements of the investor. When the reporting dates of the investor and the associate are different, the associate often prepares, for the use of the investor, financial statements as atof the same date as the financial statements of the investor unless. When it is impracticable to do sothis, financial statements drawn up to a different reporting date may be used. The consistency principle dictates that the length of the reporting periods, and any difference in the reporting dates, are consistent from period to period.**

31. 33. **When, in accordance with paragraph 30, the financial statements of an associate used in applying the equity method are prepared as of with a different reporting date from that of the investor are used, adjustments areshall be made for the effects of any significant events or transactions or events between the investor and the associate that occur between thethat date of the associate's financial statements and the date of the investor's financial statements. In any case, the difference between the reporting date of the associate and that of the investor shall be no more than three months. The length of the reporting periods and any difference in the reporting dates shall be the same from period to period.**

32. 34. **The investor's financial statements areshall be usually prepared using uniform accounting policies for like transactions and events in similar circumstances.**

33. In many cases, iIf an associate uses accounting policies other than those adopted byof the investor for like transactions and events in similar circumstances, appropriate adjustments areshall be made to conform the associate's accounting policies to those of the investor when the associate's financial statements when they are used by the investor in applying the equity method. If it is not practicable for such adjustments to be calculated, that fact is generally disclosed.

34. If an associate has outstanding cumulative preferred shares, that are held by outside interestsparties other than the investor and classified as net assets/equity, the investor computes its share of net surpluses or deficits after adjusting for the preferred dividends on such shares, whether or not the dividends have been declared.

35. If, under the equity method, an investor's share of deficits of an associate equals or exceeds the carrying amount of an investmentits interest in the associate, the investor ordinarily discontinues recognizingincluding its share of further losses. The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the investor's net investment in

the associate. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associate. Such items may include preference shares and long-term receivables or loans but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans. Losses recognized under the equity method in excess of the investor's investment in ordinary shares are applied to the other components of the investor's interest in an associate in the reverse order of their seniority (ie priority of liquidation).

36. After the investor's interest is reduced to zero~~The investment is reported at nil value~~, ~~.~~ ~~A~~additional losses are provided for, and a liability is recognized, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate ~~to satisfy obligations of the associate that the investor has guaranteed or otherwise committed~~. If the associate subsequently reports surpluses, the investor resumes ~~including~~recognizing its share of those surpluses only after its share of the surpluses equals the share of ~~net~~ deficits not recognized.

Impairment Losses

37. After application of the equity method, including recognizing the associate's losses in accordance with paragraph 35, the investor applies the requirements of the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments to determine whether it is necessary to recognize any additional impairment loss with respect to the investor's net investment in the associate.

38. The investor also applies the requirements of the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments to determine whether any additional impairment loss is recognized with respect to the investor's interest in the associate that does not constitute part of the net investment and the amount of the impairment loss.

39. ~~37.~~ If application of the requirements in the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments ~~there is an~~ indicat~~ion~~es that ~~an~~the investment ~~in an associate~~ may be impaired, an entity applies International Public Sector Accounting Standard 21, "Impairment of Non-Cash Generating Assets" (IPSAS) 21~~should consider the relevant international and/or national standards on accounting for such an impairment~~. IPSAS 21 directs an entity to refer to IAS 36 to determine the value in use of the cash-generating investment. Based on IAS 36, an entity estimates:

(a) its share of the present value of the estimated future cash flows expected to be generated by the investee, including the cash flows from the operations of the investee and the proceeds on the ultimate disposal of the investment; or

(b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Under appropriate assumptions, both methods give the same result. Any resulting impairment loss for the investment is allocated in accordance with IAS 36. Therefore, it is allocated first to any remaining goodwill (see paragraph 29).

40. The recoverable amount of an investment in an associate is assessed for each associate, unless the associate does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.

Income Taxes [deleted]

38. [deleted]

Separate Financial Statements

41. **An investment in an associate shall be accounted for in the investor's separate financial statements in accordance with paragraphs 58-64 of IPSAS 6.**

42. This Standard does not mandate which entities produce separate financial statements available for public use.

Contingencies Disclosure

40. The following disclosures should be made:

(a) an appropriate listing and description of significant associates including the proportion of ownership interest and, if different, the proportion of voting power held; and

(b) the methods used to account for such investments.

43. **The following disclosures shall be made:**

(a) **the fair value of investments in associates for which there are published price quotations;**

(b) **summarized financial information of associates, including the aggregated amounts of assets, liabilities, revenues and surplus or deficit;**

(c) **the reasons why the presumption that an investor does not have significant influence is overcome if the investor holds, directly or indirectly through controlled entities, less than 20 per cent of the voting or potential voting power of the investee but concludes that it has significant influence;**

(d) **the reasons why the presumption that an investor has significant influence is overcome if the investor holds, directly or indirectly through controlled entities, 20 per cent or more of the voting power of the investee but concludes that it does not have significant influence;**

(e) **the reporting date of the financial statements of an associate, when such financial statements are used in applying the equity method and are as of a reporting date or for a period that is different from that of the investor, and the reason for using a different reporting date or different period;**

(f) **the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of associates to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances;**

(g) **the unrecognized share of losses of an associate, both for the period and cumulatively, if an investor has discontinued recognition of its share of losses of an associate;**

(h) **the fact that an associate is not accounted for using the equity method in accordance with paragraph 19; and**

(i) **summarized financial information of associates, either individually or in groups, that are not accounted for using the equity method, including the amounts of total assets, total liabilities, revenues and surplus or deficit.**

44. ~~**41.**~~ **Investments in associates accounted for using the equity method ~~should~~shall be classified as non-current assets ~~and disclosed as a separate item in the statement of financial position~~. The investor's share of the ~~net~~ surplus~~es~~ or deficit~~s~~ of such associates, and the carrying amount of these investments, ~~should~~shall be separately disclosed ~~as a separate item in the statement of financial performance~~. The investor's share of any ~~extraordinary or prior period items~~ discontinuing operations of such associates ~~should~~shall also be separately disclosed.**

45. **The investor's share of changes recognized directly in the associate's net assets/equity shall be recognized directly in net assets/equity by the investor and shall be disclosed in the statement of changes in equity as required by International Public Sector Accounting Standard 1, "Presentation of Financial Statements" (IPSAS 1).**

46. ~~**39.**~~ **In accordance with ~~the appropriate standards that address provisions, contingent liabilities and contingent assets~~International Public Sector Accounting Standard 19, "Provisions, Contingent Liability and Contingent Assets" (IPSAS 19), the investor shall disclose~~s~~:**

(a) **its share of the contingent liabilities of an associate incurred jointly with other investors~~for which it is also contingently liable~~; and**

(b) **those contingent liabilities that arise because the investor is severally liable for all or part of the liabilities of the associate.~~; and~~**

~~**(c) its share of the contingent assets of an associate.**~~

~~42.~~ [deleted]

Effective Date

47. ~~**43.**~~ **An entity shall apply t~~T~~his International Public Sector Accounting Standard ~~becomes effective~~ for annual ~~financial statements covering~~ periods beginning on or after ~~1July~~MM DD, ~~2001~~YYYY. Earlier application is encouraged. If an entity applies this Standard for a period beginning before MM DD, YYYY, it shall disclose that fact.**

48. ~~44.~~ When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Withdrawal of IPSAS 7 (2000)

49. This Standard supersedes IPSAS 7, "Accounting for Investments in Associates" issued in 2000.

Appendix

Amendments to Other International Public Sector Accounting Standards

The amendments in this appendix shall be applied for annual financial statements covering periods beginning on or after MM DD, YYYY. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

In International Public Sector Accounting Standards, applicable at MM YYYY, references to the current version of IPSAS 7, "Accounting for Investments in Associates" are amended to IPSAS 7, "Investments in Associates".

Comparison with IAS 28

International Public Sector Accounting Standard 7 ~~*Accounting for*~~ "Investments in Associates" (IPSAS 7) is drawn primarily from International Accounting Standard 28 (2003), ~~*Accounting for*~~ "Investments in Associates" (IAS 28). At the time of issuing this Standard, the IPSASB has not considered the applicability of IFRS 3, "Business Combinations" and IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations" to public sector entities. Therefore, IPSAS 7 does not reflect amendments made to IAS 28 consequent upon the issue of those Standards. The main differences between IPSAS 7 and IAS 28 are as follows:

- Commentary additional to that in IAS 28 has been included in IPSAS 7 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 7 applies to all investments in associates where the investor holds an ownership interest in the associate in the form of a shareholding or other formal equity structure. IAS 28 does not contain similar ownership interest requirements. However, it is unlikely that equity accounting could be applied unless the associate had a formal or other reliably measurable equity structure.
- IPSAS 7 uses different terminology, in certain instances, from IAS 28. The most significant examples are the use of the terms ~~"entity", "revenue",~~ "statement of financial performance", "statement of financial position" and "net assets/equity" in IPSAS 7. The equivalent terms in IAS 28 are ~~"enterprise", "income",~~ "income statement", "balance sheet" and "equity".
- IPSAS 7 contains a different set of definitions of technical terms from IAS 28 (paragraph ~~6~~7).~~In common with IAS 28 this Standard allows an investment in an associate that is included in the separate financial statements of an investor that issues consolidated financial statements, to be carried at cost or accounted for using the equity method. International Accounting Standard IAS 28 also allows such investments in associates to be accounted for as an available-for-sale financial asset as described in International Accounting Standard IAS 39, *Financial Instruments: Recognition and Measurement*. By contrast this Standard allows such investments to be accounted for in the same way as other investments shown in the financial statements of the investor.~~

International Public Sector Accounting Standard IPSAS 8

(revised 200X)

~~Financial Reporting of~~ Interests in Joint Ventures

[Note: For the purpose of this Exposure Draft, the new text is underlined and the deleted text is struck through.]

Specific Matters for Comment

The IPSASB would particularly value comments on the following questions. It would be helpful to the IPSASB if these comments indicate the specific paragraph number or groups of paragraphs to which they relate, clearly explain the issue and suggest alternative wording, with supporting reasoning, where this is appropriate.

Question 1

Do you agree that IPSAS 8 should be revised as proposed to converge with the equivalent IAS 31 (December 2003)?

Question 2

Do you agree that the scope of this proposed IPSAS 8 should not apply to certain investments that otherwise would be joint ventures held by venture capital organizations, mutual funds, unit trusts and similar entities if these investments are measured at fair value in accordance with the relevant international or national accounting standard dealing with financial instruments (see paragraph 1)?

SUMMARY OF MAIN CHANGES

IPSAS 8 INTERESTS IN JOINT VENTURES

The main changes proposed are:

Title of the Standard

- To change the title of the Standard to "Interests in Joint Ventures".

Scope

- To exclude from the scope in paragraph 1, venturers' interests in jointly controlled entities that are recognized at fair value held by:
  - venture capital organizations, or
  - mutual funds, unit trusts and similar entities including investment-linked insurance funds.

  Previously, IPSAS 8 did not contain these exclusions from its scope.

Definitions

- In paragraph 6:
  - to define a new term "separate financial statements";
  - to remove the following unnecessary terms: "accrual basis", "assets", "associates", "cash", "cash flows", "contribution from owners", "controlled entity", "controlling entity", "distribution to owners", "economic entity", "expenses", "government business enterprises", "liabilities", "net assets/equity", and "revenue". These terms are defined in other IPSASs; and
  - to remove the term "net surplus/deficit" which no longer exists.
- To include in paragraphs 14-16 explanation of "separate financial statements".

Exemptions from Applying Proportionate Consolidation or the Equity Method

- To clarify in paragraphs 47 and paragraph 3(a) that applying proportionate consolidation or the equity method is not required when (a) an interest in a joint venture is acquired and held exclusively with a view to its disposal within twelve months from acquisition; and (b) management is actively seeking a buyer.

  The proposed IPSAS 8 further specifies in paragraph 49 that when a jointly controlled entity previously exempted from proportionate consolidation or the equity method is not disposed of within twelve months, it shall be accounted for

using proportionate consolidation or the equity method from the date of acquisition unless narrowly specified circumstances apply.

The words "in the near future" used in previous IPSAS 8 were replaced with the words "within twelve months". There was no requirement that management must be actively seeking a buyer in previous IPSAS 8 for exemption from applying proportionate consolidation or the equity method.

- To clarify in paragraph 3(b) and 3(c) the exemptions from application of proportionate consolidation or the equity method, including when the venturer is:
  - also a controlling entity exempt in accordance with IPSAS 6, "Consolidated and Separate Financial Statements" from preparing consolidated financial statements, or
  - though not such a controlling entity, can satisfy the same type of conditions that exempt such controlling entities.

  IPSAS 6 requires that a controlling entity need not present consolidated financial statements if, and only if:
  - the controlling entity is itself a wholly-owned controlled entity and users of such financial statements are unlikely to exist or their information needs are met by its controlling entity's consolidated financial statements; or is a partially-owned controlled entity of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the controlling entity not presenting consolidated financial statements;
  - the controlling entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
  - the controlling entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and
  - the ultimate or any intermediate controlling entity of the controlling entity produces consolidated financial statements available for public use that comply with International Public Sector Accounting Standards.

  Previously, IPSAS 8 did not contain these exemptions.

- to remove paragraph 46(b) in existing IPSAS 6 (2000) to clarify that severe long-term restrictions that significantly impair the ability to transfer funds to the venturer does not of itself justify not applying the proportionate consolidation or the equity method. Joint control must be lost before proportionate consolidation or the equity method ceases to apply.

Separate Financial Statements

- To require in paragraph 52 that a venturer should account for an interest in a jointly controlled entity in its separate financial statements in accordance with IPSAS 6. IPSAS 6 requires that the venturer shall account for its interest in a jointly controlled entity in its separate financial statements either at cost or as financial instruments in accordance with the relevant international or national accounting standard dealing with financial instruments.

Disclosure

- To require in paragraph 64 that a venturer shall disclose the method it uses to recognize its interests in jointly controlled entities (ie proportionate consolidation or the equity method).

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 8—~~FINANCIAL REPORITNG OF~~ INTERESTS IN JOINT VENTURES

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Appendix: Amendments to Other International Public Sector Accounting Standards

Comparison with IAS 31

International Public Sector Accounting Standard 8, “Interests in Joint Ventures” (IPSAS 8) is set out in paragraphs 1-71 and the Appendix. All the paragraphs have equal authority. IPSAS 8 should be read in the context of the Basis for Conclusions, and the “Preface to International Public Sector Accounting Standards”. IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 8—~~FINANCIAL REPORTING OF~~ INTERESTS IN JOINT VENTURES

~~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 International Public Sector Accounting Standards". International Public Sector Accounting Standards are not intended to apply to immaterial items.~~

Scope

1. **An entity ~~which~~that prepares and presents financial statements under the accrual basis of accounting ~~should~~ shall apply this Standard in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, revenue and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. However, it does not apply to venturers' interests in jointly controlled entities held by:**

   (a) **venture capital organizations, or**

   (b) **mutual funds, unit trusts and similar entities including investment-linked insurance funds**

   that are measured at fair value, with changes in fair value recognized in surplus or deficit in the period of the change in accordance with the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments.

2. Guidance on recognition and measurement of interests identified in paragraph 1 that are measured at fair value, with changes in fair value recognized in surplus or deficit in the period of the change can be found in the relevant international or national accounting standard dealing with financial instruments.

3. **A venturer with an interest in a jointly controlled entity is exempted from paragraphs 35 (proportionate consolidation) and 43 (equity method) when it meets the following conditions:**

   (a) **there is evidence that the interest is acquired and held exclusively with a view to its disposal within twelve months from acquisition and that management is actively seeking a buyer;**

   (b) **the exception in paragraph 16 of IPSAS 6, "Consolidated and Separate Financial Statements" allowing a controlling entity that also has an interest in a jointly controlled entity not to present consolidated financial statements is applicable; or**

(c) **all of the following apply:**

(i) **the venturer is:**

- **a wholly-owned controlled entity and users of financial statements prepared by applying proportionate consolidation or the equity method are unlikely to exist or their information needs are met by the controlling entity's consolidated financial statements, or**

- **a partially-owned controlled entity of another entity and its owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the venturer not applying proportionate consolidation or the equity method;**

(ii) **the venturer's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);**

(iii) **the venturer did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organization, for the purpose of issuing any class of instruments in a public market; and**

(iv) **the ultimate or any intermediate controlling entity of the venturer produces consolidated financial statements available for public use that comply with International Public Sector Accounting Standards.**

~~2. This Standard provides the basis for accounting for interests in joint ventures.~~

~~3~~4. **This Standard applies to all public sector entities other than Government Business Enterprises.**

~~4~~5. The "Preface to International Public Sector Accounting Standards" issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). ~~Government Business Enterprises (~~GBEs~~)~~ are defined in IPSAS 1, "Presentation of Financial Statements".~~required to comply with and International Accounting Standards (IASs) issued by the International Accounting Standards Committee. The Public Sector Committee's Guideline No. 1 *Financial Reporting by Government Business Enterprises* notes that IASs are relevant to all business enterprises, regardless of whether they are in the private or public sector. Accordingly, Guideline No.1 recommends that GBEs should present financial statements that conform, in all material respects, to IASs.~~

Definitions

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

Accrual basis [deleted]

Assets [deleted]

Associate [deleted]

Cash [deleted]

Cash flows [deleted]

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

Contributions from owners [deleted]

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

Controlled entity [deleted]

Controlling entity [deleted]

Distributions to owners [deleted]

Economic entity [deleted]

The Eequity method (for the purpose of this Standard) is a method of accounting and reporting whereby an interest in a jointly controlled entity is initially recorded at cost and adjusted thereafter for the post-acquisition change in the venturer's share of net assets/equity of the jointly controlled entity. The statement of financial performance reflects surplus or deficit of the venturer includes the venturer's share of the results of operations surplus or deficit of the jointly controlled entity.

(c)Expenses [deleted]

Government Business Enterprise [deleted]

Investor in a joint venture is a party to a joint venture and does not have joint control over that joint venture.

Joint control is the agreed sharing of control over an activity by a binding arrangement.

Joint venture is a binding arrangement whereby two or more parties are committed to undertake an activity which that is subject to joint control.

Liabilities [deleted]

Proportionate consolidation is a method of accounting ~~and reporting~~ whereby a venturer's share of each of the assets, liabilities, revenue and expenses of a jointly controlled entity is combined ~~on a~~ line-by-line ~~basis~~ with similar items in the venturer's financial statements or reported as separate line items in the venturer's financial statements.

~~Revenue~~ [deleted]

Separate financial statements are those presented by a controlling entity, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct net assets/equity interest rather than on the basis of the reported results and net assets of the investees.

Significant influence (for the purpose of this Standard) is the power to participate in the financial and operating policy decisions of an activity but is not control or joint control over those policies.

Venturer is a party to a joint venture and has joint control over that joint venture.

Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.

Binding Arrangement

~~6~~7. The existence of a binding arrangement distinguishes interests ~~which~~ that involve joint control from investments in associates ~~where~~ in which the investor has significant influence (see International Public Sector Accounting Standard 7, "~~Accounting for~~ Investments in Associates" (IPSAS 7)). For the purposes of this Standard, an arrangement includes all binding arrangements between venturers. That is, in substance, the arrangement confers similar rights and obligations on the parties to it as if it were in the form of a contract. For instance, two government departments may enter into a formal arrangement to undertake a joint venture but the arrangement may not constitute a legal contract because, in that jurisdiction, individual departments may not be separate legal entities with the power to contract. Activities ~~which~~ that have no binding arrangement to establish joint control are not joint ventures for the purposes of this Standard.

~~7~~8. The binding arrangement may be evidenced in a number of ways, for example by a contract between the venturers or minutes of discussions between the venturers. In some cases, the binding arrangement is incorporated in the enabling legislation, articles or other by-laws of the joint venture. Whatever its form, the arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the joint venture;

(b) the appointment of the board of directors or equivalent governing body of the joint venture and the voting rights of the venturers;

(c) capital contributions by the venturers; and

(d) the sharing by the venturers of the output, revenue, expenses, surpluses or deficits, or cash flows of the joint venture.

89. The binding arrangement establishes joint control over the joint venture. Such a requirement ensures that no single venturer is in a position to unilaterally control the activity unilaterally. The arrangement identifies those decisions in areas essential to the goals of the joint venture which require the consent of all the venturers and those decisions which may require the consent of a specified majority of the venturers.

910. The binding arrangement may identify one venturer as the operator or manager of the joint venture. The operator does not control the joint venture but acts within the financial and operating policies which that have been agreed by the venturers in accordance with the arrangement and delegated to the operator. If the operator has the power to govern the financial and operating policies of the activity, it controls the venture and the venture is a controlled entity of the operator and not a joint venture.

Economic Entity [deleted]

10 [deleted]

11 [deleted]

12 [deleted]

Forms of Joint Venture

1311. Many public sector entities establish joint ventures to undertake a variety of activities. The nature of these activities ranges 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.

1412. Joint ventures take many different forms and structures. This Standard identifies three broad types — jointly controlled operations, jointly controlled assets and jointly controlled entities — whichthat are commonly described as, and meet the definition of, joint ventures. The following characteristics are common to all joint ventures:

(a) two or more venturers are bound by an binding arrangement; and

(b) the binding arrangement establishes joint control.

Joint Control

13. Joint control may be precluded when a joint venture is in legal reorganization or in bankruptcy, is subject to an administrative restructuring of government arrangements, or operates under severe long-term restrictions on its ability to transfer funds to the venturer. If joint control is continuing, these events are not enough in themselves to justify not accounting for joint ventures in accordance with this Standard.

Separate Financial Statements

14. Financial statements in which proportionate consolidation or the equity method is applied are not separate financial statements, nor are the financial statements of an entity that does not have a controlled entity, associate or venturer's interest in a jointly controlled entity.

15. Separate financial statements are those presented in addition to consolidated financial statements, financial statements in which investments are accounted for using the equity method and financial statements in which venturers' interests in joint ventures are proportionately consolidated. Separate financial statements need not be appended to, or accompany, those statements.

16. Entities that are exempted in accordance with paragraph 16 of IPSAS 6 from consolidation, paragraph 19(c) of IPSAS 7, "Investments in Associates" from applying the equity method or paragraph 3 of this Standard from applying proportionate consolidation or the equity method may present separate financial statements as their only financial statements.

Future Economic Benefits or Service Potential [deleted]

15. [deleted]

Government Business Enterprises [deleted]

16. [deleted]

Jointly Controlled Operations

1817. The operation of some joint ventures involves the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations. The joint venture activities may be carried out by the venturer's employees alongside the venturer's similar activities. The joint venture agreement usually provides a means by which the revenue from the sale or provision of the joint product or service and any expenses incurred in common are shared among the venturers.

~~19~~18. An example of a jointly controlled operation is when two or more venturers combine their operations, resources and expertise ~~in order~~ to manufacture, market and distribute jointly a particular product, such as an aircraft. Different parts of the manufacturing process are carried out by each of the venturers. Each venturer bears its own costs and takes a share of the revenue from the sale of the aircraft, such share being determined in accordance with the binding arrangement. A further example is when two entities combine their operations, resources and expertise ~~in order~~ to jointly deliver a service, such as aged care where, in accordance with an agreement, a local government offers domestic services and a local hospital offers medical care. Each venturer bears its own costs and takes a share of revenue, such as user charges and government grants; such share being determined in accordance with the binding agreement.

~~20~~19. **In respect of its interests in jointly controlled operations, a venturer ~~should~~ shall recognize in its ~~separate~~ financial statements ~~and consequently in its consolidated financial statements~~:**

(a) **the assets that it controls and the liabilities that it incurs; and**

(b) **the expenses that it incurs and its share of the revenue that it earns from the sale or provision of goods or services by the joint venture.**

~~21~~20. Because the assets, liabilities, revenue (if any) and expenses are already recognized in the ~~separate~~ financial statements of the venturer, ~~and consequently in its consolidated financial statements,~~ no adjustments or other consolidation procedures are required in respect of these items when the venturer presents consolidated financial statements.

~~22~~21. Separate accounting records may not be required for the joint venture itself and financial statements may not be prepared for the joint venture. However, the venturers may prepare management accounts so that they may assess the performance of the joint venture.

Jointly Controlled Assets

~~23~~22. Some joint ventures involve the joint control, and often the joint ownership by, the venturers~~,~~ of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture. The assets are used to obtain benefits for the venturers. Each venturer may take a share of the output from the assets and each bears an agreed share of the expenses incurred.

~~24~~23. These joint ventures do not involve the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer has control over its share of future economic benefits or service potential through its share ~~in~~ of the jointly controlled asset.

2524. Some activities in the public sector involve jointly controlled assets. For example, a local government may enter into an arrangement with a private sector corporation to construct a toll road. The road provides the citizens with improved access between the local government's industrial estate and its port facilities. The road also provides the private sector corporation with direct access between its manufacturing plant and the port. The agreement between the local authority and the private sector corporation specifies each party's share of revenues and expenses associated with the toll road. Accordingly, each venturer derives economic benefits or service potential from the jointly controlled asset and bears an agreed proportion of the costs of operating the road. Similarly, many activities in the oil, gas and mineral extraction industries involve jointly controlled assets;. fFor example, a number of oil production companies may jointly control and operate an oil pipeline. Each venturer uses the pipeline to transport its own product in return for which it bears an agreed proportion of the expenses of operating the pipeline. Another example of a jointly controlled asset is when two entities jointly control a property, each taking a share of the rents received and bearing a share of the expenses.

2625. **In respect of its interest in jointly controlled assets, a venturer should shall recognize in its separate financial statements and consequently in its consolidated financial statements:**

- •(a) **its share of the jointly controlled assets, classified according to the nature of the assets;**
- •(b) **any liabilities which that it has incurred;**
- •(c) **its share of any liabilities incurred jointly with the other venturers in relation to the joint venture;**
- •(d) **any revenue from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and**
- •(e) **any expenses which that it has incurred in respect of its interest in the joint venture.**

2726. In respect of its interest in jointly controlled assets, each venturer includes in its accounting records and recognizes in its separate financial statements and consequently in its consolidated financial statements:

- (b)(a) its share of the jointly controlled assets, classified according to the nature of the assets rather than as an investment. For example, a share of a jointly controlled road is classified as property, plant and equipment;.
- (c)(b) any liabilities which that it has incurred, for example those incurred in financing its share of the assets;.

~~(d)~~(c) its share of any liabilities incurred jointly with other venturers in relation to the joint venture~~;~~.

~~(e)~~(d) any revenue from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture~~; and~~.

(e) any expenses ~~which~~ that it has incurred in respect of its interest in the joint venture, for example those related to financing the venturer's interest in the assets and selling its share of the output.

~~28~~27. Because the assets, liabilities, revenue and expenses are ~~already~~ recognized in the ~~separate~~ financial statements of the venturer, ~~and consequently in its consolidated financial statements,~~ no adjustments or other consolidation procedures are required in respect of these items when the venturer presents consolidated financial statements.

~~29~~28. The treatment of jointly controlled assets reflects the substance and economic reality and, usually, the legal form of the joint venture. Separate accounting records for the joint venture itself may be limited to those expenses incurred in common by the venturers and ultimately borne by the venturers according to their agreed shares. Financial statements may not be prepared for the joint venture, although the venturers may prepare management accounts so that they may assess the performance of the joint venture.

Jointly Controlled Entities

~~30~~29. A jointly controlled entity is a joint venture ~~which~~ that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a~~n~~ binding arrangement between the venturers establishes joint control over the activity of the entity.

~~31~~30. A jointly controlled entity controls the assets of the joint venture, incurs liabilities and expenses and earns revenue. It may enter into contracts in its own name and raise finance for the purposes of the joint venture activity. Each venturer is entitled to a share of the ~~results~~ surpluses of the jointly controlled entity, although some jointly controlled entities also involve a sharing of the output of the joint venture.

~~32~~31. A common example of a jointly controlled entity is when two entities combine their activities in a particular line of service delivery by transferring the relevant assets and liabilities into a jointly controlled entity. Another example arises when an entity commences a business in a foreign country in conjunction with a government or other agency in that country, by establishing a separate entity ~~which~~ that is jointly controlled by the entity and the government or agency in the foreign country.

~~33~~32. Many jointly controlled entities are similar in substance to those joint ventures referred to as jointly controlled operations or jointly controlled assets. For example, the venturers may transfer a jointly controlled asset, such as a road, into a jointly controlled entity, for tax or other reasons. Similarly, the venturers may contribute into a jointly controlled entity, assets ~~which~~ that will be operated jointly. Some jointly controlled operations also involve the establishment of a jointly controlled entity to deal with particular aspects of the activity, for example, the design, marketing, distribution or after-sales service of the product.

~~34~~33. A jointly controlled entity maintains its own accounting records and prepares and presents financial statements in the same way as other entities in conformity with ~~the appropriate~~ International Public Sector ~~a~~Accounting ~~s~~Standards or other accounting standards if appropriate.

~~35~~34. Each venturer usually contributes cash or other resources to the jointly controlled entity. These contributions are included in the accounting records of the venturer and recognized in its ~~separate~~ financial statements as an investment in the jointly controlled entity.

~~Consolidated~~ Financial Statements of a Venturer

~~Benchmark Treatment—~~Proportionate Consolidation

~~36~~35. **~~In its consolidated financial statements, a~~ A venturer ~~should~~ shall ~~report~~ recognize its interest in a jointly controlled entity using proportionate consolidation or the alternative method described in paragraph 43. When proportionate consolidation is used, one of the two reporting formats ~~for proportionate consolidation~~ identified below shall be used.**

36. A venturer recognizes its interest in a jointly controlled entity using one of the two reporting formats for proportionate consolidation irrespective of whether it also has investments in controlled entities or whether it describes its financial statements as consolidated financial statements.

37. When ~~reporting~~ recognizing an interest in a jointly controlled entity ~~in consolidated financial statements~~, it is essential that a venturer reflects the substance and economic reality of the arrangement, rather than the joint venture's particular structure or form. In a jointly controlled entity, a venturer has control over its share of future economic benefits or service potential through its share of the assets and liabilities of the venture. This substance and economic reality ~~is~~ are reflected in the consolidated financial statements of the venturer when the venturer ~~reports~~ recognizes its interests in the assets, liabilities, revenue and expenses of the jointly controlled entity by using one of the two reporting formats for proportionate consolidation described in paragraph 39.

38. The application of proportionate consolidation means that the ~~consolidated~~ statement of financial position of the venturer includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. The ~~consolidated~~ statement of financial performance of the venturer includes its share of the revenue and expenses of the jointly controlled entity. Many of the procedures appropriate for the application of proportionate consolidation are similar to the procedures for the consolidation of investments in controlled entities, which are set out in IPSAS 6.

39. Different reporting formats may be used to give effect to proportionate consolidation. The venturer may combine its share of each of the assets, liabilities, revenue and expenses of the jointly controlled entity with the similar items, line by line, in its ~~consolidated~~ financial statements ~~on a line-by-line basis~~. For example, it may combine its share of the jointly controlled entity's inventory with ~~the~~ its inventory ~~of the economic entity~~ and its share of the jointly controlled entity's property, plant and equipment with ~~the same items of the economic entity~~ its property, plant and equipment. Alternatively, the venturer may include separate line items for its share of the assets, liabilities, revenue and expenses of the jointly controlled entity in its ~~consolidated~~ financial statements. For example, it may show its share of ~~the~~ a current asset~~s~~ of the jointly controlled entity separately as part of ~~the~~ its current assets ~~of the economic entity~~; it may show its share of the property, plant and equipment of the jointly controlled entity separately as part of ~~the~~ its property, plant and equipment ~~of the economic entity~~. Both these reporting formats result in the reporting of identical amounts of ~~net revenue and expenses~~ surplus or deficit and of each major classification of assets, liabilities, revenue and expenses; both formats are acceptable for the purposes of this Standard.

40. ~~Whatever~~Whichever format is used to give effect to proportionate consolidation, it is inappropriate to offset any assets or liabilities by the deduction of other liabilities or assets or any revenue or expenses by the deduction of other expenses or revenue, unless a legal right of set-off exists and the offsetting represents the expectation as to the realization of the asset or the settlement of the liability.

41. **A venturer ~~should~~ shall discontinue the use of proportionate consolidation from the date on which it ceases to have joint control over a jointly controlled entity.**

42. A venturer discontinues the use of proportionate consolidation from the date on which it ceases to share in the control of a jointly controlled entity. This may happen, for example, when the venturer disposes of its interest or when such external restrictions are placed on the jointly controlled entity ~~so~~ that ~~it can~~ the venturer no longer ~~achieve its goals~~ has joint control.

Allowed Alternative TreatmentEquity Method

43. **In its consolidated financial statementsAs an alternative to proportionate consolidation described in paragraph 35, a venturer should shall report recognize its interest in a jointly controlled entity using the equity method.**

44. A venturer recognizes its interest in a jointly controlled entity using the equity method irrespective of whether it also has investments in controlled entities or whether it describes its financial statements as consolidated financial statements.

4445. Some venturers report recognize their interests in jointly controlled entities using the equity method, as described in IPSAS 7. The use of the equity method is supported by those who argue that it is inappropriate to combine controlled items with jointly controlled items and by those who believe that venturers have significant influence, rather than joint control, in a jointly controlled entity. This Standard does not recommend the use of the equity method because proportionate consolidation better reflects the substance and economic reality of a venturer's interest in a jointly controlled entity, that is to say, control over the venturer's share of the future economic benefits or service potential. Nevertheless, this Standard permits the use of the equity method, as an allowed alternative treatment, when reporting recognizing interests in jointly controlled entities.

4546. **A venturer should shall discontinue the use of the equity method from the date on which it ceases to have joint control over, or have significant influence in, a jointly controlled entity.**

Exceptions to Benchmark Proportionate Consolidation and Allowed Alternative Treatments Equity Method

4647. **The following iInterests in jointly controlled entities for which there is evidence that the interest is acquired and held exclusively with a view to its disposal within twelve months from acquisition and that management is actively seeking a buyer, as set out in paragraph 3(a), should shall be accounted classified and accounted for as held for trading financial instruments in accordance with the relevant international or national accounting standard dealing with financial instruments.**

for as investments:

(a)an interest in a jointly controlled entity which is acquired and held exclusively with a view to its subsequent disposal in the near future; and

(b)an interest in a jointly controlled entity which operates under severe long-term restrictions that significantly impair its ability to transfer funds or provide other non-financial benefits to the venturer.

~~47~~48. Guidance on the recognition and measurement~~accounting for investments~~ of financial instruments dealt with in paragraph 47 can be found in the relevant international ~~and/~~or national accounting standard~~s~~ dealing with financial instruments.

49. When, in accordance with paragraphs 3(a) and 47, an interest in a jointly controlled entity previously accounted for as a held for trading financial instrument is not disposed of within twelve months, it shall be accounted for using proportionate consolidation or the equity method as from the date of acquisition. (Guidance on the meaning of the date of acquisition can be found in the relevant international or national accounting standard dealing with business combinations.) Financial statements for the periods since acquisition shall be restated.

50. Exceptionally, a venturer may have found a buyer for an interest described in paragraphs 3(a) and 47, but may not have completed the sale within twelve months of acquisition because of the need for approval by regulators or others. The venturer is not required to apply proportionate consolidation or the equity method to an interest in a jointly controlled entity if the sale is in process at the reporting date and there is no reason to believe that it will not be completed shortly after the reporting date.

~~48. The use of either proportionate consolidation or the equity method is inappropriate when the interest in a jointly controlled entity is acquired and held exclusively with a view to its subsequent disposal in the near future. It is also inappropriate when the jointly controlled entity operates under severe long-term restrictions which significantly impair its ability to transfer funds or provide other non-financial benefits to the venturer.~~

~~49~~51. **From the date on which a jointly controlled entity becomes a controlled entity of a venturer, the venturer shall account~~s~~ for its interest in accordance with IPSAS 6. From the date on which a jointly controlled entity becomes an associate of a venturer, the venturer shall account for its interest in accordance with IPSAS 7.**

Separate Financial Statements of a Venturer

~~50. In some jurisdictions, separate financial statements may be presented by a venturer in order to meet legal or other requirements. Such separate financial statements are prepared in order to meet a variety of needs with the result that different reporting practices are in use in different jurisdictions. Accordingly, this Standard does not indicate a preference for any particular treatment.~~

52. **An interest in a jointly controlled entity shall be accounted for in a venturer's separate financial statements in accordance with paragraphs 58-64 of IPSAS 6.**

53. This Standard does not mandate which entities produce separate financial statements available for public use.

Transactions between a Venturer and a Joint Venture

~~51~~54. **When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction ~~should~~ shall reflect the substance of the transaction. While the assets are retained by the joint venture, and provided the venturer has transferred the significant risks and rewards of ownership, the venturer ~~should~~ shall recognize only that portion of the gain or loss ~~which~~ that is attributable to the interests of the other venturers. The venturer ~~should~~ shall recognize the full amount of any loss when the contribution or sale provides evidence of a reduction in the net realizable value of current assets or an impairment loss.**

~~52~~55. **When a venturer purchases assets from a joint venture, the venturer ~~should~~ shall not recognize its share of the gains of the joint venture from the transaction until it resells the assets to an independent party. A venturer ~~should~~ shall recognize its share of the losses resulting from these transactions in the same way as gains except that losses ~~should~~ shall be recognized immediately when they represent a reduction in the net realizable value of current assets or an impairment loss.**

~~53~~56. To assess whether a transaction between a venturer and a joint venture provides evidence of impairment of an asset, the venturer determines the recoverable amount or recoverable service amount of the assets in accordance with ~~the relevant guidance on impairment of assets~~ International Public Sector Accounting Standard 21, "Impairment of Non-Cash-Generating Assets" (IPSAS 21). In determining value in use of a cash-generating asset, the venturer estimates future cash flows from the asset ~~are estimated~~ on the basis~~ed on~~ of continuing use of the asset and its ultimate disposal by the joint venture. In determining value in use of a non-cash-generating asset, the venturer estimates the present value of the remaining service potential of the asset using the approaches specified in IPSAS 21.

Reporting Interests in Joint Ventures in the Financial Statements of an Investor

~~54~~57. **An investor in a joint venture~~, which~~ that does not have joint control, but does have significant influence~~, should~~ shall ~~report~~ account for its interest in a joint venture in accordance with IPSAS 7.**

~~55~~58. ~~International Accounting Standard IAS 39, Financial Instruments: Recognition and Measurement provides g~~Guidance on accounting for interests in joint ventures where an investor does not have joint control or significant influence can be found in the relevant international or national accounting standard dealing with financial instruments.

Operators of Joint Ventures

~~56~~59. **Operators or managers of a joint venture ~~should~~ shall account for any fees in accordance with ~~the appropriate standards that address accounting for~~ International Public Sector Accounting Standard 9, "~~r~~Revenue from ~~e~~Exchange ~~t~~Transactions" (IPSAS 9).**

~~57~~60. One or more venturers may act as the operator or manager of a joint venture. Operators are usually paid a management fee for such duties. The fees are accounted for by the joint venture as an expense.

Disclosure

~~58~~61. **~~In accordance with the appropriate standards that address provisions, contingent liabilities and contingent assets, a~~ A venturer ~~should~~ shall disclose:**

(a) **the aggregate amount of the following contingent liabilities, unless the possibility of any outflow in settlement is remote, separately from the amount of other contingent liabilities:**

(i) **any contingent liabilities that the venturer has incurred in relation to its interests in joint ventures and its share in each of the contingent liabilities ~~which~~ that have been incurred jointly with other venturers;**

(ii) **its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable; and**

(iii) **those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture; and**

(b) **a brief description of the following contingent assets and, where practicable, an estimate of their financial effect, where an inflow of economic benefits or service potential is probable:**

(i) **any contingent assets of the venturer arising in relation to its interests in joint ventures and its share in each of the contingent assets ~~which~~ that have arisen jointly with other venturers; and**

(ii) **its share of the contingent assets of the joint ventures themselves.**

~~59~~62. **A venturer ~~should~~ shall disclose the aggregate amount of the following commitments~~,~~ in respect of its interests in joint ventures~~,~~ separately from other commitments:**

(a) **any capital commitments of the venturer in relation to its interests in joint ventures and its share in the capital commitments that have been incurred jointly with other venturers; and**

(b) **its share of the capital commitments of the joint ventures themselves.**

~~60~~63. **A venturer ~~should~~ shall disclose a listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities. A venturer ~~which reports~~ that recognizes its interests in jointly controlled entities using the line-by-line reporting format for proportionate consolidation or the equity method ~~should~~ shall disclose the aggregate amounts of each of current assets, non-current assets, current liabilities, non-current liabilities, revenue and expenses related to its interest in joint ventures.**

64. **A venturer shall disclose the method it uses to recognize its interests in jointly controlled entities.**

~~**61. A venturer which does not issue consolidated financial statements because it does not have controlled entities, should disclose the information required in paragraphs 58, 59, and 60 (where applicable).**~~

~~62. It is appropriate that a venturer which does not prepare consolidated financial statements because it does not have controlled entities provides the same information about its interests in joint ventures as those venturers that issue consolidated financial statements.~~

Transitional Provisions

~~63~~65. **Where the ~~benchmark treatment~~ proportionate consolidation treatment set out in this Standard is adopted, ~~entities~~ venturers are not required to eliminate balances and transactions between themselves, their controlled entities and entities that they jointly control for reporting periods beginning on a date within three years following the date of first adoption of ~~this Standard~~ accrual accounting in accordance with International Public Sector Accounting Standards.**

~~64~~66. Entities that adopt ~~this Standard~~ accrual accounting for the first time in accordance with International Public Sector Accounting Standards may have many controlled and jointly controlled entities with a significant number of transactions between these entities. Accordingly, it may initially be difficult to identify all the transactions and balances that need to be eliminated for the purpose of preparing the financial statements. For this reason, paragraph ~~63~~65 provides temporary relief from eliminating in full balances and transactions between entities and their jointly controlled entities.

~~65~~67. **Where entities apply the transitional provision in paragraph ~~63~~65, ~~an entity~~ they ~~should~~ shall disclose the fact that not all inter-entity balances and transactions have been eliminated.**

68. Transitional provisions in IPSAS 8 (2000) provide entities with a period of up to three years to fully eliminate balances and transactions between entities within the economic entity from the date of its first application. Entities that have previously applied IPSAS 8 (2000) may continue to take advantage of this three-year transitional provisional period from the date of first application of IPSAS 8 (2000).

Effective Date

~~6~~69. **An entity shall apply ~~T~~this International Public Sector Accounting Standard ~~becomes effective~~ for annual financial statements covering periods beginning on or after ~~1 July 2001~~ MM DD, YYYY. Earlier application is encouraged. If an entity applies this Standard for a period beginning before MM DD, YYYY, it shall disclose that fact.**

~~6~~70. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Withdrawal of IPSAS 8 (2000)

71. This Standard supersedes IPSAS 8, "Financial Reporting of Interests in Joint Ventures" issued in 2000.

Appendix

Amendments to Other International Public Sector Accounting Standards

The amendments in this appendix shall be applied for annual financial statements covering periods beginning on or after MM DD, YYYY. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

A1. In International Public Sector Accounting Standards applicable at MM YYYY, references to the current version of IPSAS 8, "Financial Reporting of Interests in Joint Ventures" are amended to IPSAS 8, "Interests in Joint Ventures".

Comparison with IAS 31

International Public Sector Accounting Standard 8, "~~Financial Reporting of~~ Interests in Joint Ventures" (IPSAS 8) is drawn primarily from International Accounting Standard 31, "~~Financial Reporting of~~Interests in Joint Ventures" (IAS 31). At the time of issuing this Standard, the IPSASB has not considered the applicability of International Financial Reporting Standard 3, "Business Combinations" (IFRS 3) and International Financial Reporting Standard 5, "Non-current Assets Held for Sale and Discontinued Operations" (IFRS 5) to public sector entities. Therefore, IPSAS 8 does not reflect amendments made to IAS 31 consequent on the issue of IFRS 3 and IFRS 5. The main differences between IPSAS 8 and IAS 31 are as follows:

- Commentary additional to that in IAS 31 has been included in IPSAS 8 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 8 uses different terminology, in certain instances, from IAS 31. The most significant examples are the use of the terms ~~"entity", "revenue",~~ "statement of financial performance", "statement of financial position" and "net assets/equity" in IPSAS 8. The equivalent terms in IAS 31 are ~~"enterprise", "income",~~ "income statement", "balance sheet" and "equity".
- ~~IPSAS 8 contains a different set of definitions of technical terms from IAS 31 (paragraph 5).~~
- IPSAS 8 uses a different definition of joint venture from IAS 31. The term "contractual arrangement" has been replaced by "binding arrangement".
- IPSAS 8 includes a transitional provision that permits entities which adopt ~~the benchmark treatment~~ proportionate consolidation treatment to not eliminate all balances and transactions between ~~entities~~ venturers, their controlled entities and entities that they jointly control ~~within the economic entity~~ for reporting periods beginning on a date within three years following the date of ~~first application of this Standard~~ adopting accrual accounting for the first time in accordance with International Public Sector Accounting Standards. IAS 31 does not contain transitional provisions.

International Public Sector Accounting Standard IPSAS 12

(revised 200X)

Inventories

[Note: For the purpose of this Exposure Draft, the new text is underlined and the deleted text is struck through.]

Specific Matters for Comment

The IPSASB would particularly value comments on the following questions. It would be helpful to the IPSASB if these comments indicate the specific paragraph number or groups of paragraphs to which they relate, clearly explain the issue and suggest alternative wording, with supporting reasoning, where this is appropriate.

Question 1

Do you agree that IPSAS 12 should be revised as proposed to converge with the equivalent IAS 2 (December 2003)?

Question 2

It is proposed that biological assets related to agricultural activity and agricultural produce at the point of harvest that are accounted for in accordance with the relevant international or national accounting standard dealing with agriculture are excluded from the scope of the proposed IPSAS 12.

Do you agree with this exclusion (see paragraph 2(c))?

SUMMARY OF MAIN CHANGES IPSAS 12 INVENTORIES

The main changes proposed are:

Objective and Scope

- To clarify in paragraphs 1 and 2 that the Standard applies to all inventories that are not specifically excluded from its scope. Previously, IPSAS 12 applied to "accounting for inventories under the historical cost system".
- To establish a clear distinction between those inventories (a) that are entirely outside the scope of the Standard; and (b) that are outside the scope of measurement requirements but within the scope of the other requirements in the Standard (paragraphs 2 and 3).

  Inventories that are outside the measurement requirements of the Standard are those held by: (a) producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realizable value in accordance with well-established practices in those industries and (b) commodity broker-traders measured at fair value less costs to sell. To qualify for this exemption, changes in recognized amounts of these inventories are to be included in surplus or deficit in the period of the changes. Previously, IPSAS 12 did not make this distinction with respect to scope exemptions.

Cost of Inventories

- To prohibit exchange differences arising directly on the recent acquisitions of inventories invoiced in a foreign currency from being included in the cost of purchase of inventories (paragraph 15 in existing IPSAS 2 (2000)). Previously, this was allowed under the allowed alternative treatment contained in IPSAS 4, "The Effects of Changes in Foreign Exchange Rates". This alternative treatment has also been eliminated in proposed IPSAS 4.
- To require in paragraph 26 that when inventories are purchased with deferred settlement terms, the difference between the purchase price for normal credit terms and the amount paid is recognized as interest expense over the period of financing. Previously, IPSAS 12 did not contain this requirement.

Disclosures

- to require the following additional disclosure items (paragraph 45):
  - the carrying amount of inventories carried at fair value less costs to sell; and
  - the amount of any write-down of inventories recognized as an expense in the period.

  Previously, IPSAS 12 did not contain these disclosure requirements.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 12—INVENTORIES

Objective

1. The objective of this Standard is to prescribe the accounting treatment for inventories~~ under the historical cost system~~. A primary issue in accounting for inventories is the amount of cost to be recognized as an asset and carried forward until the related revenues are recognized. This Standard provides ~~practical~~ guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

Scope

[Add new paragraphs 3 and 8]

~~1~~2. **An entity~~ which~~ that prepares and presents financial statements under the accrual basis of accounting~~ should~~ shall apply this Standard~~ in the context of the historical cost system~~ in accounting for all inventories ~~other than~~, except:**

(a) **work in progress arising under construction contracts, including directly related service contracts (see International Public Sector Accounting Standard 11, "Construction Contracts" (IPSAS 11));**

(b) **financial instruments;**

(c) **~~producers' inventories of livestock, agricultural and forest products, and mineral ores to the extent that they are measured at net realizable value in accordance with well established practices in certain industries; and~~biological assets related to agricultural activity and agricultural produce at the point of harvest (see the relevant international or national accounting standard dealing with agriculture); and**

(d) **work in progress of services to be provided for no or nominal consideration directly in return from the recipients.**

3. **This Standard does not apply to the measurement of inventories held by:**

(a) **producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realizable value in accordance with well-established practices in those industries. When such inventories are measured at net realizable value, changes in that**

value are recognized in surplus or deficit in the period of the change.

(b) **commodity broker-traders who measure their inventories at fair value less costs to sell. When such inventories are measured at fair value less costs to sell, changes in fair value less costs to sell are recognized in surplus or deficit in the period of the change.**

~~5~~6. The inventories referred to in paragraph ~~1~~2(d) are not encompassed by International Accounting Standard 2, "Inventories" (IAS 2) and are excluded from the scope of this Standard because they involve specific public sector issues that require further consideration.

~~4~~7. The inventories referred to in paragraph ~~1~~3(~~c~~a) ~~may be~~ are measured at net realizable value at certain stages of production. This occurs, for example, when agricultural crops have been harvested or minerals ~~ores~~ have been extracted and sale is assured under a forward contract or a government guarantee, or when an ~~homogenous~~ active market exists and there is a negligible risk of failure to sell. These inventories are excluded from only the ~~scope~~ measurement requirements of this Standard.

8. Broker-traders are those who buy or sell commodities for others or on their own account. The inventories referred to in paragraph 3(b) are principally acquired with the purpose of selling in the near future and generating a surplus from fluctuations in price or broker-traders' margin. When these inventories are measured at fair value less costs to sell, they are excluded from only the measurement requirements of this Standard.

Definitions

[Add a new defined term in new paragraph 9 and add new paragraph 10]

~~6~~9. **The following terms are used in this Standard with the meanings specified:**

……

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Net Realizable Value

10. Net realizable value refers to the net amount that an entity expects to realize from the sale of inventory in the ordinary course of operations. Fair value reflects the amount for which the same inventory could be exchanged between knowledgeable and willing buyers and sellers in the marketplace. The former is an entity-specific value; the latter is not. Net realizable value for inventories may not equal fair value less costs to sell.

Measurement of Inventories

[Delete former paragraph 15, add new paragraphs 26 and 28]

Costs of Purchase

~~15. The costs of purchase may include foreign exchange differences which arise directly on the recent acquisition of inventories invoiced in a foreign currency in the circumstances permitted in the allowed alternative treatment in International Public Sector Accounting Standard IPSAS 4 The Effects of Changes in Foreign Exchange Rates. These exchange differences are limited to those resulting from a severe devaluation or depreciation of a currency against which there is no practical means of hedging and that affects liabilities which cannot be settled and which arise on the recent acquisition of the inventories.~~

Other Costs

26. An entity may purchase inventories on deferred settlement terms. When the arrangement effectively contains a financing element, that element, for example a difference between the purchase price for normal credit terms and the amount paid, is recognized as interest expense over the period of the financing.

Cost of Inventories of a Service Provider

~~23~~27. To the extent that service providers have inventories except those referred to in paragraph 2(d), they measure them at the costs of their production. ~~The~~These costs~~ of inventories of a service provider~~ consist~~s~~ primarily of the labor and other costs of personnel directly engaged in providing the service, including supervisory personnel, and attributable overheads. The costs of labor not engaged in providing the service are not included. Labor and other costs relating to sales and general administrative personnel are not included but are recognized as expenses in the period in which they are incurred. The cost of inventories of a service provider does not include surplus margins or non-attributable overheads that are often factored into prices charged by service providers.

Cost of Agricultural Produce Harvested from Biological Assets

28. In accordance with the relevant international or national accounting standard dealing with agriculture, inventories comprising agricultural produce that an entity has harvested from its biological assets may be measured on initial recognition at their fair value less estimated point-of-sale costs at the point of harvest. In this case, this is the cost of the inventories at that date for application of this Standard.

Net Realizable Value

~~35~~40. A new assessment is made of net realizable value in each subsequent period. When the circumstances~~ which~~ that previously caused inventories to be

written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed (ie the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realizable value. This occurs, for example, when an item of inventory~~, which~~ that is carried at net realizable value, because its selling price has declined, is still on hand in a subsequent period and its selling price has increased.

Recognition as an Expense

~~37~~42. **When inventories are sold, exchanged or distributed, the carrying amount of those inventories ~~should~~ shall be recognized as an expense in the period in which the related revenue is recognized. If there is no related revenue, the expense is recognized when the goods are distributed, or related service is rendered. The amount of any write-down of inventories and all losses of inventories ~~should~~ shall be recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories ~~should~~ shall be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.**

~~38~~43. ~~The process of recognizing as an expense the carrying amount of inventories sold, exchanged or distributed results in the matching of costs and revenues.~~ For a service provider, the point when inventories are recognized as expenses normally occurs when services are rendered, or upon billing for chargeable services.

Disclosure

[Delete former paragraphs 42 and 45]

~~40~~45. **The financial statements ~~should~~ shall disclose**:

(a) **the accounting policies adopted in measuring inventories, including the cost formula used;**

(b) **the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;**

(c) **the carrying amount of inventories carried at fair value less costs to sell;**

(d) **the amount of inventories recognized as an expense during the period;**

(e) **the amount of any write-down of inventories recognized as an expense in the period in accordance with paragraph 42;**

~~(c)~~(f) **the amount of any reversal of any write-down that is recognized ~~in the statement of financial performance~~ as a reduction in the amount of inventories recognized as expense in the period in accordance with paragraph ~~37~~42;**

~~(d)~~(g) **the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph ~~37~~42; and**

~~(e)~~(h) **the carrying amount of inventories pledged as security for liabilities.**

~~**42. The financial statements should disclose either:**~~

~~**(a) the cost of inventories recognized as an expense during the period; or**~~

~~**(b) the operating costs applicable to revenues, recognized as an expense during the period, classified by their nature.**~~

~~44~~48. Some entities adopt a ~~different~~ format for ~~the statement of financial performance, which~~ surplus or deficit that results in ~~different~~ amounts being disclosed ~~instead of~~ other than the cost of inventories recognized as an expense during the period. Under this ~~different~~ format, an entity ~~discloses~~ presents an analysis of expenses using a classification based on the nature of expenses.~~the amounts of operating costs applicable to revenues for the period, classified by their nature.~~ In this case, the entity discloses the costs recognized as an expense for raw materials and consumables, labor costs and other ~~operating~~ costs together with the amount of the net change in inventories for the period.

~~45. A write-down to net realizable value may be of such size, incidence or nature to require disclosure under International Public Sector Accounting Standard IPSAS 3 Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies.~~

International Public Sector Accounting Standard IPSAS 13

(revised 200X)

Leases

[Note: For the purpose of this Exposure Draft, the new text is underlined and the deleted text is struck through.]

Specific Matters for Comment

The IPSASB would particularly value comments on the following questions. It would be helpful to the IPSASB if these comments indicate the specific paragraph number or groups of paragraphs to which they relate, clearly explain the issue and suggest alternative wording, with supporting reasoning, where this is appropriate.

Question 1

Do you agree that IPSAS 13 should be revised as proposed to converge with the equivalent IAS 17 (December 2003)?

Question 2

The proposed IPSAS 13 should not be applied as the basis of measurement for biological assets held by lessees under finance leases and biological assets provided by lessors under operating leases that are accounted for in accordance with the relevant international or national accounting standard dealing with agriculture. Do you agree with these exclusions (see paragraph 2(c) and (d))?

SUMMARY OF MAIN CHANGES IPSAS 13
LEASES

The main changes proposed are:

Definitions

- To define "initial direct costs" in paragraph 8 as "incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or trader lessors".
- To define "commencement of the lease term" in paragraph 8 as "the date from which the lessee is entitled to exercise its right to use the leased asset". It is distinguished from the inception of the lease, which is defined as "the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease". The proposed IPSAS 13 now clarifies that recognition takes place at the commencement of the lease term based on values measured at the inception of the lease. If the lease is adjusted for changes in the lessor's costs between the inception of the lease and the commencement of the lease term, the effect of any such changes is deemed to have taken place at the inception (paragraph 9). Previously, IPSAS 13 did not define "commencement of the lease" and implicitly assumed that commencement and inception were simultaneous.

Classification of Leases of Land and Building

- To require in paragraph 20 that an entity considers the land and buildings elements separately when classifying a lease of land and buildings. Normally, the land element is classified as an operating lease unless the title passes to the lessee at the end of the lease term. The buildings element is classified as an operating or finance lease by applying the classification criteria in the Standard. The minimum lease payments are allocated between the land and buildings elements in proportion to the relative fair values of the leasehold interests in the land and buildings elements of the lease. Previously, IPSAS 13 was not explicit about how to classify a lease of land and buildings and how to allocate the lease payment between them.

Initial Direct Costs incurred by Lessors

- To require lessors to include the initial direct costs incurred in negotiating a finance lease in the initial measurement of finance lease receivables. For operating leases, such initial direct costs are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the lease revenue. This treatment does not apply to manufacturer or trader lessors. Manufacturer or trader lessors recognize this type of costs as an expense when the gain or loss is recognized (paragraphs 50, 55 and 65). Previously, IPSAS 13 contained a choice on how to account for such costs.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 13—LEASES

Scope

~~1~~2. **An entity ~~which~~ that prepares and presents financial statements under the accrual basis of accounting ~~should~~ shall apply this Standard in accounting for all leases other than:**

(a) **leases ~~agreements~~ to explore for or use ~~natural resources~~ minerals, ~~such as~~ oil, natural gas~~, timber, metals~~ and ~~other mineral rights~~ similar non-regenerative resources; and**

(b) **licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.**

However, this Standard ~~should~~ shall not be applied ~~to~~ as the basis of measurement ~~by~~ for:

(a) **property held by lessees ~~of~~ that is accounted for as investment property ~~held under finance leases~~ (see International Public Sector Accounting Standard IPSAS 16, "Investment Property"); ~~or~~**

(b) **investment property provided by lessors ~~of investment property leased out~~ under operating leases (see ~~International Public Sector Accounting Standard~~ IPSAS 16 ~~Investment Property~~)~~.~~;**

(c) **biological assets held by lessees under finance leases (see the relevant international or national accounting standard dealing with agriculture); or**

(d) **biological assets provided by lessors under operating leases (see the relevant international or national accounting standard dealing with agriculture).**

Definitions

[Add new paragraph 9]

~~7~~8. **The following terms are used in this Standard with the meanings specified:**

The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (ie the recognition of the assets, liabilities, revenue or expenses resulting from the lease, as appropriate).

Contingent rent is that portion of the lease payments that is not fixed in amount but is based on the future amount of a factor that changes other than ~~just~~ with the passage of time (e~~.~~g~~.,~~ percentage of future sales,

amount of future use~~age~~, future price indices, future market rates of interest).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Gross investment in the lease is the aggregate of:

(a) **the minimum lease payments receivable by the lessor under a finance lease; ~~from the standpoint of the lessor~~ and**

(b) **any unguaranteed residual value accruing to the lessor.**

Guaranteed residual value is:

(a) **~~in the case of the~~for a lessee, that part of the residual value ~~which~~ that is guaranteed by the lessee or by a party related to the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable); and**

(b) **~~in the case of the~~for a lessor, that part of the residual value ~~which~~ that is guaranteed by the lessee or by a third party unrelated to the lessor ~~who~~ that is financially capable of discharging the obligations under the guarantee.**

The inception of the lease is the earlier of the date of the lease agreement ~~or~~ and the date of ~~a~~ commitment by the parties to the principal provisions of the lease. As at this date:

(a) **a lease is classified as either an operating or a finance lease; and**

(b) **in the case of a finance lease, the amounts to be recognized at the commencement of the lease term are determined.**

Initial direct costs are incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or trader lessors.

The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of:

(a) **the minimum lease payments; and**

(b) **the unguaranteed residual value**

to be equal to the sum of (i) the fair value of the leased asset and (ii) any initial direct costs of the lessor.

Minimum lease payments are the payments over the lease term that the lessee is~~,~~ or can be~~,~~ required to make, excluding contingent rent, costs for services and, where appropriate, taxes to be paid by and reimbursed to the lessor, together with:

(a) **~~in the case of the~~for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or**

(b) **~~in the case of the~~for a lessor, any residual value guaranteed to the lessor by ~~either~~:**

(i) **the lessee;**

(ii) **a party related to the lessee; or**

(iii) **~~an~~a ~~independent~~ third party unrelated to the lessor that is financially capable of ~~meeting this~~ discharging the obligations under the guarantee.**

However, if the lessee has an option to purchase the asset at a price ~~which~~ that is expected to be sufficiently lower than ~~the~~ fair value at the date the option becomes exercisable for it to be reasonably certain, ~~so that~~ at the inception of the lease, that the option ~~is reasonably certain to~~ will be exercised, the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it ~~this purchase option~~.

Net investment in the lease is the gross investment in the lease ~~less unearned finance revenue~~ discounted at the interest rate implicit in the lease.

Unearned finance revenue is the difference between:

(a) **the gross investment in the lease ~~aggregate of the minimum lease payments under a finance lease from the standpoint of the lessor and any unguaranteed residual value accruing to the lessor~~; and**

(b) **the net investment in the lease.~~present value of (a) above, at the interest rate implicit in the lease.~~**

Useful life is the estimated remaining period, from the ~~beginning~~ commencement of the lease term, without limitation by the lease term, over which the economic benefits or service potential embodied in the asset are expected to be consumed by the entity.

Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.

Changes in Lease Payments between the Inception of the Lease and the Commencement of the Lease Term

9. A lease agreement or commitment may include a provision to adjust the lease payments for changes in the construction or acquisition cost of the leased property or for changes in some other measure of cost or value, such as

general price levels, or in the lessor's costs of financing the lease, during the period between the inception of the lease and the commencement of the lease term. If so, the effect of any such changes shall be deemed to have taken place at the inception of the lease for the purposes of this Standard.

Classification of Leases

[Add new paragraphs 17 and 20-24]

~~10~~12. The classification of leases adopted in this Standard is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. Risks include the possibilities of losses from idle capacity, technological obsolescence or changes in value ~~due to~~ because of changing economic conditions. Rewards may be represented by the expectation of service potential or profitable operation over the asset's economic life and of gain from appreciation in value or realization of a residual value.

~~11~~13. **A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.**

~~12~~14. ~~Since~~Because the transaction between a lessor and a lessee is based on a lease agreement between them, ~~common to both parties,~~ it is appropriate to use consistent definitions. The application of these definitions to the differing circumstances of the ~~two parties~~ lessor and lessee may ~~sometimes~~ result in the same lease being classified differently by ~~lessor and lessee~~ them. For example, this may be the case if the lessor benefits from a residual value guarantee provided by a party unrelated to the lessee.

~~13~~15. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Although the following are examples of situations ~~which~~ that individually or in combination would normally lead to a lease being classified as a finance lease, a lease does not need to meet all these criteria in order to be classified as a finance lease:

(a) the lease transfers ownership of the asset to the lessee by the end of the lease term;

(b) the lessee has the option to purchase the asset at a price ~~which~~ that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, ~~so that~~ at the inception of the lease, ~~it is reasonably certain~~ that the option will be exercised;

(c) the lease term is for the major part of the economic life of the asset even if title is not transferred;

(d) at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;

(e) the leased assets are of such a specialized nature ~~such~~ that only the lessee can use them without major modifications ~~being made~~; and

(f) the leased assets cannot easily be replaced by another asset.

~~14~~16. Other indicators ~~which~~ that individually or in combination could also lead to a lease being classified as a finance lease are:

(a) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;

(b) gains or losses from the fluctuation in the fair value of the residual ~~fall~~ accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and

(c) the lessee has the ability to continue the lease for a secondary period at a rent which is substantially lower than market rent.

17. The examples and indicators in paragraphs 15 and 16 are not always conclusive. If it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership, the lease is classified as an operating lease. For example, this may be the case if ownership of the asset transfers at the end of the lease for a variable payment equal to its then fair value, or if there are contingent rents, as a result of which the lessee does not have substantially all such risks and rewards.

~~15~~18. Lease classification is made at the inception of the lease. If at any time the lessee and the lessor agree to change the provisions of the lease, other than by renewing the lease, in a manner that would have resulted in a different classification of the lease under the criteria in paragraphs ~~10~~12- ~~to 14~~17 ~~had~~ if the changed terms had been in effect at the inception of the lease, the revised agreement is ~~considered~~ regarded as a new agreement over its term. However, ~~C~~changes in estimates (for example, changes in estimates of the economic life or the residual value of the leased property), or changes in circumstances (for example, default by the lessee), ~~however,~~ do not give rise to a new classification of a lease for accounting purposes.

~~16~~19. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets. However, a characteristic of land is that it normally has an indefinite economic life and, if title is not expected to pass to the lessee by the end of the lease term, the lessee normally does not receive substantially all of the risks and rewards incidental to ownership, in which case the lease of land will be an operating lease. A ~~premium paid for~~ payment made on ~~such~~ entering into or acquiring a leasehold that is accounted for as an operating lease represents pre~~-~~paid lease payments ~~which~~ that are

amortized over the lease term in accordance with the pattern of benefits provided.

20. The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. If title to both elements is expected to pass to the lessee by the end of the lease term, both elements are classified as a finance lease, whether analyzed as one lease or as two leases, unless it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership of one or both elements. When the land has an indefinite economic life, the land element is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term, in accordance with paragraph 19. The buildings element is classified as a finance or operating lease in accordance with paragraphs 12-18.

21. Whenever necessary in order to classify and account for a lease of land and buildings, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the buildings elements in proportion to the relative fair values of the leasehold interests in the land element and buildings element of the lease at the inception of the lease. If the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

22. For a lease of land and buildings in which the amount that would initially be recognized for the land element, in accordance with paragraph 28, is immaterial, the land and buildings may be treated as a single unit for the purpose of lease classification and classified as a finance or operating lease in accordance with paragraphs 12-18. In such a case, the economic life of the buildings is regarded as the economic life of the entire leased asset.

23. Separate measurement of the land and buildings elements is not required when the lessee's interest in both land and buildings is classified as an investment property in accordance with IPSAS 16 and the fair value model is adopted. Detailed calculations are required for this assessment only if the classification of one or both elements is otherwise uncertain.

24. In accordance with IPSAS 16, it is possible for a lessee to classify a property interest held under an operating lease as an investment property. If it does, the property interest is accounted for as if it were a finance lease and, in addition, the fair value model is used for the asset recognized. The lessee shall continue to account for the lease as a finance lease, even if a subsequent event changes the nature of the lessee's property interest so that it is no longer classified as investment property. This will be the case if, for example, the lessee:

(a) occupies the property, which is then transferred to owner-occupied property at a cost equal to its fair value at the date of change in use; or

(b) grants a sublease that transfers substantially all of the risks and rewards incidental to ownership of the interest to an unrelated third party. Such a sublease is accounted for by the lessee as a finance lease to the third party, although it may be accounted for as an operating lease by the third party.

Leases in the Financial Statements of Lessees

Finance Leases

Initial Recognition

~~20~~28. **At the commencement of the lease term, ~~L~~lessees ~~should~~ shall recognize assets acquired under finance leases as assets and the associated lease obligations as liabilities in their statements of financial position. The assets and liabilities ~~should~~ shall be recognized at amounts equal ~~at the inception of the lease~~ to the fair value of the leased property or, if lower, ~~at~~ the present value of the minimum lease payments, each determined at the inception of the lease. ~~In calculating the present value of the minimum lease payments t~~The discount ~~factor~~ rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate ~~should~~ shall be used. Any initial direct costs of the lessee are added to the amount recognized as an asset.**

~~21~~29. Transactions and other events are accounted for and presented in accordance with their substance and financial reality and not merely with legal form. ~~While~~Although the legal form of a lease agreement is that the lessee may acquire no legal title to the leased asset, in the case of finance leases the substance and financial reality are that the lessee acquires the economic benefits or service potential of the use of the leased asset for the major part of its economic life in return for entering into an obligation to pay for that right an amount approximating, at the inception of the lease, ~~to~~ the fair value of the asset and the related finance charge.

~~22~~30. If such lease transactions are not reflected in the lessee's financial statements, the assets and liabilities of an entity are understated, thereby distorting financial ratios. Therefore, ~~I~~it is ~~therefore~~ appropriate ~~that~~ for a finance lease to be recognized in the lessee's financial statements both as an asset and as an obligation to pay future lease payments. At the ~~inception~~ commencement of the lease term, the asset and the liability for the future lease payments are recognized in the financial statements at the same amounts except for any initial direct costs of the lessee that are added to the amount recognized as an asset.

Subsequent Measurement

~~26~~34. **Minimum ~~L~~lease payments ~~should~~ shall be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge ~~should~~ shall be allocated to each periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability ~~for each period~~. Contingent rents shall be charged as expenses in the periods in which they are incurred.**

Leases in the Financial Statements of Lessors

Finance Leases

[Add new paragraph 50, delete paragraph 45]

Initial Recognition

50. Initial direct costs are often incurred by lessors and include amounts such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease. They exclude general overheads such as those incurred by a sales and marketing team. For finance leases other than those involving manufacturer or trader lessors, initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of revenue recognized over the lease term. The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the finance lease receivable; there is no need to add them separately. Costs incurred by manufacturer or trader lessors in connection with negotiating and arranging a lease are excluded from the definition of initial direct costs. As a result, they are excluded from the net investment in the lease and are recognized as an expense when the gain or loss on sale is recognized, which for a finance lease is normally at the commencement of the lease term.

Subsequent Measurement

~~45. Initial direct costs, such as commissions and legal fees, are often incurred by lessors in negotiating and arranging a lease. For finance leases, these initial direct costs are incurred to produce finance revenue and are either recognized immediately as an expense or allocated against revenue over the lease term.~~

~~47~~55. **If artificially low rates of interest are quoted, any gains or losses on sale of assets ~~should~~ shall be restricted to those which would apply if a ~~commercial~~ market rate of interest were charged. ~~Initial direct c~~Costs incurred by manufacturer or trader lessors in connection with negotiating and arranging a lease ~~should~~ shall be recognized as an expense ~~in the statement of financial performance at the inception of the lease~~ when the gain or loss is recognized.**

Operating Leases

~~57~~65. **Initial direct costs incurred by lessors in negotiating and arranging ~~specifically to earn revenues from~~ an operating lease ~~are either deferred~~ shall be added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease revenue.~~in proportion to the recognition of rent revenue, or recognized as an expense in the statement of financial performance in the period in which they are incurred.~~**

Transitional Provisions

[Add new paragraphs 83 and 84]

~~71~~79. **All provisions of this Standard ~~should~~ shall be applied from the date of first adoption of accrual accounting in accordance with International Public Sector Accounting Standards, except in relation to leased assets ~~which~~ that have not been recognized as a result of transitional provisions under another International Public Sector Accounting Standard. The provisions of this Standard would not be required to apply to such assets until the transitional provision in the other International Public Sector Accounting Standard expires. In no case ~~should~~ shall the existence of transitional provisions in other Standards preclude the full application of this Standard for a period exceeding five years after the date of first adoption of ~~this Standard~~ accrual accounting in accordance with International Public Sector Accounting Standards.**

~~72~~80. Notwithstanding the existence of transitional provisions under another International Public Sector Accounting Standard, entities that are in the process of adopting the accrual basis of accounting are encouraged to comply in full with the provisions of that other Standard as soon as possible.

~~73~~81. **Subject to paragraph 83, ~~R~~retrospective application of this Standard by entities that have already adopted the accrual basis of accounting and ~~which~~ that intend to comply with International Public Sector Accounting Standards as they are issued is encouraged but not required. If the Standard is not applied retrospectively, the balance of any pre-existing finance lease is deemed to have been properly determined by the lessor and ~~should~~ shall be accounted for thereafter in accordance with the provisions of this Standard.**

~~74~~82. Entities that have already adopted the accrual basis of accounting and ~~which~~ that intend to comply with International Public Sector Accounting Standards as they are issued, may have pre-existing finance leases ~~which~~ that have been recognized as assets and liabilities in the statement of financial position. Retrospective application of this Standard to existing finance leases is encouraged. Retrospective application could lead to the restatement of such

assets and liabilities. Such assets and liabilities are required to be restated only if the Standard is applied retrospectively.

83. **An entity that has previously applied IPSAS 13 (2001) shall apply the amendments made by this Standard retrospectively for all leases that it has recognized in accordance with that Standard or, if IPSAS 13 (2001) was not applied retrospectively, for all leases entered into since it first applied that Standard and recognized in accordance with that Standard.**

84. Transitional provisions in IPSAS 13 (2001) provide entities with a period of up to five years to recognize all leases from the date of its first application. Entities that have previously applied IPSAS 13 (2001) may continue to take advantage of this five-year transitional period from the date of first application of IPSAS 13 (2001).

Effective Date

~~75~~85. **An entity shall apply ~~T~~this International Public Sector Accounting Standard ~~becomes effective~~ for annual financial statements covering periods beginning on or after ~~1 January 2003~~ MM DD, YYYY. Earlier application is encouraged. If an entity applies this Standard for a period beginning before MM DD, YYYY, it shall disclose that fact.**

~~76~~86. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Withdrawal of IPSAS 13 (2001)

87. This Standard supersedes IPSAS 13, "Leases" issued in 2001.

International Public Sector Accounting Standard IPSAS 14

(revised 200X)

Events ~~A~~after the Reporting Date

[Note: For the purpose of this Exposure Draft, the new text is underlined and the deleted text is struck through.]

Specific Matters for Comment

The IPSASB would particularly value comments on the following question. It would be helpful to the IPSASB if these comments indicate the specific paragraph number or groups of paragraphs to which they relate, clearly explain the issue and suggest alternative wording, with supporting reasoning, where this is appropriate.

Question 1

Do you agree that IPSAS 14 should be revised as proposed to converge with the equivalent IAS 10 (December 2003)?

SUMMARY OF MAIN CHANGES IPSAS 14 EVENTS AFTER THE REPORTING DATE

The main changes proposed are:

Dividends/Distributions Declared after the Reporting Date

- To clarify in paragraph 16 that dividends or similar distributions declared after the reporting date are disclosed in the notes in accordance with IPSAS 1, "Presentation of Financial Statements". Previously, IPSAS 14 stated that an entity could make the disclosure of such distributions after the reporting date either on the face of the statement of financial position as a separate component of net assets/equity or in the notes.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 14—EVENTS ~~AFTER~~ AFTER THE REPORTING DATE

Recognition and Measurement

Adjusting Events ~~A~~after the Reporting Date

~~10~~11. The following are examples of adjusting events after the reporting date that require an entity to adjust the amounts recognized in its financial statements, or to recognize items that were not previously recognized:

(a) the settlement ~~resolution~~ after the reporting date of a court case that ~~which, because it~~ confirms that ~~an~~ the entity ~~already~~ had a present obligation at the reporting date. ~~, requires t~~The entity ~~to~~ adjusts ~~a~~ any previously recognized provision ~~already recognized,~~ related to this court case in accordance with IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets" or ~~to~~ recognizes a new provision. The entity does not ~~instead of~~ merely disclos~~e~~ing a contingent liability because the settlement provides additional evidence that would be considered in accordance with~~. Guidance on accounting for provisions and contingent liabilities is found in Accounting Standards on~~ paragraph 24 in IPSAS 19. ~~*Provisions, Contingent Liabilities and Contingent Assets*1;~~

……

Dividends/Distributions

~~13~~14. **If an entity declares dividends or similar distributions ~~are proposed or declared~~ after the reporting date, ~~an~~ the entity ~~should~~ shall not recognize those distributions as a liability at the reporting date.**

~~14~~15. Dividends may arise in the public sector when, for example, a public sector entity controls and consolidates the financial statements of a GBE that has outside ownership interests to whom it pays dividends. In addition, some public sector entities adopt a financial management framework, for example, "purchaser provider" models~~,~~ that require them to pay income distributions to their controlling entity, such as the central government.

~~15~~16. If ~~International Public Sector Accounting Standard IPSAS 1 *Presentation of Financial Statements* requires an entity to disclose the amount of~~ dividends or

~~[1] The Committee has published ED 21 *Provisions, Contingent Liabilities and Contingent Assets* which deals with the application of IAS 37 to the public sector. International Public Sector Accounting Standard IPSAS 1 Presentation of Financial Statements also includes requirements for the presentation of items in the financial statements and notes to the financial statements, including provisions, contingent liabilities and contingent assets.~~

similar distributions to owners are that were proposed or declared (ie the dividends or similar distributions are appropriately authorized and no longer at the discretion of the entity) after the reporting date but before the financial statements are were authorized for issue, the dividends are not recognized as a liability at the reporting date because they do not meet the criteria of a present obligation in IPSAS 19. Such dividends or similar distributions are disclosed in the notes in accordance with IPSAS 1, "Presentation of Financial Statements". Dividends and similar distributions do not include a return of capital. IPSAS 1 permits an entity to make this disclosure either:

(a) on the face of the statement of financial position as a separate component of net assets/equity; or

(b) in the notes to the financial statements.

Disclosure

Disclosure of Non-Adjusting Events Aafter the Reporting Date

2930. **If Where non-adjusting events after the reporting date are material,of such importance that non-disclosure wcould influence the economic decisions of users taken on the basis of the financial statements. affect the ability of the users of the financial statements to make proper evaluations and decisions, Accordingly, an entity should shall disclose the following information for each material significant category of non-adjusting event after the reporting date:**

(a) **the nature of the event; and**

(b) **an estimate of its financial effect, or a statement that such an estimate cannot be made.**

3031. The following are examples of non-adjusting events after the reporting date that would generally result in disclosuremay be of such importance that non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions:

……

(d) announcing a plan to discontinue an operation or major program, disposing of assets or settling liabilities attributable to a discontinuedding operation[2] or major program, or entering into binding

[2] IFAC PSC has not yet addressed the issue of discontinuing operations, which was previously included within International Accounting Standard IAS 8 (Revised 1993), *Net Profit/Loss for the Period, Fundamental Errors and Changes in Accounting Policies* and which is now the subject of a separate Standard, International Accounting Standard IAS 35 (1998), Discontinuing Operations. Consistent with the definition in IAS 35, the term discontinuing operation as used in this Standard refers to a component of an entity:

(a) that the entity, pursuant to a single plan, is:

agreements to sell such assets or settle such liabilities~~. International Accounting Standard IAS 35, *Discontinuing Operations* provides~~ (guidance on the treatment and disclosure of discontinued~~ing~~ operations can be found in the relevant international or national accounting standard dealing with discontinued operations);

(e) major purchases and disposals of assets;

….

(j) in the case of entities that are liable for income tax or income tax equivalents, changes in tax rates or tax laws enacted or announced after the reporting date that have a significant effect on current and deferred tax assets and liabilities (~~International Accounting Standard IAS 12, *Income Taxes* contains~~ guidance on accounting for income taxes can be found in the relevant international or national accounting standard dealing with income taxes);

……

~~(i) disposing of substantially in its entirety, such as by selling the component in a single transaction, by demerger or spin off of ownership of the component to the entity's owners;~~

~~(ii) disposing of piecemeal, such as by selling off the component's assets and settling its liabilities individually; or~~

~~(iii) terminating through abandonment;~~

~~(b) that represents a separate major activity/line of business or geographical area of operations; and~~

~~(c) that can be distinguished operationally and for financial reporting purposes.~~.

Appendix

Amendments to Other International Public Sector Accounting Standards

The amendments in this appendix shall be applied for annual financial statements covering periods beginning on or after MM DD, YYYY. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

A1. In IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets” paragraph 87 is amended to read as follows:

87. A decision by management or the governing body to restructure taken before the reporting date does not give rise to a constructive obligation at the reporting date unless the entity has, before the reporting date:

(a) started to implement the restructuring plan; or

(b) announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

~~In some cases,~~If an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the reporting date,~~. D~~ disclosure~~ may be~~ is required under International Public Sector Accounting Standard 14, “Events ~~A~~after the Reporting Date” (IPSAS 14), if the restructuring is~~ of such importance~~ material~~ that its~~ and non-disclosure~~ would~~ could~~ affect~~ influence the~~ ability~~ economic decision of~~ the~~ users~~ of~~ taken on the financial statements ~~to make proper evaluations and decisions~~.

A2. In International Public Sector Accounting Standards applicable at MM YYYY, references to the current version of IPSAS 14, “Events After the Reporting Date” are amended to IPSAS 14, “Events after the Reporting Date”.

International Public Sector Accounting Standard IPSAS 16

(revised 200X)

Investment Property

[Note: For the purpose of this Exposure Draft, the new text is underlined and the deleted text is struck through.]

Specific Matters for Comment

The IPSASB would particularly value comments on the following question. It would be helpful to the IPSASB if these comments indicate the specific paragraph number or groups of paragraphs to which they relate, clearly explain the issue and suggest alternative wording, with supporting reasoning, where this is appropriate.

Question 1

Do you agree that IPSAS 16 should be revised as proposed to converge with the equivalent IAS 40 (December 2003)?

SUMMARY OF MAIN CHANGES IPSAS 16 INVESTMENT PROPERTY

The main changes proposed are:

Property Interests Held by a Lessee under an Operating Lease

- To allow in paragraph 8 a property interest held by a lessee under an operating lease to be classified and accounted for as investment property provided certain criteria are met.
- To require a lessee that classifies a property interest held under an operating lease as investment property to account for the lease as if it were a finance lease in accordance with IPSAS 13, "Leases", ie the asset shall be recognized at the lower of the fair value of the property interest and the present value of the minimum lease payments. The fair value is determined by reference to that interest and not the underlying property (paragraphs 34-35).
- To specify that the subsequent measurement choice between cost model and fair value model is not available for a lessee accounting for a property interest held under an operating lease that it has elected to classify as investment property. Such investment property is required to be measured using the fair value model. Once this alternative is selected for one such property, all other properties classified as investment properties held by the entity are to be accounted for consistently on a fair value basis (paragraphs 42-43). Previously, IPSAS 16 did not contain these requirements.

Changes to Reflect Equivalent Requirements in Proposed IPSAS 17, "Property, Plant and Equipment"

- To require an entity to apply one general asset recognition principle to all investment property costs at the time they are incurred, including initial costs and subsequent expenditures. Previously, IPSAS 16 contained two recognition principles: one applied to initial costs while another applied to subsequent expenditures (paragraphs 20-23, 25).
- To require an entity to measure investment property acquired in an asset exchange transaction at fair value unless the transaction lacks commercial substance, or the fair value of neither the asset given up, nor the asset received, can be reliably measured. Previously, IPSAS 16 did not contain requirements with regard to the accounting treatment for asset exchange transactions (paragraphs 36-38).
- To require an entity to derecognize the carrying amount of a part of an investment property if that part has been replaced and the cost of replacement has been included in the carrying amount of the asset (paragraph 79). Previously, the derecognition principle contained in IPSAS 16 did not apply to replaced parts. The recognition principle for subsequent expenditures in IPSAS 16

effectively precluded the cost of a replacement from being included in the carrying amount of the asset.

- To require an entity to include compensation from third parties for an investment property that was impaired, lost or given up in surplus or deficit when the compensation becomes receivable. Previously, IPSAS 16 did not contain this requirement (paragraph 83).

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 16—INVESTMENT PROPERTY

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Comparison with IAS 40

International Public Sector Accounting Standard 16, "Investment Property" (IPSAS 16) is set out in paragraphs 1-103. All the paragraphs have equal authority. IPSAS 16 should be read in the context of its objective, the Basis for Conclusions, and the "Preface to International Public Sector Accounting Standards". IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors" provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 16—INVESTMENT PROPERTY

~~*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 International Public Sector Accounting Standards". International Public Sector Accounting Standards are not intended to apply to immaterial items.*~~

Objective

1. The objective of this International Public Sector Accounting Standard is to prescribe the accounting treatment for investment property and related disclosure requirements.

Scope

~~1~~2. **An entity ~~which~~ that prepares and presents financial statements under the accrual basis of accounting ~~should~~ shall apply this Standard in accounting for investment property.**

~~2~~3. **This Standard applies to all public sector entities other than Government Business Enterprises.**

~~3~~4. This Standard ~~deals with~~ applies to accounting for investment property including the measurement in a lessee's financial statements of investment property interests held under a lease accounted for as a finance lease and ~~with~~ to the measurement in a lessor's financial statements of investment property ~~leased out~~ provided to a lessee under an operating lease. This Standard does not deal with matters covered in International Public Sector Accounting Standard 13, "Leases" (IPSAS 13), including:

(a) classification of leases as finance leases or operating leases;

(b) recognition of lease revenue ~~earned on~~ from investment property (see also International Public Sector Accounting Standard 9, "Revenue from Exchange Transactions" (IPSAS 9));

(c) measurement in a lessee's financial statements of property interests held under a lease accounted for as an operating lease;

(d) measurement in a lessor's financial statements of ~~property leased out~~ its net investment ~~under~~in a finance lease;

(e) accounting for sale and leaseback transactions; and

(f) disclosure about finance leases and operating leases.

~~4~~5. This Standard does not apply to:

(a) ~~forests and similar regenerative natural resources~~biological assets related to agricultural activity (see the relevant international or national accounting standard dealing with agriculture); and

(b) mineral rights~~, the exploration for and extraction of minerals,~~ and mineral reserves such as oil, natural gas and similar non-regenerative resources.

~~5~~6. The "Preface to International Public Sector Accounting Standards" issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). ~~Government Business Enterprises (~~GBEs~~)~~ are defined in IPSAS 1, "Presentation of Financial Statements". ~~required to comply with International Accounting Standards (IASs) issued by the International Accounting Standards Committee. The Public Sector Committee's Guideline No. 1~~ ~~*Financial Reporting by Government Business Enterprises*~~ ~~notes that IASs are relevant to all business enterprises, regardless of whether they are in the private or public sector. Accordingly, Guideline No. 1 recommends that GBEs should present financial statements that conform, in all material respects, to IASs.~~

Definitions

~~6~~7. **The following terms are used in this Standard with the meanings specified:**

Carrying amount is (for the purpose of this Standard) the amount at which an asset is recognized in the statement of financial position.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

(a) **use in the production or supply of goods or services or for administrative purposes; or**

(b) **sale in the ordinary course of operations.**

Owner-occupied property is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.

Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.

Property Interest held by a Lessee under an Operating Lease

8. **A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, the property would otherwise meet the definition of an investment property and the lessee uses the fair value model set out in paragraphs 42-64 for the asset recognized. This classification alternative is available on a property-by-property basis. However, once this classification alternative is selected for one such property interest held under an operating lease, all property classified as investment property shall be accounted for using the fair value model. When this classification alternative is selected, any interest so classified is included in the disclosures required by paragraphs 85-89.**

Investment Property

~~7~~9. There are a number of circumstances in which public sector entities may hold property to earn rental and for capital appreciation. For example, a public sector entity (other than a GBE) may be established to manage a government's property portfolio on a commercial basis. In this case, the property held by the entity, other than property held for resale in the ordinary course of operations, meets the definition of an investment property. Other public sector entities may also hold property for rentals or capital appreciation and use the cash generated to finance their other (service delivery) activities. For example, a university or local government may own a building for the purpose of leasing on a commercial basis to external parties to generate funds, rather than to produce or supply goods and services. This property would also meet the definition of investment property.

~~8~~10. Investment property is held to earn rentals or for capital appreciation or both. Therefore, investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from other land or buildings controlled by public sector entities, including owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) can also generate cash flows. For example, public sector entities may use a building to provide goods and services to recipients in return for full or partial cost recovery. However, the building is held to facilitate the production of goods and services and the cash flows are attributable not ~~merely~~ only to the building, but also to other assets used in the production or supply process. International Public Sector Accounting Standard 17, "Property, Plant and Equipment" (IPSAS 17) applies to owner-occupied property.

~~9~~11. In some public sector jurisdictions, certain administrative arrangements exist such that an entity may control an asset that may be legally owned by another entity. For example, a government department may control and account for certain buildings that are legally owned by the State. In such circumstances, references to owner-occupied property means property occupied by the entity that recognizes the property in its financial statements.

~~10~~12. The following are examples of investment property:

(a) land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations. For example, land held by a hospital for capital appreciation which may be sold at a beneficial time in the future~~;~~.

(b) land held for a currently undetermined future use. (If an entity has not determined that it will use the land ~~either~~ as owner-occupied property, including occupation to provide services such as those provided by national parks to current and future generations, or for short-term sale in the ordinary course of operations, the land is ~~considered to be~~ regarded as held for capital appreciation.)~~;~~

(c) a building owned by the ~~reporting~~ entity (or held by the ~~reporting~~ entity under a finance lease) and leased out under one or more operating leases on a commercial basis. For example, a university may own a building that it leases on a commercial basis to external parties.~~; and~~

(d) a building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

~~11~~13. The following are examples of items that are not investment property and are therefore ~~fall~~ outside the scope of this Standard:

(a) property held for sale in the ordinary course of operations or in the process of construction or development for such sale (see International Public Sector Accounting Standard 12, "Inventories" (IPSAS 12)). For example, a municipal government may routinely supplement rate income by buying and selling property, in which case property held exclusively with a view to subsequent disposal in the near future or for development for resale is classified as inventory. A housing department may routinely sell part of its housing stock in the ordinary course of its operations as a result of changing demographics, in which case any housing stock held for sale is classified as inventory~~;~~.

(b) property being constructed or developed on behalf of third parties. For example, a property and service department may enter into construction contracts with entities external to its government (see International Public Sector Accounting Standard 11, "Construction Contracts" (IPSAS 11))~~;~~.

(c) owner-occupied property (see IPSAS 17), including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for military personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal~~;~~.

(d) property that is being constructed or developed for future use as investment property. IPSAS 17 applies to such property until construction or development is complete, at which time the property becomes investment property and this Standard applies. However, this Standard~~ does~~ applies~~y~~ to existing investment property that is being redeveloped for continued future use as investment property (see paragraph ~~61~~68)~~;~~.

(e) property that is leased to another entity under a finance lease.

~~(e)~~(f) property held to provide a social service and which also generates cash inflows. For example, a housing department may hold a large housing stock used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held. Such property is not considered an "investment property" and would be accounted for in accordance with IPSAS 17.~~; and~~

~~(f)~~(g) property held for strategic purposes which would be accounted for in accordance with IPSAS 17.

~~12~~14. In many jurisdictions, public sector entities will hold property to meet service delivery objectives rather than to earn rental or for capital appreciation. In such situations, the property will not meet the definition of investment property. However, where a public sector entity does hold property to earn rental or for capital appreciation, this Standard is applicable. In some cases, public sector entities hold~~ certain~~ some property that~~ includes~~ comprises a portion that is held to earn rentals or for capital appreciation rather than to provide services and another portion that is held for use in the production or supply of goods or services or for administrative purposes. For example, a hospital or a university may own a building, part of which is used for administrative purposes, and part of which is leased out as apartments on a commercial basis. If these portions could be sold separately (or leased out separately under a finance lease), an entity accounts for the portions separately. If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

~~13~~15. In~~ certain~~ some cases, an entity provides ancillary services to the occupants of a property it holds~~ held by the entity~~. An entity treats such a property as

investment property if the services are~~ a relatively~~ insignificant~~ component of~~ to the arrangement as a whole. An example~~ would be where~~ is when a government agency owns an office building which is held exclusively for rental purposes and rented on a commercial basis and also provides security and maintenance services to the lessees who occupy the building.

~~14~~16. In other cases, the services provided are~~ a more~~ significant~~ component~~. For example, a government may own a hotel or hostel that it manages through its general property management agency. The services provided to guests are~~ a~~ significant~~ component of~~ to the arrangement as a whole. Therefore, an owner-managed hotel or hostel is owner-occupied property, rather than investment property.

~~15~~17. It may be difficult to determine whether ancillary services are so significant that a property does not qualify as investment property. For example, a government or government agency who~~which~~ is the owner of a hotel may transfer~~ certain~~ some responsibilities to third parties under a management contract. The terms of such management contracts vary widely. At one end of the spectrum, the government's or government agency's position may, in substance, be that of a passive investor. At the other end of the spectrum, the government or government agency may simply have outsourced~~ certain~~ day-to-day functions while retaining significant exposure to variation in the cash flows generated by the operations of the hotel.

~~16~~18. Judgment is needed to determine whether a property qualifies as investment property. An entity develops criteria so that it can exercise that judgment consistently in accordance with the definition of investment property and with the related guidance in paragraphs ~~7~~9 to ~~15~~17. Paragraph ~~75~~86(~~a~~c) requires an entity to disclose these criteria when classification is difficult.

~~17.~~ [deleted]

~~18~~19. In some cases, an entity owns property that is leased to, and occupied by, its controlling entity or another controlled entity. The property does not qualify as investment property in consolidated financial statements~~ that include both entities~~, because the property is owner-occupied from the perspective of the economic entity~~ as a whole~~. However, from the perspective of the~~ individual~~ entity that owns it, the property is investment property if it meets the definition in paragraph ~~6~~7. Therefore, the lessor treats the property as investment property in its individual financial statements. This situation may arise where a government establishes a property management entity to manage government office buildings. The buildings are then leased out to other government entities on a commercial basis. In the financial statements of the property management entity, the property would be accounted for as investment property. However, in the consolidated financial statements of the government, the property would be accounted for as property, plant and equipment in accordance with IPSAS 17.

Recognition

~~19~~20. **Investment property ~~should~~ shall be recognized as an asset when, and only when:**

(a) **it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity; and**

(b) **the cost or fair value of the investment property can be measured reliably.**

~~20~~21. In determining whether an item satisfies the first criterion for recognition, an entity needs to assess the degree of certainty attaching to the flow of future economic benefits or service potential on the basis of the available evidence at the time of initial recognition. Existence of sufficient certainty that the future economic benefits or service potential will flow to the entity necessitates an assurance that the entity will receive the rewards attaching to the asset and will undertake the associated risks. This assurance is usually only available when the risks and rewards have passed to the entity. Before this occurs, the transaction to acquire the asset can usually be cancelled without significant penalty and, therefore, the asset is not recognized.

~~21~~22. The second criterion for recognition is usually readily satisfied because the exchange transaction evidencing the purchase of the asset identifies its cost. As specified in paragraph ~~23~~27 of this Standard, under certain circumstances an investment property may be acquired at no cost or for a nominal cost. In such cases, cost is the investment property's fair value as at the date of acquisition.

23. An entity evaluates under this recognition principle all its investment property costs at the time they are incurred. These costs include costs incurred initially to acquire an investment property and costs incurred subsequently to add to, replace part of, or service a property.

24. Under the recognition principle in paragraph 20, an entity does not recognize in the carrying amount of an investment property the costs of the day-to-day servicing of such a property. Rather, these costs are recognized in surplus or deficit as incurred. Costs of day-to-day servicing are primarily the costs of labor and consumables, and may include the cost of minor parts. The purpose of these expenditures is often described as for the "repairs and maintenance" of the property.

25. Parts of investment property may have been acquired through replacement. For example, the interior walls may be replacements of original walls. Under the recognition principle, an entity recognizes in the carrying amount of an investment property the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of this Standard.

~~Initial~~ Measurement at Recognition

~~22~~26. **Investment property ~~should~~shall be measured initially at its cost (transaction costs ~~should~~ shall be included in this initial measurement).**

~~23~~27. **Where an investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.**

~~24~~28. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs.

~~25~~29. The cost of a self-constructed investment property is its cost at the date when the construction or development is complete. Until that date, an entity applies IPSAS 17. At that date, the property becomes investment property and this Standard applies (see paragraphs ~~59~~66(e) and ~~69~~76 ~~below~~).

~~26~~30. The cost of investment property is not increased by:

(a) start-up costs (unless they are necessary to bring the property to ~~its working~~ the condition necessary for it to be capable of operating in the manner intended by management),

(b) ~~initial~~ operating losses incurred before the investment property achieves the planned level of occupancy, or

(c) abnormal amounts of wasted material, labor or other resources incurred in constructing or developing the property.

~~27~~31. If payment for investment property is deferred, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit.

~~28~~32. An investment property may be gifted or contributed to the entity. For example, a national government may transfer at no charge a surplus office building to a local government entity, which then lets it out at market rent. An investment property may also be acquired for no cost, or for a nominal cost, through the exercise of powers of sequestration. In these circumstances, the cost of the property is its fair value as at the date it is acquired.

~~29~~33. Where an entity initially recognizes its investment property at fair value in accordance with paragraph ~~23~~27, the fair value is the cost of the property. The entity ~~may~~ shall decide, subsequent to initial recognition, to adopt either the fair value model (paragraphs ~~35~~42- ~~to 57~~64) or the cost model (paragraph ~~58~~65).

34. **The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease by paragraph 28 of IPSAS 13, that is the asset shall be recognized at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount shall be recognized as a liability in accordance with that same paragraph.**

35. Any premium paid for a lease is treated as part of the minimum lease payments for this purpose, and is therefore included in the cost of the asset, but is excluded from the liability. If a property interest held under a lease is classified as investment property, the item accounted for at fair value is that interest and not the underlying property. Guidance on determining the fair value of a property interest is set out for the fair value model in paragraphs 42-61. That guidance is also relevant to the determination of fair value when that value is used as cost for initial recognition purposes.

36. One or more investment properties may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an investment property is measured at fair value unless (a) the exchange transaction lacks commercial substance, or (b) the fair value of neither the asset received, nor the asset given up, is reliably measurable. The acquired asset is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

37. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. An exchange transaction has commercial substance if:

(a) the configuration (risk, timing and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred, or

(b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange, and

(c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows, if tax applies. The result of these analyses may be clear without an entity having to perform detailed calculations.

38. The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset, or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If the entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.

~~Subsequent Expenditure~~

~~30.~~ [deleted]

~~31.~~ [deleted]

Measurement ~~Subsequent to Initial~~ after Recognition

Accounting Policy

~~32~~39. **With the exception noted in paragraph 43, ~~A~~an entity ~~should~~ shall choose as its accounting policy either the fair value model in paragraphs ~~35~~42- ~~to 57~~64 or the cost model in paragraph ~~58~~65 ~~as its accounting policy~~ and ~~should~~ shall apply that policy to all of its investment property.**

~~33~~40. International Public Sector Accounting Standard 3, "~~Net Surplus or Deficit for the Period,~~ Accounting Policies, Changes in Accounting Estimates and ~~Fundamental~~ Errors ~~and Changes in Accounting Policies~~" (IPSAS 3)~~,~~ states that a voluntary change in accounting policy ~~should~~ shall be made only if the change will result in a more appropriate presentation of ~~events or~~ transactions, other events or conditions in the entity's financial statements ~~of the entity~~. It is highly unlikely that a change from the fair value model to the cost model will result in a more appropriate presentation.

~~34~~41. This Standard requires all entities to determine the fair value of investment property, for the purpose of either measurement (if the entity uses the fair value model) or disclosure (if it uses the cost model). An entity is encouraged, but not required, to determine the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognized and relevant professional qualification and ~~who~~ has recent experience in the location and category of the investment property being valued.

Fair Value Model

~~35~~42. **After initial recognition, an entity that chooses the fair value model ~~should~~ shall measure all of its investment property at ~~its~~ fair value, except in the ~~exceptional~~ cases described in paragraph ~~55~~62.**

43. **When a property interest held by a lessee under an operating lease is classified as an investment property under paragraph 8, paragraph 39 is not elective; the fair value model shall be applied.**

~~36~~44. **A gain or loss arising from a change in the fair value of investment property ~~should~~ shall be ~~included~~ recognized in ~~net~~ surplus~~/~~ or deficit for the period in which it arises.**

~~37~~45. The fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction (see paragraph 7).~~usually its market value. Fair value is measured as the most probable price reasonably obtainable in the market at the reporting date in keeping with the fair value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate~~ Fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale.

~~38~~46. An entity determines fair value without any deduction for transaction costs ~~that the entity~~ it may incur on sale or other disposal.

~~39~~47. **The fair value of investment property ~~should~~ shall reflect ~~the actual~~ market ~~state and circumstances as of~~ conditions at the reporting date~~, not as of either a past or future date~~.**

~~40~~48. ~~The estimated f~~Fair value is time~~-~~specific as of a given date. Because ~~markets and~~ market conditions may change, the ~~estimated value~~ amount reported as fair value may be incorrect or inappropriate if estimated ~~at~~ as of another time. The definition of fair value also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might be made in an arm's length transaction between knowledgeable, willing parties if exchange and completion are not simultaneous.

~~41~~49. The fair value of investment property reflects, among other things, rental revenue from current leases and reasonable and supportable assumptions that represent ~~the market's view of~~ what knowledgeable, willing parties would assume about rental revenue from future leases in the light of current ~~market~~ conditions. It also reflects, on a similar basis, any cash outflows (including rental payments and other outflows) that could be expected in respect of the property. Some of those outflows are reflected in the liability whereas others relate to outflows that are not recognized in the financial statements until a later date (eg periodic payments such as contingent rents).

50. Paragraph 34 specifies the basis for initial recognition of the cost of an interest in a leased property. Paragraph 42 requires the interest in the leased property to be remeasured, if necessary, to fair value. In a lease negotiated at market rates, the fair value of an interest in a leased property at acquisition, net of all expected lease payments (including those relating to recognized liabilities), should be zero. This fair value does not change regardless of whether, for accounting purposes, a leased asset and liability are recognized at fair value or at the present value of minimum lease payments, in accordance

with paragraph 28 of IPSAS 13. Thus, remeasuring a leased asset from cost in accordance with paragraph 34 to fair value in accordance with paragraph 42 should not give rise to any initial gain or loss, unless fair value is measured at different times. This could occur when an election to apply the fair value model is made after initial recognition.

~~42~~51. The definition of fair value refers to “knowledgeable, willing parties”. In this context, “knowledgeable” means that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the investment property, its actual and potential uses, and ~~the state of the~~ market conditions ~~as of~~ at the reporting date.

~~43.~~ A willing buyer is motivated, but not compelled, to buy. This buyer is neither over-eager nor determined to buy at any price. ~~This buyer is also one who purchases in accordance with the realities of the current market, and with the current market expectations, rather than an imaginary or hypothetical market that cannot be demonstrated or anticipated to exist.~~ The assumed buyer would not pay a higher price than ~~the~~ a market comprising knowledgeable, willing buyers and sellers would require~~s~~. ~~The present owner of an investment property is included among those who constitute the market.~~

~~44~~52. A willing seller is neither an over-eager nor a forced seller, prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in ~~the~~ current market conditions. The willing seller is motivated to sell the investment property at market terms for the best price obtainable. ~~in the open market after proper marketing, whatever that price may be.~~ The factual circumstances of the actual investment property owner are not a part of this consideration because the willing seller is a hypothetical owner (eg a willing seller would not take into account the particular tax circumstances of the actual investment property owner).

~~45.~~ [deleted]

~~46~~53. The definition of fair value refers to an arm’s length transaction. An arm’s length transaction is one between parties ~~who~~ that do not have a particular or special relationship that makes prices of transactions uncharacteristic of ~~the~~ market conditions. The transaction is presumed to be between unrelated parties, each acting independently.

~~47~~54. The best evidence of fair value is ~~normally~~ given by current prices ~~on~~ in an active market for similar property in the same location and condition and subject to similar lease and other contracts. An entity takes care to identify any differences in the nature, location or condition of the property, or in the contractual terms of the leases and other contracts relating to the property.

~~48~~55. In the absence of current prices ~~on~~ in an active market of the kind described in paragraph ~~47~~54, an entity considers information from a variety of sources, including:

(a) current prices ~~on~~ in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (~~where~~ when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

~~49~~56. In some cases, the various sources listed in the previous paragraph may suggest different conclusions ~~as to~~ about the fair value of an investment property. An entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a ~~relatively narrow~~ range of reasonable fair value estimates.

~~50~~57. In exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes an investment property following the completion of construction or development, or after a change in use) that the variability in the range of reasonable fair value estimates will be so great, and the probabilities of the various outcomes ~~will be~~ so difficult to assess, that the usefulness of a single estimate of fair value is negated. This may indicate that the fair value of the property will not be reliably determinable ~~reliably~~ on a continuing basis (see paragraph ~~55~~62).

~~51~~58. Fair value differs from value in use, as defined in IPSAS 21, "Impairment of Non-Cash-Generating Assets" and International Accounting Standard 36, "Impairment of Assets" (IAS 36) [1]. Fair value reflects knowledge and estimates of ~~participants in the market, as well as factors that are relevant to market participants in general~~ knowledgeable, willing buyers and sellers. In contrast, value in use reflects the entity's ~~knowledge and~~ estimates, ~~as well as entity-specific~~ including the effects of factors that may be specific to the entity and ~~that are~~ not applicable to entities in general. For example, fair value

[1] IPSAS 21 defines value in use of a non-cash-generating asset as "the present value of the asset's remaining service potential". IAS 36~~, "Impairment of Assets",~~ defines value in use as "the present value of ~~estimated~~ the future cash flows expected to ~~arise~~ be derived from ~~the continuing use of~~ an asset ~~and from its disposal at the end of its life~~ or cash-generating unit". The ~~PSC~~IPSASB is currently developing a Standard on impairment of cash-generating assets based on IAS 36. ~~The PSC has issued an Invitation to Comment (ITC) *Impairment of Assets* (issued July 2000). Responses received on this ITC will assist the PSC in developing an International Public Sector Accounting Standard on the impairment of assets.~~

does not reflect any of the following factors to the extent that they would not be generally available to knowledgeable, willing buyers and sellers:

(a) additional value derived from the creation of a portfolio of properties in different locations;

(b) synergies between investment property and other assets;

(c) legal rights or legal restrictions that are specific only to the current owner; and

(d) tax benefits or tax burdens that are specific to the current owner.

~~52~~59. In determining the fair value of investment property, an entity ~~avoids~~ does not double~~-~~count~~ing of~~ assets or liabilities that are recognized ~~in the statement of financial position~~ as separate assets or liabilities. For example:

(a) equipment such as elevators or air-conditioning is often an integral part of a building and is generally included in the fair value of the investment property, rather than ~~being~~ recognized separately as property, plant and equipment.~~;~~

(b) if an office is leased on a furnished basis, the fair value of the office generally includes the fair value of the furniture, because the rental revenue relates to the furnished office. When furniture is included in the fair value of investment property, an entity does not recognize that furniture as a separate asset.~~; and~~

(c) the fair value of investment property excludes prepaid or accrued operating lease revenue, ~~as~~ because the entity recognizes it as a separate liability or asset.

(d) the fair value of investment property held under a lease reflects expected cash flows (including contingent rent that is expected to become payable). Accordingly, if a valuation obtained for a property is net of all payments expected to be made, it will be necessary to add back any recognized lease liability, to arrive at the fair value of the investment property for accounting purposes.

~~53~~60. The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure.

~~54~~61. In some cases, an entity expects that the present value of its payments relating to an investment property (other than payments relating to recognized ~~financial~~ liabilities) will exceed the present value of the related cash receipts. ~~Guidance on accounting for any liability that may arise in this situation may be found in Accounting Standards on~~ An entity applies IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets" to determine whether to recognize a liability and, if so, how to measure it.

Inability to ~~Measure~~ Determine Fair Value Reliably

~~55~~62. **There is a rebuttable presumption that an entity ~~will be able to~~ can reliably determine the fair value of an investment property ~~reliably~~ on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property following the completion of construction or development, or after a change in use) that ~~the entity will not be able to determine~~ the fair value of the investment property is not reliably determinable on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative reliable estimates of fair value (for example, based on discounted cash flow projections) are not available. In such cases, an entity ~~should~~ shall measure that investment property using the ~~benchmark treatment~~ cost model in IPSAS 17~~, "Property, Plant and Equipment"~~. The residual value of the investment property ~~should~~ shall be assumed to be zero. The entity ~~should continue to~~ shall apply IPSAS 17 until ~~the~~ disposal of the investment property.**

~~56~~63. In the exceptional cases when an entity is compelled, for the reason given in the previous paragraph, to measure an investment property using the cost model in accordance with IPSAS 17~~, benchmark treatment (being the cost model as explained in paragraph 58 below), the entity~~ it measures all its other investment property at fair value. In these cases, although an entity may use the cost model for one investment property, the entity shall continue to account for each of the remaining properties using the fair value model.

~~57~~64. **If an entity has previously measured an investment property at fair value, ~~the entity~~ it ~~should~~ shall continue to measure the property at fair value until disposal (or until the property becomes owner-occupied property or the entity begins to develop the property for subsequent sale in the ordinary course of operations) even if comparable market transactions become less frequent or market prices become less readily available.**

Cost Model

~~58~~65. **After initial recognition, an entity that chooses the cost model ~~should~~ shall measure all of its investment property ~~using the benchmark treatment~~ in accordance with IPSAS 17's ~~Property, Plant and Equipment~~ requirements for that model, that is, at cost less any accumulated depreciation and any accumulated impairment losses.**

Transfers

~~59~~66. **Transfers to, or from, investment property ~~should~~ shall be made when, and only when, there is a change in use, evidenced by:**

(a) **commencement of owner-occupation, for a transfer from investment property to owner-occupied property;**

(b) **commencement of development with a view to sale, for a transfer from investment property to inventories;**

(c) **end of owner-occupation, for a transfer from owner-occupied property to investment property;**

(d) **commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property; or**

(e) **end of construction or development, for a transfer from property in the course of construction or development (covered by IPSAS 17 ~~Property, Plant and Equipment~~) to investment property.**

~~60~~67. A government's use of property may change over time. For example, a government may decide to occupy a building currently used as an investment property or to convert a building currently used as naval quarters or for administrative purposes into a hotel and to let that building to private sector operators. In the former case, the building would be accounted for as an investment property until commencement of occupation. In the latter case, the building would be accounted for as property, plant and equipment until its occupation ceased and it is reclassified as an investment property.

~~61~~68. Paragraph ~~59~~66(b) ~~above~~ requires an entity to transfer a property from investment property to inventories when, and only when, there is a change in use, evidenced by commencement of development with a view to sale. When an entity decides to dispose of an investment property without development, ~~the entity~~ it continues to treat the property as an investment property until it is derecognized (eliminated from the statement of financial position) and does not treat it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, ~~it~~ the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment.

~~62~~69. A government property department may regularly review its buildings to determine whether they are meeting its requirements, and as part of that process may identify, and hold, certain buildings for sale. In this situation, the building may be considered inventory. However, if the government decided to hold the building for its ability to generate rent revenue and its capital appreciation potential it would be reclassified as an investment property on commencement of any subsequent operating lease.

~~63~~70. Paragraphs ~~64~~71 ~~to 69~~76 ~~deal with~~ apply to recognition and measurement issues that ~~apply~~ arise when an entity uses the fair value model for investment property. When an entity uses the cost model, transfers between investment property, owner-occupied property and inventories do not change the carrying

amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

~~64~~71. **For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's cost for subsequent accounting ~~under~~ in accordance with IPSAS 17 ~~Property, Plant and Equipment~~ or IPSAS 12~~, "Inventories" should~~ shall be its fair value at the date of change in use.**

~~65~~72. **If an owner-occupied property becomes an investment property that will be carried at fair value, an entity ~~should~~ shall apply IPSAS 17 ~~Property, Plant and Equipment~~ up to the date of change in use. The entity ~~should~~ shall treat any difference at that date between the carrying amount of the property ~~under~~ in accordance with IPSAS 17 and its fair value in the same way as a revaluation ~~under~~ in accordance with IPSAS 17.**

~~66~~73. Up to the date when an owner-occupied property becomes an investment property carried at fair value, an entity ~~continues to~~ depreciates the property and ~~to~~ recognizes any impairment losses that have occurred. The entity treats any difference at that date between the carrying amount of the property ~~under~~ in accordance with IPSAS 17 and its fair value in the same way as a revaluation ~~under~~ in accordance with IPSAS 17. ~~This means that~~ In other words:

(a) any resulting decrease in the carrying amount of the property is recognized in ~~net~~ surplus~~/~~ or deficit ~~for the period~~. However, to the extent that an amount is included in revaluation surplus for that property, the decrease is charged against that revaluation surplus~~; and~~.

(b) any resulting increase in the carrying amount is treated as follows:

(i) to the extent that the increase reverses a previous impairment loss for that property, the increase is recognized in ~~net~~ surplus~~/~~ or deficit ~~for the period~~. The amount recognized in ~~net~~ surplus~~/~~ or deficit ~~for the period~~ does not exceed the amount needed to restore the carrying amount to the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized~~; and~~.

(ii) any remaining part of the increase is credited directly to equity ~~under the heading of~~ in revaluation surplus. On subsequent disposal of the investment property, the revaluation surplus included in equity may be transferred to accumulated surpluses or deficits. The transfer from revaluation surplus to accumulated surpluses or deficits is not made through ~~the statement of financial performance~~ surplus or deficit.

~~67~~74. **For a transfer from inventories to investment property that will be carried at fair value, any difference between the fair value of the**

property at that date and its previous carrying amount ~~should~~ shall be recognized in ~~net~~ surplus~~/~~ or deficit ~~for the period~~.

~~68~~75. The treatment of transfers from inventories to investment property that will be carried at fair value is consistent with the treatment of sales of inventories.

~~69~~76. **When an entity completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount ~~should~~ shall be recognized in ~~net~~ surplus~~/~~ or deficit ~~for the period~~.**

Disposals

~~70~~77. **An investment property ~~should~~ shall be derecognized (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.**

~~71~~78. The disposal of an investment property may ~~occur~~ be achieved by sale or by entering into a finance lease. In determining the date of disposal for investment property, an entity applies the criteria in IPSAS 9 for recognizing revenue from the sale of goods and considers the related guidance in the Appendix to IPSAS 9. IPSAS 13 applies ~~on~~ to a disposal effected by entering into a finance lease ~~or by~~ and to a sale and leaseback.

79. If, in accordance with the recognition principle in paragraph 20, an entity recognizes in the carrying amount of an asset the cost of a replacement for part of an investment property, it derecognizes the carrying amount of the replaced part. For investment property accounted for using the cost model, a replaced part may not be a part that was depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed. Under the fair value model, the fair value of the investment property may already reflect that the part to be replaced has lost its value. In other cases it may be difficult to discern how much fair value should be reduced for the part being replaced. An alternative to reducing fair value for the replaced part, when it is not practical to do so, is to include the cost of the replacement in the carrying amount of the asset and then to reassess the fair value, as would be required for additions not involving replacement.

~~72~~80. **Gains or losses arising from the retirement or disposal of investment property ~~should~~ shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognized in surplus or deficit (unless IPSAS 13 requires otherwise on a sale and leaseback) in the period of the retirement or disposal. ~~For the purposes of display in the financial statements, the gain or loss should be~~**

~~**included in the statement of financial performance as an item of revenue or expense, as appropriate (unless IPSAS 13 Leases, requires otherwise on a sale and leaseback).**~~

~~73~~81. The consideration receivable on disposal of an investment property is recognized initially at fair value. In particular, if payment for an investment property is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue ~~under~~ in accordance with IPSAS 9 ~~on a time proportion basis that takes into account~~ using the effective interest method~~yield on the receivable~~.

82. An entity applies IPSAS 19 or other Standards, as appropriate, to any ~~(Guidance on accounting for~~ liabilities ~~such as those~~ that ~~the entity~~ it retains after disposal of an investment property. ~~may be found in Accounting Standards on Provisions, Contingent Assets and Contingent Liabilities).~~

83. **Compensation from third parties for investment property that was impaired, lost or given up shall be recognized in surplus or deficit when the compensation becomes receivable.**

84. Impairments or losses of investment property, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

(a) impairments of investment property are recognized in accordance with IPSAS 21. IPSAS 21 requires application of IAS 36 to cash-generating assets;

(b) retirements or disposals of investment property are recognized in accordance with paragraphs 77-82 of this Standard;

(c) compensation from third parties for investment property that was impaired, lost or given up is recognized in surplus or deficit when it becomes receivable; and

(d) the cost of assets restored, purchased or constructed as replacements is determined in accordance with paragraphs 26-38 of this Standard.

Disclosure

Fair Value Model and Cost Model

~~74~~85. The disclosures ~~set out~~ below apply in addition to those in IPSAS 13. ~~Under~~In accordance with IPSAS 13, the owner of an investment property ~~gives~~ provides ~~a~~ lessors'~~s~~ disclosures about ~~operating~~ leases into which it has entered. ~~Under IPSAS 13 a~~An entity that holds an investment property under a finance lease or operating lease ~~gives~~ provides ~~a~~ lessees'~~s~~ disclosures ~~about~~

that for finance leases and a lessors's disclosures about for any operating leases into which that the entity it has granted entered.

7586. **An entity should shall disclose:**

(a) **whether it applies the fair value or the cost model.**

(b) **if it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property.**

(ac) **when classification is difficult (see paragraph 1618), the criteria developed by the entity it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations;.**

(bd) **the methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the entity should shall disclose) because of the nature of the property and lack of comparable market data;.**

(ce) **the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and who has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact should shall be disclosed;.**

(df) **the amounts included recognized in the statement of financial performance surplus or deficit for:**

(i) **rental revenue from investment property;**

(ii) **direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period; and**

(iii) **direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period;.**

(eg) **the existence and amounts of restrictions on the realizability of investment property or the remittance of revenue and proceeds of disposal; and.**

(fh) **material contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.**

Fair Value Model

~~76~~87. **In addition to the disclosures required by paragraph ~~75~~86, an entity that applies the fair value model in paragraphs ~~35~~42~~-~~ to ~~57~~64 ~~should~~ shall ~~also~~ disclose a reconciliation ~~of~~ between the carrying amounts of investment property at the beginning and end of the period, showing the following ~~(comparative information is not required)~~:**

(a) **additions, disclosing separately those additions resulting from acquisitions and those resulting from ~~capitalized~~ subsequent expenditure recognized in the carrying amount of an asset;**

(b) **additions resulting from acquisitions through entity combinations;**

(c) **disposals;**

(d) **net gains or losses from fair value adjustments;**

(e) **the net exchange differences arising on the translation of the financial statements ~~of a foreign entity~~ into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;**

(f) **transfers to and from inventories and owner-occupied property; and**

(g) **other ~~movements~~ changes.**

88. **When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, for example to avoid double-counting of assets or liabilities that are recognized as separate assets and liabilities as described in paragraph 59, the entity shall disclose a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately the aggregate amount of any recognized lease obligations that have been added back, and any other significant adjustments.**

~~77~~89. **In the exceptional cases referred to in paragraph 62, when an entity measures investment property using the ~~benchmark treatment~~ cost model in IPSAS 17 ~~Property, Plant and Equipment (because of the lack of a reliable fair value, see paragraph 55 above)~~, the reconciliation required by ~~the previous~~ paragraph 87 ~~should~~ shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity ~~should~~ shall disclose:**

(a) **a description of the investment property;**

(b) **an explanation of why fair value cannot be determined reliably ~~measured~~;**

(c) **if possible, the range of estimates within which fair value is highly likely to lie; and**

(d) **on disposal of investment property not carried at fair value:**

(i) **the fact that the entity has disposed of investment property not carried at fair value;**

(ii) **the carrying amount of that investment property at the time of sale; and**

(iii) **the amount of gain or loss recognized.**

Cost Model

7890. **In addition to the disclosures required by paragraph 7586, an entity that applies the cost model in paragraph 5865 should shall also disclose:**

(a) **the depreciation methods used;**

(b) **the useful lives or the depreciation rates used;**

(c) **the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;**

(d) **a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following (comparative information is not required):**

(i) **additions, disclosing separately those additions resulting from acquisitions and those resulting from capitalized subsequent expenditure recognized as an asset;**

(ii) **additions resulting from acquisitions through entity combinations;**

(iii) **disposals;**

(iv) **depreciation;**

(v) **the amount of impairment losses recognized, and the amount of impairment losses reversed, during the period in accordance with IPSAS 21;**

(vi) **the net exchange differences arising on the translation of the financial statements of a foreign entity into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;**

(vii) **transfers to and from inventories and owner-occupied property; and**

(viii) **other movements changes; and**

(e) **the fair value of investment property. In the exceptional cases described in paragraph ~~55~~62, when an entity cannot determine the fair value of the investment property reliably, the entity ~~should~~ shall disclose:**

   (i) **a description of the investment property;**

   (ii) **an explanation of why fair value cannot be determined reliably; and**

   (iii) **if possible, the range of estimates within which fair value is highly likely to lie.**

Transitional Provisions

Initial Adoption of Accrual Accounting

~~80~~91. **An entity that adopts accrual accounting for the first time in accordance with International Public Sector Accounting Standards ~~may~~ shall initially recognize investment property at cost or fair value. For investment properties that were acquired at no cost, or for a nominal cost, cost is the investment property's fair value as at the date of acquisition.**

~~79~~92. **~~Where, on adoption of the accrual basis of accounting for the first time, an entity initially recognizes investment property on adoption of this Standard, t~~The entity ~~should report~~ shall recognize the effect of the initial recognition of investment property as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which ~~the Standard~~ accrual accounting is first adopted in accordance with International Public Sector Accounting Standards.**

~~81~~93. ~~When~~Prior to ~~initial~~ first adoptio~~n~~n~~g~~ of ~~this Standard~~ accrual accounting in accordance with International Public Sector Accounting Standards, an entity may recognize investment property on a basis other than cost or fair value as defined in this Standard, or may control investment property that it has not ~~previously~~ recognized. This Standard ~~allows~~ requires entities to initially recognize investment property at cost or, fair value as at the date of first adoption of accrual accounting in accordance with International Public Sector Accounting Standards. Where assets are initially recognized at cost and were acquired at no cost, or for a nominal cost, cost will be determined by reference to the investment property's fair value as at the date of acquisition. Where the cost of acquisition of an investment property is not known, its cost may be estimated by reference to its fair value as at the date of acquisition.

Fair Value Model

~~82~~94. **Under the fair value model, an entity ~~should~~ shall recognize ~~report~~ the effect of ~~adopting~~ applying this Standard ~~on its effective date (or earlier)~~ as an adjustment to the opening balance of accumulated surpluses or**

deficits for the period in which the Standard is first adopted applied. In addition:

(a) **if the entity has previously disclosed publicly (in financial statements or otherwise) the fair value of its investment property in earlier periods (determined on a basis that satisfies the definition of fair value in paragraph 67 and the guidance in paragraphs 3745- to 5461), the entity is encouraged, but not required, to:**

(i) **to adjust the opening balance of accumulated surpluses or deficits for the earliest period presented for which such fair value was disclosed publicly; and**

(ii) **to restate comparative information for those periods; and**

(b) **if the entity has not previously disclosed publicly the information described in (a), the entity it should shall not restate comparative information and should shall disclose that fact.**

8395. On the initial first application of this Standard, an entity may choose to apply the fair value model in respect of investment property already recognized in its financial statements. When this occurs, this Standard requires any adjustment to the carrying amount of the investment property to be taken to the opening balance of accumulated surpluses or deficits for the period in which the Standard is first applied. This Standard requires a treatment different treatment from the benchmark and allowed alternative treatments for changes in accounting policies that required under by IPSAS 3. IPSAS 3 requires comparative information to be restated (benchmark treatment) or additional pro forma comparative information on a restated basis to be disclosed (allowed alternative treatment) unless it is such restatement is impracticable to do so. This Standard only encourages such comparative information to be restated in certain circumstances.

8496. When an entity first adopts applies this Standard, the adjustment to the opening balance of accumulated surpluses or deficits includes the reclassification of any amount held in revaluation surplus for investment property.

97. **An entity that has previously applied IPSAS 16 (2001), and elects for the first time to classify and account for some or all eligible property interests held under operating leases as investment property, shall recognize the effect of that election as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the election is first made. In addition, if the entity has previously disclosed publicly (in financial statements or otherwise) the fair value of those property interests in earlier periods, paragraph 94(a) applies. If the entity has not previously disclosed publicly the information related to**

those property interests described in paragraph 94(a), paragraph 94(b) applies.

Cost Model

8598. Prior to initial first adoption application of this Standard, an entity may recognize its investment property on a basis other than cost, for example fair value or some other measurement basis. IPSAS 3 applies to any change in accounting policies that occurs is made when an entity first adopts applies this Standard and chooses to use the cost model. The effect of the change in accounting policies includes the reclassification of any amount held in revaluation surplus for investment property.

99. IPSAS 3 requires an entity to retrospectively apply accounting policies unless it is impracticable to do so. Therefore, when an entity initially recognizes investment property at cost and chooses to use the cost model in accordance with this Standard, it shall also recognize any accumulated depreciation and any accumulated impairment losses that relate to that property, as if it had always applied those accounting policies.

100. **For entities that have previously applied IPSAS 16 (2001), the requirements of paragraphs 36-38 regarding the initial measurement of an investment property acquired in an exchange of assets transaction shall be applied prospectively only to future transactions.**

Effective Date

86101. **An entity shall apply Tthis International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after 1 January 2003 MM DD, YYYY. Earlier application is encouraged. If an entity applies this Standard for a periods beginning before 1 January 2003 MM DD, YYYY, it shouldshall disclose that fact.**

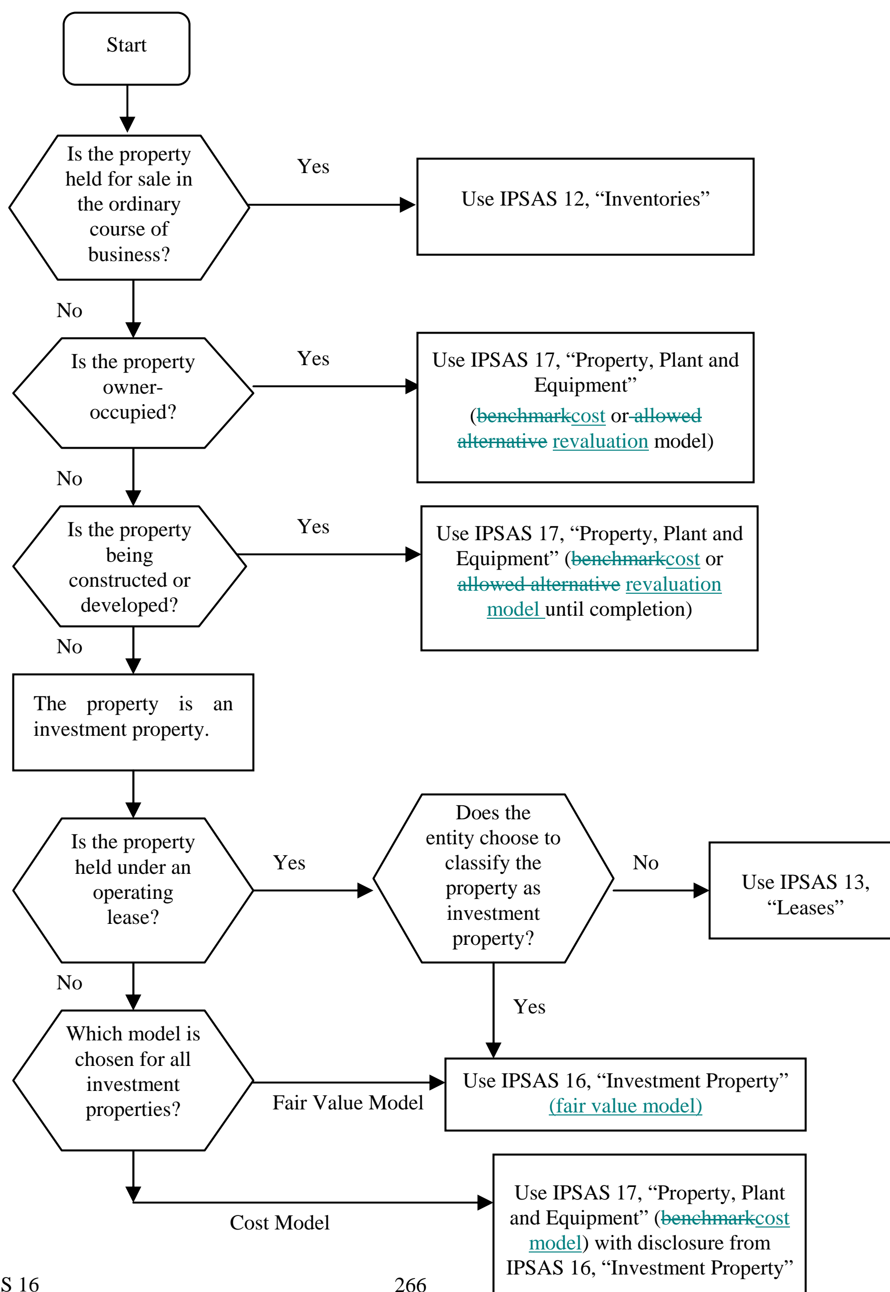
87102. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Withdrawal of IPSAS 16 (2001)

103. This Standard supersedes IPSAS 16, "Investment Property" issued in 2001.

~~Appendix~~<u>Illustrative</u> Decision Tree

<u>The decision tree accompanies, but is not part of, IPSAS 16.</u>~~The purpose of the following decision tree is to summarize which International Public Sector Accounting Standards apply to various kinds of property. This Appendix should be read in the context of the full standards.~~



Comparison with IAS 40

International Public Sector Accounting Standard 16, "Investment Property" (IPSAS 16) is drawn primarily from International Accounting Standard 40 (~~2000~~2003), "Investment Property" (IAS 40). At the time of issuing this Standard, the ~~PSC~~IPSASB has not considered the applicability of ~~IAS 41, "Agriculture",~~ International Financial Reporting Standard 4, "Insurance Contracts" (IFRS 4) and International Financial Reporting Standard 5, "Non-current Assets Held for Sale and Discontinued Operations" (IFRS 5) to public sector entities, therefore IPSAS 16 does not reflect amendments made to IAS 40 consequent upon the ~~issuing~~ issue of ~~International Accounting Standard IAS 41~~those International Financial Reporting Standards. The main differences between IPSAS 16 and IAS 40 are as follows:

- IPSAS 16 requires that investment property initially be measured at cost and specifies that where an asset is acquired for no cost or for a nominal cost, its cost is its fair value as at the date of acquisition. IAS 40 requires investment property to be initially measured at cost.
- There is additional commentary to make clear that IPSAS 16 does not apply to property held to deliver a social service which also generates cash inflows. Such property is accounted for in accordance with IPSAS 17, "Property, Plant and Equipment".
- ~~IAS 40 requires subsequent expenditures on investment property to be capitalized when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the entity. IPSAS 16 adopts a similar treatment, but refers to the most recently assessed standard of performance – rather than that originally assessed – as the benchmark.~~
- IPSAS 16 contains transitional provisions for both the first time adoption and changeover from the previous version of IPSAS 16. IAS 40 only contains transitional provisions for entities that have already used IFRSs. IFRS 1, "First-time Adoption of International Financial Reporting Standards" deals with first time adoption of IFRSs. IPSAS 16 includes additional transitional provisions which specify that when an entity adopts the accrual basis of accounting for the first time and recognizes investment property that was previously unrecognized, the adjustment should be reported in the opening balance of accumulated surpluses or deficits. ~~The transitional provisions also allow entities to recognize investment property at fair value on first adopting this Standard.~~
- Commentary additional to that in IAS 40 has been included in IPSAS 16 to clarify the applicability of the standards to accounting by public sector entities.

- IPSAS 16 uses different terminology, in certain instances, from IAS 40. The most significant examples are the use of the terms ~~"entity", "revenue",~~ "statement of financial performance" and "statement of financial position" in IPSAS 16. The equivalent terms in IAS 40 are ~~"enterprise", "income",~~ "income statement" and "balance sheet".

International Public Sector Accounting Standard IPSAS 17

(revised 200X)

Property, Plant and Equipment

[Note: For the purpose of this Exposure Draft, the new text is underlined and the deleted text is struck through.]

Specific Matters for Comment

The IPSASB would particularly value comments on the following questions. It would be helpful to the IPSASB if these comments indicate the specific paragraph number or groups of paragraphs to which they relate, clearly explain the issue and suggest alternative wording, with supporting reasoning, where this is appropriate.

Question 1

Do you agree that IPSAS 17 should be revised as proposed to converge with the equivalent IAS 16 (December 2003)?

Question 2

Do you agree with the inclusion of Implementation Guidance 1 on the frequency of revaluation of property, plant and equipment in the proposed IPSAS 17 (see paragraph 49 and Implementation Guidance 1)?

Question 3

Do you agree that it is appropriate to require public sector entities to depreciate separately each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item (see paragraphs 59-61)?

SUMMARY OF MAIN CHANGES IPSAS 17 PROPERTY, PLANT AND EQUIPMENT

The main changes proposed are:

Definitions

In paragraph 13:

- To define the terms "carrying amount", "impairment loss", "impairment loss of a non-cash-generating asset", "recoverable amount" and "recoverable service amount" due to the issuance of IPSAS 21, "Impairment of Non-Cash-Generating Assets". Previously, IPSAS 17 did not contain these definitions.
- To amend the definition of "residual value". The amended definition would require an entity to measure the residual value of an item of property, plant and equipment as the amount it estimates it would receive currently from the disposal of the asset if the asset was already of the age and in the condition expected at the end of its useful life.
- To define the term "entity-specific value", which refers to "the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability". This term is used where relevant in determining whether an asset exchange transaction has commercial substance. Guidance on how to judge whether an asset exchange transaction has commercial substance is also provided (paragraphs 38-40). Previously, IPSAS 17 did not contain this definition and the relevant guidance.

Recognition

- To require an entity to apply the general asset recognition principle to all property, plant and equipment costs at the time they are incurred, including initial costs and subsequent expenditures (paragraphs 14, 19, 22, 24-25). Previously, IPSAS 17 contained two recognition principles – one applied to initial costs while another applied to subsequent expenditures.
- To clarify in paragraph 23 that the costs of day-to-day servicing of property, plant and equipment are recognized in surplus or deficit.

Measurement at Recognition

- To require an entity to include the estimate of asset dismantlement, removal and restoration costs as an element of cost of property, plant and equipment, including the obligations which the entity incurs both when the asset is acquired and when it is used at subsequent periods, except when it is used to produce inventories (paragraph 30). IPSAS 12, "Inventories" applies to the obligations for dismantling, removing and restoring that are incurred during the period of using the item to produce inventories.

Previously, IPSAS 17 included within the cost of property, plant and equipment only the obligation which the entity incurs when the item is acquired.

- To require an entity to measure an item of property, plant and equipment acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, at fair value unless: the exchange transaction lacks commercial substance; or the fair value of neither the asset given up nor the asset received can be reliably measured (paragraphs 38-40).

  Previously, IPSAS 17 divided asset exchange transactions into exchanges between similar assets and exchanges between dissimilar assets. The different categories of exchange were subject to different accounting treatments. For exchange of similar assets, the cost of the asset received was the carrying amount of the asset given up. For exchange of dissimilar assets, the cost was the fair value of the asset given up adjusted by the amount of any cash or cash equivalent transferred.

Depreciation

- To require an entity to determine the depreciation charge separately for each significant part of an item of property, plant and equipment (paragraphs 59-63).
- To require an entity to begin depreciating an item of property, plant and equipment when it is available for use and to continue depreciating it until it is derecognized, even if during that period the item is idle (paragraph 71). Previously, IPSAS 17 did not specify when depreciation of an item began. It specified that an entity should cease depreciating an item when the item was retired from active use and was held for disposal.

Compensation for Impairments

- To require an entity to include in surplus or deficit compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up when the compensation becomes receivable (paragraph 80). Previously, IPSAS 17 did not include these requirements.

Derecognition

- To require an entity to derecognize the carrying amount of an item of property, plant and equipment that it disposes of on the date the criteria for the sale of goods in IPSAS 9, "Revenue from Exchange Transactions" are met (paragraph 84). Previously, IPSAS 17 did not specify that an entity was to use the criteria contained in IPSAS 9 to determine the date on which it derecognized the carrying amount of a disposed item of property, plant and equipment.
- To require an entity to derecognize the carrying amount of a part of an item of property, plant and equipment if that part has been replaced and the entity has included the cost of the replacement in the carrying amount of the item

(paragraph 85). Previously, IPSAS 17 did not apply its derecognition principle to replaced parts. Its recognition principle for subsequent expenditures effectively precluded the cost of a replacement from being included in the carrying amount of the item.

Transitional Provisions

- To require the entity to recognize the effects of the initial recognition of property, plant and equipment as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the property, plant and equipment is initially recognized in accordance with IPSAS 17 (paragraph 97).
- To clarify that an entity shall retrospectively apply accounting policies in accordance with IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors" when it initially recognizes an item of property, plant and equipment at cost in accordance with IPSAS 17 (paragraph 99).

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 17—PROPERTY, PLANT AND EQUIPMENT

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Appendix: Amendments to Other International Public Sector Accounting Standards

Illustrative Guidance 1 – Frequency of Revaluation of Property, Plant and Equipment

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Comparison with IAS 16

International Public Sector Accounting Standard 17, "Property, Plant and Equipment" (IPSAS 17) is set out in paragraphs 1-109 and the Appendix. All the paragraphs have equal authority. IPSAS 17 should be read in the context of its objective, the Basis for Conclusions and the "Preface to International Public Sector Accounting Standards". IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors" provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 17—PROPERTY, PLANT AND EQUIPMENT

~~*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 International Public Sector Accounting Standards". International Public Sector Accounting Standards are not intended to apply to immaterial items.*~~

Objective

1. The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that users of financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the ~~timing of~~ recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognized in relation to them.

Scope

~~1~~2. **An entity ~~which~~ that prepares and presents financial statements under the accrual basis of accounting ~~should~~ shall apply this Standard in accounting for property, plant and equipment, except:**

   (a) **when a different accounting treatment has been adopted in accordance with another International Public Sector Accounting Standard; and**

   (b) **in respect of heritage assets. However, the disclosure requirements of paragraphs ~~73~~88, ~~74~~89 and ~~77~~92 apply to those heritage assets that are recognized.**

~~2~~3. **This Standard applies to all public sector entities other than Government Business Enterprises.**

~~3~~4. This Standard applies to property, plant and equipment including:

   (a) specialist military equipment; and

   (b) infrastructure assets.

   The transitional provisions in paragraphs ~~80~~95 to ~~87~~104 provide relief from the requirement to recognize all property, plant and equipment during the five-year transitional period.

~~4~~5. This Standard does not apply to:

(a) ~~forests and similar regenerative natural resources~~biological assets related to agricultural activity (see the relevant international or national accounting standard dealing with agriculture);~~ and~~ or

(b) mineral rights~~, the exploration for and extraction of minerals,~~ and mineral reserves such as oil, natural gas and similar non-regenerative resources (see the relevant international or national accounting standard dealing with mineral rights, mineral reserves and similar non-regenerative resources).

However, this Standard~~ does~~ applies~~y~~ to property, plant and equipment used to develop or maintain the~~ activities or~~ assets ~~covered~~described in (a) or (b) ~~but which are separable from those activities or assets~~.

~~5~~6. ~~This Standard also does not apply where o~~Other International Public Sector Accounting Standards~~ or, in the absence of an International Public Sector Accounting Standard, other relevant international guidance,~~ may~~ permits~~ require ~~the initial~~ recognition of~~ the carrying amount~~ an item of property, plant and equipment~~ to be determined using~~ based on an approach different from that ~~prescribed~~ in this Standard. For example,~~ International Accounting Standard IAS 22, Business Combinations provides guidance on valuing property, plant and equipment when it is acquired in a business combination~~ IPSAS 13, "Leases" requires an entity to evaluate its recognition of an item of property, plant and equipment on the basis of the transfer of risks and rewards. However, in such cases ~~all~~ other aspects of the accounting treatment for these assets, including depreciation, are~~ determined~~ prescribed by~~ the requirements of~~ this Standard.

~~6.~~ [deleted]

7. An entity shall apply this Standard to property that is being constructed or developed for future use as investment property but does not yet satisfy the definition of "investment property" in IPSAS 16, "Investment Property". Once the construction or development is complete, the property becomes investment property and the entity is required to apply IPSAS 16. IPSAS 16 also applies to investment property that is being redeveloped for continued future use as investment property. An entity using the cost model for investment property in accordance with IPSAS 16 shall use the cost model in this Standard.

Heritage Assets

~~7~~8. This Standard does not require an entity to recognize heritage assets that would otherwise meet the definition of, and recognition criteria for, property, plant and equipment. If an entity does recognize heritage assets, it must apply the disclosure requirements of this Standard and may, but is not required to, apply the measurement requirements of this Standard.

~~8~~9. Some assets are described as "heritage assets" because of their cultural, environmental or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art. Certain characteristics, including the following, are often displayed by heritage assets (although these characteristics are not exclusive to such assets):

(a) their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;

(b) legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;

(c) they are often irreplaceable and their value may increase over time even if their physical condition deteriorates; and

(d) it may be difficult to estimate their useful lives, which in some cases could be several hundred years.

Public sector entities may have large holdings of heritage assets that have been acquired over many years and by various means, including purchase, donation, bequest and sequestration. These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes.

~~9~~10. Some heritage assets have service potential other than their heritage value, for example, an historic building being used for office accommodation. In these cases, they may be recognized and measured on the same basis as other items of property, plant and equipment. For other heritage assets, their service potential is limited to their heritage characteristics, for example, monuments and ruins. The existence of alternative service potential can affect the choice of measurement base.

~~10~~11. The disclosure requirements in paragraphs ~~73~~88–~~ to 79~~94 require entities to make disclosures about recognized assets. Therefore, entities that recognize heritage assets are required to disclose in respect of those assets such matters as, for example:

(a) the measurement basis used;

(b) the depreciation method used, if any;

(c) the gross carrying amount;

(d) the accumulated depreciation at the end of the period, if any; and

(e) a reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

Government Business Enterprises

~~11~~12. The “Preface to International Public Sector Accounting Standards” issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). ~~Government Business Enterprises (~~GBEs~~)~~ are defined in IPSAS 1, “Presentation of Financial Statements”. ~~required to comply with .International Accounting Standards (IASs) issued by the International Accounting Standards Committee. The Public Sector Committee’s Guideline No. 1 *Financial Reporting by Government Business Enterprises* notes that IASs are relevant to all business enterprises, regardless of whether they are in the private or public sector. Accordingly, Guideline No. 1 recommends that GBEs should present financial statements that conform, in all material respects, to IASs.~~

Definitions

~~12~~13. **The following terms are used in this Standard with the meanings specified:**

Carrying amount (for the purpose of this Standard) is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.

Class of property, plant and equipment means a grouping of assets of a similar nature or function in an entity’s operations, that is shown as a single item for the purpose of disclosure in the financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Depreciable amount is the cost of an asset, or other amount substituted for cost ~~in the financial statements~~, less its residual value.

Entity-specific value is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

Property, plant and equipment are tangible ~~assets~~ items that:

(a) **are held ~~by an entity~~ for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and**

(b) **are expected to be used during more than one reporting period.**

Recoverable amount is the higher of a cash-generating asset's fair value less costs to sell and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

The ~~R~~residual value of an asset is the ~~net~~ estimated amount ~~which~~ that ~~the~~ an entity ~~expects to~~ would currently obtain ~~for an~~ from disposal of the asset~~, at the end of its useful life~~ after deducting the ~~expected~~ estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful life is~~either~~:

(a) **the period ~~of time~~ over which an asset is expected to be available for use~~d~~ by ~~the~~ an entity; or**

(b) **the number of production or similar units expected to be obtained from the asset by ~~the~~ an entity.**

Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.

Recognition ~~of Property, Plant and Equipment~~

~~13~~14. **The cost of ~~A~~an item of property, plant and equipment ~~should~~ shall be recognized as an asset ~~when~~ if, and only if:**

(a) **it is probable that future economic benefits or service potential associated with the ~~asset~~ item will flow to the entity; and**

(b) **the cost or fair value of the ~~asset~~ item ~~to the entity~~ can be measured reliably.**

~~14.~~ [deleted]

15. In determining whether an item satisfies the first criterion for recognition, an entity needs to assess the degree of certainty attaching to the flow of future economic benefits or service potential on the basis of the available evidence at

the time of initial recognition. Existence of sufficient certainty that the future economic benefits or service potential will flow to the entity necessitates an assurance that the entity will receive the rewards attaching to the asset and will undertake the associated risks. This assurance is usually only available when the risks and rewards have passed to the entity. Before this occurs, the transaction to acquire the asset can usually be cancelled without significant penalty and, therefore, the asset is not recognized.

16. The second criterion for recognition is usually readily satisfied because the exchange transaction evidencing the purchase of the asset identifies its cost. In the case of a self-constructed asset, a relevant and reliable measurement of the cost can be made from the transactions with parties external to the entity for the acquisition of the materials, labor and other inputs used during the construction process. In addition, as outlined in paragraphs ~~22~~26~~- to 25~~29 of this Standard, under certain circumstances cost is determined by reference to fair value.

17. ~~In identifying what constitutes a separate item of property, plant and equipment, judgment is required in applying the criteria in the definition to specific circumstances or specific types of entities. It may be appropriate to aggregate individually insignificant items, such as library books, computer peripherals and small items of equipment, and to apply the criteria to the aggregate value. Most s~~Spare parts and servicing equipment are usually carried as inventory and recognized ~~as an expense~~in surplus or deficit as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when ~~the~~an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment ~~and their use is expected to be irregular~~, they are accounted for as property, plant and equipment ~~and are depreciated over a time period not exceeding the useful life of the related asset~~.

~~18.~~ [deleted]

~~19.~~ [deleted]

18. This Standard does not prescribe the unit of measure for recognition, ie what constitutes an item of property, plant and equipment. Thus, judgment is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to aggregate individually insignificant items, such as library books, computer peripherals and small items of equipment, and to apply the criteria to the aggregate value.

19. An entity evaluates under this recognition principle all its property, plant and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it.

20. Specialist military equipment will normally meet the definition of property, plant and equipment and should be recognized as an asset in accordance with this Standard.

Infrastructure Assets

21. Some assets are commonly described as "infrastructure assets". While there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following characteristics:

    (a) they are part of a system or network;

    (b) they are specialized in nature and do not have alternative uses;

    (c) they are immovable; and

    (d) they may be subject to constraints on disposal.

    Although ownership of infrastructure assets is not confined to entities in the public sector, significant infrastructure assets are frequently found in the public sector. Infrastructure assets meet the definition of property, plant and equipment and should be accounted for in accordance with this Standard. Examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks.

Initial Costs

22. Items of property, plant and equipment may be required for safety or environmental reasons. The acquisition of such property, plant and equipment, although not directly increasing the future economic benefits or service potential of any particular existing item of property, plant and equipment, may be necessary for an entity to obtain the future economic benefits or service potential from its other assets. Such items of property, plant and equipment qualify for recognition as assets because they enable an entity to derive future economic benefits or service potential from related assets in excess of what could be derived had those items not been acquired. For example, fire safety regulations may require a hospital to retro-fit new sprinkler systems. These enhancements are recognized as an asset because without them the entity is unable to operate the hospital in accordance with the regulations. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment in accordance with IPSAS 21, "Impairment of Non-Cash-Generating Assets".

Subsequent Costs

23. Under the recognition principle in paragraph 14, an entity does not recognize in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognized in surplus or deficit as incurred. Costs of day-to-day servicing are primarily the costs of labor and consumables, and may include the cost of small parts. The

purpose of these expenditures is often described as for the "repairs and maintenance" of the item of property, plant and equipment.

24. Parts of some items of property, plant and equipment may require replacement at regular intervals. For example, a road may need resurfacing every few years, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant and equipment may also be required to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle in paragraph 14, an entity recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of this Standard (see paragraphs 82-87).

25. A condition of continuing to operate an item of property, plant and equipment (for example, an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognized in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of previous inspection (as distinct from physical parts) is derecognized. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

~~Initial~~ Measurement at Recognition~~of Property, Plant and Equipment~~

~~22~~26. **An item of property, plant and equipment ~~which~~ that qualifies for recognition as an asset ~~should initially~~ shall be measured at its cost.**

~~23~~27. **Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.**

~~24~~28. An item of property, plant and equipment may be gifted or contributed to the entity. For example, land may be contributed to a local government by a developer at ~~nil~~no or nominal consideration, to enable the local government to develop parks, roads and paths in the development. An asset may also be acquired at nil or nominal consideration through the exercise of powers of sequestration. Under these circumstances, the cost of the item is its fair value as at the date it is acquired.

~~25~~29. For the purposes of this Standard, the ~~initial~~ measurement at recognition of an item of property, plant and equipment, acquired at no or nominal cost, at its fair value consistent with the requirements of paragraph ~~23~~27, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph ~~39~~44, and the supporting commentary in paragraphs ~~40~~45 to ~~45~~50, only apply where an entity elects to revalue an item of property, plant and equipment in subsequent reporting periods.

~~Components~~Elements of Cost

~~26~~30. The cost of an item of property, plant and equipment comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; ~~and~~

(b) any costs directly attributable ~~costs of bringing~~ to bringing the asset to the location and ~~working~~ condition necessary for ~~its intended use~~ it to be capable of operating in the manner intended by management;

(c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period~~; any trade discounts and rebates are deducted in arriving at the purchase price~~.

31. Examples of directly attributable costs are:

(a) costs of employee benefits (as defined in the relevant international or national accounting standard dealing with employee benefits) arising directly from the construction or acquisition of the item of property, plant and equipment;

(~~a~~b) ~~the~~ costs of site preparation;

(~~b~~c) initial delivery and handling costs;

~~(c)~~(d) installation and assembly costs;

~~(e)~~(e) ~~the estimated const of dismantling the asset and restoring the site, ot the extent that it is recognized as a provision. Guidance on accounting for provisions is found in IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets".~~ costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and

~~(d)~~(f) professional fees~~, such as for architects and engineers; and~~

~~27.~~ [deleted]

32. An entity applies IPSAS 12, "Inventories", to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. The obligations for costs accounted for in accordance with IPSAS 12 and IPSAS 17 are recognized and measured in accordance with IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets".

~~28~~33. Examples of costs that are not the costs of an item of property, plant and equipment are:

(a) costs of opening a new facility;

(b) costs of introducing a new product or service (including costs of advertising and promotional activities);

(c) costs of conducting business in a new location or with a new class of customers (including costs of staff training); and

(d) ~~A~~administration and other general overhead costs~~ are not an component of the cost of property, plant and equipment unless they can be directly attributed to the acquisition of the asset or bringing the asset to its working condition. Similarly, start-up and similar costs do not form part of the cost of an asset unless they are necessary to bring the asset to its working condition. Initial operating losses incurred prior to an asset achieving planned performance are recognized as an expense~~.

34. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant and equipment:

(a) costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;

(b) initial operating losses, such as those incurred while demand for the item's output builds up; and

(c) costs of relocating or reorganizing part or all of the entity's operations.

35. Some operations occur in connection with the construction or development of an item of property, plant and equipment, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities. For example, revenue may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to

bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the revenue and related expenses of incidental operations are recognized in surplus or deficit for the period, and included in their respective classifications of revenue and expense.

~~29~~36. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of ~~producing~~ constructing ~~the~~ an asset~~s~~ for sale (see ~~International Public Sector Accounting Standard~~ IPSAS 12~~, "Inventories"~~). Therefore, any internal surpluses are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labor, or other resources incurred in ~~the production of a~~ self-constructing~~ed~~ an asset~~,~~ is not included in the cost of the asset. IPSAS 5, "Borrowing Costs" establishes criteria ~~which need to be satisfied before~~ for the recognition of interest ~~costs can be recognized~~ as a component of the carrying amount of a self-constructed item of property, plant and equipment ~~cost~~.

Measurement of Cost

37. The cost of an item of property, plant and equipment is the cash price equivalent or, for an item referred to in paragraph 27, its fair value at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit unless such interest is recognized in the carrying amount of the item in accordance with the allowed alternative treatment in IPSAS 5.

38. One or more items of property, plant and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an item of property, plant and equipment is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired item is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

39. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. An exchange transaction has commercial substance if:

(a) the configuration (risk, timing and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred; or

(b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and

(c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows, if tax applies. The result of these analyses may be clear without an entity having to perform detailed calculations.

40. The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If an entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

3041. The cost of an asset item of property, plant and equipment held by a lessee under a finance lease is determined in accordance with using the principles set out in International Public Sector Accounting Standard IPSAS 13, "Leases".

Exchanges of Assets

31. [deleted]

32. [deleted]

Subsequent Expenditure

33. [deleted]

34. [deleted]
35. [deleted]
36. [deleted]

Example

37. [deleted]

Measurement Subsequent to Initial after Recognition

42. **An entity shall choose the cost model in paragraph 43 or the revaluation model in paragraph 44 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.**

~~Benchmark Treatment~~Cost Model

~~38~~43. **~~Subsequent to initial recognition~~After recognition as an asset, an item of property, plant and equipment ~~should~~ shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.**

~~Allowed Alternative Treatment~~Revaluation Model

~~39~~44. **~~Subsequent to initial recognition~~ After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably ~~should~~ shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations ~~should~~ shall be made with sufficient regularity ~~such~~ to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The accounting treatment for revaluations is set out in paragraphs ~~49~~54~~-~~ ~~to 51~~56.**

~~Revaluations~~

~~40~~45. The fair value of items of property is usually determined from market-based evidence by appraisal. The fair value of items of~~,~~ plant and equipment is usually their market value~~,~~ determined by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession, who holds a recognized and relevant professional qualification. For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialized buildings, motor vehicles and many types of plant and equipment.

~~41~~46. For some public sector assets, it may be difficult to establish their market value because of the absence of market transactions for these assets. Some public sector entities may have significant holdings of such assets.

~~42~~47. ~~Where~~If no evidence is available to determine the market value in an active and liquid market of an item of property, the fair value of the item may be established by reference to other items with similar characteristics, in similar circumstances and location. For example, the fair value of vacant government land that has been held for a long period during which time there have been few transactions may be estimated by reference to the market value of land with similar features and topography in a similar location for which market evidence is available. In the case of specialized buildings and other man-made structures, fair value may be estimated using depreciated replacement cost, or the restoration cost or service units approaches (see IPSAS 21). In many cases, the depreciated replacement cost of an asset can be established by reference to the buying price of a similar asset with similar remaining service potential in an active and liquid market. In some cases, an asset's reproduction cost will be the best indicator of its replacement cost. For

example, in the event of loss, a parliament building may be reproduced rather than replaced with alternative accommodation because of its significance to the community.

~~43~~48. ~~For~~ If there is no market-based evidence of fair value because of the specialized nature of the item~~s~~ of plant and equipment ~~of a specialized nature~~, an entity may need to estimate fair value ~~may be based on~~ using, for example, ~~either~~ reproduction cost, ~~or on~~ depreciated replacement cost, or the restoration cost or service units approaches (see IPSAS 21). The depreciated replacement cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. When the indexed price method is used, judgment is required to determine whether production technology has changed significantly over the period, and whether the capacity of the reference asset is the same as that of the asset being valued.

~~44~~49. The frequency of revaluations depends upon the ~~movements~~ changes in the fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some items of property, plant and equipment ~~may~~ experience significant and volatile ~~movements~~ changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant ~~movements~~ changes in fair value. Instead, it may be necessary to revalue~~ation~~ the item only every three or five years ~~may be sufficient~~.

~~45~~50. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is ~~either~~treated in one of the following ways:

(a) restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. This method is often used when an asset is revalued by means of an index to its depreciated replacement cost; or

(b) eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. ~~For example, t~~This method is often used for buildings ~~which are revalued to their market value~~.

The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in carrying amount ~~which~~ that is dealt with in accordance with paragraphs ~~49~~54 and ~~50~~55.

~~46~~51. **~~When~~If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs ~~should~~ shall be revalued.**

~~47~~52. A class of property, plant and equipment is a grouping of assets of a similar nature or function in an entity's operations. The following are examples of separate classes:

(a) land;

(b) operational buildings;

(c) roads;

(d) machinery;

(e) electricity transmission networks;

(f) ships;

(g) aircraft;

(h) specialist military equipment;

(i) motor vehicles;

(j) furniture and fixtures;

(k) office equipment; and

(l) oil rigs.

~~48~~53. The items within ~~the~~a class of property, plant and equipment are revalued simultaneously in order to avoid selective revaluation of assets and the reporting of amounts in the financial statements ~~which~~ that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period ~~of time~~ and provided the revaluations are kept up to date.

~~49~~54. **~~When~~If the carrying amount of a class of assets is increased as a result of a revaluation, the increase ~~should~~ shall be credited directly to revaluation surplus. However, ~~a revaluation~~ the increase ~~should~~ shall be recognized ~~as revenue~~ in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognized ~~as an expense~~ in surplus or deficit.**

~~50~~55. **~~When~~If the carrying amount of a class of assets is decreased as a result of a revaluation, the decrease ~~should~~ shall be recognized ~~as an expense~~ in surplus or deficit. However, ~~a revaluation~~ the decrease ~~should~~ shall be ~~charged~~ debited directly ~~against~~ to ~~any related~~ revaluation surplus to the extent of any credit balance existing ~~that the decrease does not exceed the~~**

~~amount held~~ in the revaluation surplus in respect of that ~~same~~ class of assets.

~~51~~56. **Revaluation increases and decreases relating to individual assets within a class of property, plant and equipment must be offset against one another within that class but must not be offset in respect of assets in different classes.**

~~52~~57. Some or all of the revaluation surplus included in net assets in respect of property, plant and equipment may be transferred directly to accumulated surpluses or deficits when the ~~surplus~~ assets ~~is~~ are ~~realized~~ derecognized. This may involve transferring ~~The surplus may be realized, in part or in~~ some or the whole of the surplus when the assets~~, on the retirement or disposal of some or all of the assets~~ within the class of property, plant and equipment to which the surplus relates are retired or disposed of. However, some of the surplus may be ~~realized~~ transferred as the assets are used by the entity~~;~~. ~~i~~In such a case, the amount of the surplus ~~realized is the~~ transferred would be the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. ~~The t~~Transfers from revaluation surplus to accumulated surpluses or deficits ~~is~~ are not made through ~~the statement of financial performance~~ surplus or deficit.

~~53~~58. Guidance on the effects on taxes on surpluses, if any, resulting from the revaluation of property, plant and equipment can be found in the relevant ~~I~~international or national accounting standard dealing with ~~Accounting Standard IAS 12, "I~~income ~~T~~taxes~~"~~.

Depreciation

59. **Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.**

60. An entity allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, in most cases, it would be required to depreciate separately the pavements, formation, curbs and channels, footpaths, bridges and lighting within a road system. Similarly, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease.

61. A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

62. To the extent that an entity depreciates separately some parts of an item of property, plant and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually

not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts.

63. An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.

64. The depreciation charge for each period shall be recognized in surplus or deficit unless it is included in the carrying amount of another asset.

~~61~~65. The depreciation charge for a period is usually recognized ~~as an expense~~ in surplus or deficit. However, ~~in some circumstances~~ sometimes, the future economic benefits or service potential embodied in an asset is absorbed ~~by the entity~~ in producing other assets ~~rather than giving rise to an expense~~. In this case, the depreciation charge ~~comprises~~ constitutes part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see IPSAS 12). Similarly, depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset ~~that is~~ recognized in accordance with the relevant international or national accounting standard dealing with intangible assets.

Depreciation Amount and Depreciation Period

~~54~~66. **The depreciable amount of an asset ~~item of property, plant and equipment should~~ shall be allocated on a systematic basis over its useful life. ~~The depreciation method used should reflect the pattern in which the asset's economic benefits or service potential is consumed by the entity. The depreciation charge for each period should be recognized as an expense unless it is included in the carrying amount of another asset.~~**

67. The residual value and the useful life of an asset shall be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors".

68. Depreciation is recognized even if the fair value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset does not negate the need to depreciate it. Conversely, some assets may be poorly maintained or maintenance may be deferred indefinitely because of budgetary constraints. Where asset management policies exacerbate the wear and tear of an asset, its useful life should be reassessed and adjusted accordingly.

69. The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

70. The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

71. Depreciation of an asset begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

~~55.~~ [deleted]

~~56~~72. The future economic benefits or service potential embodied in an item of property, plant and equipment is consumed by the entity principally through the use of the asset. However, other factors such as technical or commercial obsolescence and wear and tear while an asset remains idle often result in the diminution of the economic benefits or service potential that might have been ~~expected to be available~~ obtained from the asset. Consequently, all the following factors ~~need to be~~ are considered in determining the useful life of an asset:

(a) ~~the~~ expected usage of the asset ~~by the entity~~. Usage is assessed by reference to the asset's expected capacity or physical output;

(b) ~~the~~ expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance program ~~of the entity~~, and the care and maintenance of the asset while idle;

(c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset; and

(d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.

~~57~~73. The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of an entity may involve the disposal of assets after a specified time or after consumption of a ~~certain~~ specified proportion of the future economic benefits or service potential embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of ~~an item of property, plant and equipment~~ the asset is a matter of judgment based on the experience of the entity with similar assets.

~~58~~74. Land and buildings are separable assets and are~~ dealt with~~ accounted for separately~~ for accounting purposes~~, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, ~~L~~land ~~normally~~ has an unlimited useful life and~~,~~ therefore~~,~~ is not depreciated. Buildings have a limited useful life and~~,~~ therefore~~,~~ are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the~~ useful life~~ depreciable amount of the building.

75. If the cost of land includes the cost of site dismantlement, removal and restoration, that portion of the land asset is depreciated over the period of benefits or service potential obtained by incurring those costs. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits or service potential to be derived from it.

Depreciation Method

76. **The depreciation method shall reflect the pattern in which the asset's future economic benefits or service potential is expected to be consumed by the entity.**

77. **The depreciation method applied to an asset shall be reviewed at least at each annual reporting date and, if there has been a significant change in the expected pattern of the consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3.**

~~59.~~ [deleted]

~~60~~78. A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the ~~sum-of-the-~~ units of production method. Straight-line depreciation results in a constant charge over the useful life of the asset. The diminishing balance method results in a decreasing charge over the useful life of the asset. The ~~sum-of-the-~~ units of production method results in a charge based on the expected use or output ~~of the asset~~. The entity selects the method ~~used for an asset is selected based on~~ that most closely reflects the expected pattern of consumption of the future economic benefits or service potential embodied in the asset.~~, and~~ That method is ~~consistently~~ applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential~~ from that asset~~.

~~**61.**~~ relocated to current paragraph 65

~~**Review of Useful Life**~~

~~*62.*~~ **[deleted]~~.~~**

~~63.~~ [deleted]

~~64.~~ [deleted]

~~**Review of Depreciation Method**~~

~~65.~~ [deleted]

~~Recoverability of the Carrying Amount –~~ Impairment ~~Losses~~

~~66~~79. To determine whether an item of property, plant and equipment is impaired, an entity applies ~~the appropriate international or national accounting standard, dealing with impairment of assets~~ IPSAS 21 ~~[1]~~. ~~International Accounting Standard IAS 36, *Impairment of Assets* contains guidance~~ The Standard explains ~~on~~ how an entity reviews~~ing~~ the carrying amount of its assets ~~held for generating positive cash flows~~, how it determines~~ing~~ the recoverable service amount or recoverable amount of ~~such~~ an asset~~s~~, and when it recognizes, or reverses the recognition of, an impairment loss~~es~~.

~~67. IAS 22 provides guidance on impairment losses recognized before the end of the first annual accounting period commencing after a business combination that is an acquisition.~~

Compensation for Impairment

80. **Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up shall be included in surplus or deficit when the compensation becomes receivable.**

81. Impairments or losses of items of property, plant and equipment, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

(a) impairments of items of property, plant and equipment are recognized in accordance with IPSAS 21;

(b) derecognition of items of property, plant and equipment retired or disposed of is determined in accordance with this Standard;

(c) compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in determining surplus or deficit when it becomes receivable; and

~~[1] The Committee is currently developing a Standard on impairment of assets. The Committee has issued an Invitation to Comment (ITC) *Impairment of Assets*. Responses received on this ITC will assist the Committee in developing an International Public Sector Accounting Standard on the impairment of assets.~~

(d) the cost of items of property, plant and equipment restored, purchased or constructed as replacement is determined in accordance with this Standard.

Retirements and DisposalsDerecognition

6882. **The carrying amount of Aan item of property, plant and equipment shallshould be eliminated from the statement of financial positionderecognized on:**

(a) **on disposal; or**

(b) **when the asset is permanently withdrawn from use and no future economic benefits or service potential is expected from its use or disposal.**

6983. **The Ggains or losses arising from the retirement or disposal derecognition of an item of property, plant and equipment shall should be included in surplus or deficit when the item is derecognized determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset. For the purposes of display in the financial statements, the gain or loss should be included in the statement of financial performance as an item of revenue or expense, as appropriate. (unless IPSAS 13 requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.**

70. [deleted]

7184. The disposal of an item of property, plant and equipment may occur in a variety of ways (eg by sale, by entering into a finance lease or by donation). In determining the date of disposal of an item, an entity applies the criteria in IPSAS 9, "Revenue from Exchange Transactions" for recognizing revenue from the sale of goods. IPSAS 13 applies to disposal by a Ssale and leaseback transactions are accounted for in accordance with IPSAS 13.

85. If, under the recognition principle in paragraph 14, an entity recognizes in the carrying amount of an item of property, plant and equipment the cost of a replacement for part of the item, then it derecognizes the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

86. **The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.**

87. The consideration receivable on disposal of an item of property, plant and equipment is recognized initially at its fair value. If payment for the item is

deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 9 reflecting the effective yield on the receivable.

~~72.~~ [deleted]

Disclosure

~~73~~88. **The financial statements ~~should~~ shall disclose, for each class of property, plant and equipment recognized in the financial statements:**

(a) **the measurement bases used for determining the gross carrying amount~~. When more than one basis has been used, the gross carrying amount for that basis in each category should be disclosed~~;**

(b) **the depreciation methods used;**

(c) **the useful lives or the depreciation rates used;**

(d) **the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and**

(e) **a reconciliation of the carrying amount at the beginning and end of the period showing:**

(i) **additions;**

(ii) **disposals;**

(iii) **acquisitions through business combinations;**

(iv) **increases or decreases ~~during the period~~ resulting from revaluations under paragraphs ~~39~~44, ~~49~~54 and ~~50~~55 and from impairment losses ~~(if any)~~ recognized or reversed directly in net assets/equity ~~under~~ in accordance with IPSAS 21~~the appropriate international or national accounting standard adopted~~;**

(v) **impairment losses ~~(if any)~~ recognized in ~~the statement of financial performance during the period~~ surplus or deficit ~~under~~ in accordance with IPSAS 21~~the appropriate international or national accounting standard adopted~~;**

(vi) **impairment losses ~~(if any)~~ reversed in ~~the statement of financial performance during the period~~ surplus or deficit ~~under~~ in accordance with IPSAS 21~~the appropriate international or national accounting standard adopted~~;**

(vii) **depreciation;**

(viii) **the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign ~~entity~~operation into the presentation currency of the reporting entity; and**

(ix) **other ~~movements~~ changes.**

~~74~~89. **The financial statements ~~should~~ shall also disclose for each class of property, plant and equipment recognized in the financial statements:**

(a) **the existence and amounts of restrictions on title~~, for~~ and property, plant and equipment pledged as securities for liabilities;**

~~**(b) the accounting policy for the estimated costs of restoring the site of items of property, plant and equipment;**~~

~~(c)~~(b) **the amount of expenditures ~~on account~~ recognized in the carrying amount of an item of property, plant and equipment in the course of its construction;~~and~~**

~~(d)~~(c) **the amount of contractual commitments for the acquisition of property, plant and equipment~~.~~; and**

(d) **if it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in surplus or deficit.**

~~75~~90. ~~The s~~Selection of the depreciation method and the estimation of the useful life of the assets are matters of judgment. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information ~~which~~ that allows them to review the policies selected by management and enables comparisons to be made with other entities. For similar reasons, it is necessary to disclose:

(a) ~~the~~ depreciation ~~allocated~~, whether recognized in surplus or deficit or as a part of the cost of other assets, during ~~in~~ a period; and

(b) ~~the~~ accumulated depreciation at the end of ~~that~~ the period.

~~76~~91. In accordance with IPSAS 3 ~~A~~an entity discloses the nature and effect of a change in an accounting estimate that has an ~~material~~ effect in the current period~~,~~ or ~~which~~ is expected to have an ~~material~~ effect in subsequent periods~~, in accordance with International Public Sector Accounting Standard IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policy*~~. For property, plant and equipment, ~~S~~such disclosure may arise from changes in estimates with respect to:

(a) residual values;

(b) the estimated costs of dismantling, ~~and~~ removing or restoring items of property, plant ~~or~~ and equipment ~~and restoring the site~~;

(c) useful lives; and

(d) depreciation methods.

~~77~~92. **~~When~~If a class of property, plant and equipment is stated at revalued amounts, the following ~~should~~ shall be disclosed:**

~~(a) the basis used ot revalue the assets within the class;~~

~~(b)~~(a) **the effective date of the revaluation;**

~~(c)~~(b) **whether an independent valuer was involved;**

~~(d)~~(c) **~~the nature of any indices used to determine replacement cost~~the methods and significant assumptions applied in estimating the assets' fair values;**

(d) **the extent to which the assets' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques;**

(e) **the revaluation surplus, indicating the ~~movement~~ change for the period and any restrictions on the distribution of the balance to shareholders or other equity holders;**

(f) **the sum of all revaluation surpluses for individual items of property, plant and equipment within that class; and**

(g) **the sum of all revaluation deficits for individual items of property, plant and equipment within that class.**

~~78~~93. In accordance with IPSAS 21 ~~A~~an entity discloses information on impaired property, plant and equipment ~~under the appropriate international or national accounting standard adopted~~ in addition to the information required by paragraph ~~73~~88(e)(iv)~~-~~ ~~to~~ (vi).

~~79~~94. Users of ~~F~~financial statements ~~users~~ may also find the following information relevant to their needs:

(a) the carrying amount of temporarily idle property, plant and equipment;

(b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;

(c) the carrying amount of property, plant and equipment retired from active use and held for disposal; and

(d) when the ~~benchmark treatment~~ cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.

Therefore, entities are encouraged to disclose these amounts.

Transitional Provisions

~~80~~95. **Entities are not required to recognize property, plant and equipment for reporting periods beginning on a date within five years following the date of first adoption of ~~this Standard~~ accrual accounting in accordance with International Public Sector Accounting Standards.**

~~81~~96. **An entity that adopts accrual accounting for the first time in accordance with International Public Sector Accounting Standards ~~may~~ shall initially recognize property, plant and equipment at cost or fair value. For items of property, plant and equipment that were acquired at no cost, or for a nominal cost, cost is the item's fair value as at the date of acquisition.**

97. **The entity shall recognize the effect of the initial recognition of property, plant and equipment as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the property, plant and equipment is initially recognized.**

~~86~~98. ~~When~~Prior to ~~initially~~ first ~~adopting~~ application of this Standard, an entity may recognize its property, plant and equipment on a basis other than cost or fair value as defined in this Standard, or may control assets that it has not ~~previously~~ recognized. This Standard ~~allows~~ requires entities to initially recognize items of property, plant and equipment at cost or fair value as at the date of initial recognition in accordance with this Standard. Where assets are initially ~~recognised~~ recognized at cost and were acquired at no cost, or for a nominal cost, cost will be determined by reference to the asset's fair value as at the date of acquisition. Where the cost of acquisition of an asset is not known, its cost may be estimated by reference to its fair value as at the date of acquisition.

99. IPSAS 3 requires an entity to retrospectively apply accounting policies unless it is impracticable to do so. Therefore, when an entity initially recognizes an item of property, plant and equipment at cost in accordance with this Standard, it shall also recognize any accumulated depreciation and any accumulated impairment losses that relate to that item, as if it had always applied those accounting policies.

~~82~~100. Paragraph ~~13~~14 of this Standard requires the cost of an item~~s~~ of property, plant and equipment to be recognized as an asset ~~when~~ if, and only if:

(a) it is probable that future economic benefits or service potential associated with the ~~asset~~ item will flow to the entity; and

(b) the cost or fair value of the ~~asset~~ item ~~to the entity~~ can be measured reliably.

~~83~~101. The transitional provisions in paragraphs ~~80~~95 and ~~81~~96 are intended to give relief in situations where an entity is seeking to comply with the provisions of this Standard, in the context of implementing accrual accounting for the first time in accordance with International Public Sector Accounting Standards, with effect from the effective date of this Standard or subsequently. When entities adopt accrual accounting in accordance with International Public Sector Accounting Standards for the first time, there are often difficulties in compiling comprehensive information on the existence and valuation of assets. For this reason, for a five-year period following the date of first adoption of ~~this Standard~~ accrual accounting in accordance with International Public Sector Accounting Standards, entities are not required to comply fully with the requirements of paragraph ~~13~~14.

~~84~~102. Notwithstanding the transitional provisions in paragraph~~s~~ ~~80~~95 and ~~81~~96, entities that are in the process of adopting accrual accounting are encouraged to comply in full with the provisions of this Standard as soon as possible.

~~85~~103. The exemption from the requirements of paragraph ~~13~~14 implies that the associated measurement and disclosure provisions of this Standard do not need to be complied with in respect of those assets or classes of asset that are not recognized under paragraphs ~~80~~95 and ~~81~~96.

~~87~~104. **When an entity takes advantage of the transitional provisions in paragraphs ~~80~~95 and ~~81~~96 that fact ~~should~~ shall be disclosed. Information on the major classes of asset that have not been recognized by virtue of paragraph ~~80~~95 ~~should~~ shall also be disclosed. When an entity takes advantage of the transitional provisions for a second or subsequent reporting period, details of the assets or classes of asset that were not recognized at the previous reporting date but ~~which~~ that are now recognized ~~should~~ shall be disclosed.**

105. **For entities that have previously applied IPSAS 17 (2001), the requirements of paragraphs 38-40 regarding the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction shall be applied prospectively only to future transactions.**

106. Transitional provisions in IPSAS 17 (2001) provide entities with a period of up to five years to recognize all property, plant and equipment and make the associated measurement and disclosure from the date of its first application. Entities that have previously applied IPSAS 17 (2001) may continue to take advantage of this five-year transitional period from the date of first application of IPSAS 17 (2001). These entities shall also continue to make disclosures required by paragraph 104.

Effective Date

~~88~~107. **An entity shall apply ~~T~~this International Public Sector Accounting Standard ~~becomes effective~~ for annual financial statements covering periods beginning on or after ~~1 January 2003~~ MM DD, YYYY. Earlier application is encouraged. If an entity applies this Standard for a period beginning before MM DD, YYYY, it shall disclose that fact.**

~~89~~108. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Withdrawal of IPSAS 17 (2001)

109. This Standard supersedes IPSAS 17, "Property, Plant and Equipment" issued in 2001.

Appendix

Amendments to Other International Public Sector Accounting Standards

The amendments in this appendix shall be applied for annual financial statements covering periods beginning on or after MM DD, YYYY. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

A1. In IPSAS 18, "Segment Reporting", paragraph 37 is amended to read as follows:

> 37. … Measurements of segment assets and liabilities include any adjustments to the prior carrying amounts of the identifiable segment assets and segment liabilities of an entity acquired in an entity combination accounted for as a purchase, even if those adjustments are made only for the purpose of preparing consolidated financial statements and are not recorded in either the controlling entity's separate or the controlled entity's ~~separate~~ individual financial statements. Similarly, if property, plant and equipment has been revalued subsequent to acquisition in accordance with the ~~alternative accounting treatment allowed by~~ revaluation model in International Public Sector Accounting Standard 17, "Property, Plant and Equipment", (IPSAS 17) measurements of segment assets reflect those revaluations.

Implementation Guidance 1 – Frequency of Revaluation of Property, Plant and Equipment

This guidance accompanies, but is not part of, IPSAS 17.

IG1 Paragraph 44 of IPSAS 17 requires entities that adopt the revaluation model to measure its assets at a revalued amount that does not differ significantly from that which would be determined using fair value at the reporting date. Paragraph 49 of IPSAS 17 specifies that the frequency of revaluations depends upon the changes in the fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. The purpose of this guidance is to assist entities that adopt the revaluation model to determine whether carrying amounts differ materially from the fair value as at reporting date.

IG2 An entity assesses at each reporting date whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. If any such indication exists, the entity determines the asset's fair value and revalues the asset to that amount.

IG3 In assessing whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date, an entity considers, as a minimum, the following indications:

External sources of information

(a) significant changes affecting the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which the asset is dedicated;

(b) where market exists for the assets of the entity, market values are different from their carrying amounts;

(c) during the period, a price index relevant to the asset has undergone a material change;

Internal sources of information

(d) evidence is available of obsolescence or physical damage of an asset;

(e) significant changes affecting the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. Adverse changes include the asset becoming idle, or plans to dispose of an asset before the previously expected date, and reassessing the useful

life of an asset as finite rather than indefinite. Favourable changes include capital expenditure incurred during the period to improve or enhance an asset in excess of its standard of performance assessed immediately before the expenditure is made; and

(f) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse or better than expected.

IG4 The list in paragraph IG3 is not exhaustive. An entity may identify other indications that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. The existence of these additional indicators would also indicate that the entity should revalue the asset to its current fair value as at the reporting date.

Appendix – Implementation Guidance 2 – Illustrative Disclosures Examples

The appendix is illustrative only and doesThis guidance accompanies, but is not form part of, the standards IPSAS 17. The purpose of the appendix is to illustrate the application of the standards to assist in clarifying their meaning.

The Department of the Interior is a public sector entity that controls a wide range of property, plant and equipment and is responsible for replacement and maintenance of the property. The following are extracts from the notes to its Statement of Financial Position for the year ended December 31, 20X1 and illustrate the principal disclosures required under in accordance with this Standard.

Notes

1. **Land**

   (a) Land consists of twenty thousand hectares at various locations. Land is valued at fair value as at 31 December 20X1, as determined by the Office of the National Valuer, an independent valuer.

   (b) Restrictions on Titles:

   Five hundred hectares of land (carried at CU62,500[*] currency units) is designated as national interest land and may not be sold without the approval of the legislature. Two hundred hectares (carried at CU25,000 currency units) of the national interest land and a further two thousand hectares (carried at CU250,000 currency units) of other land are subject to title claims by former owners in an international court of human rights and the Court has ordered that the land may not be disposed of until the claim is decided.; tThe Department recognizes the jurisdiction of the Court to hear these cases.

2. **Buildings**

   (a) Buildings consist of office buildings and industrial facilities at various locations.

   (b) Buildings are initially recognized at cost, but are subject to revaluation to fair value on an ongoing basis. The Office of the National Valuer determines fair value on a rolling basis within a short period of time. Revaluations are kept up to date.

[*] In these examples, monetary amounts are denominated in “currency units” (CU).

(c) Depreciation is calculated on a straight-line basis over the useful life of the building. Office buildings have a useful life of twenty-five years, and industrial facilities have a useful life of fifteen years.

(d) The Department recognizes the estimated cost of restoration of building sites in the cost of the buildings, when those costs meet the recognition criteria of a liability.

(e) The Department has entered into five contracts for the construction of new buildings; total contract costs are CU250,000 currency units.

3. **Machinery**

(a) Machinery is measured at cost less depreciation.

(b) Depreciation is calculated on a straight-line basis over the useful life of the machine.

(c) The machinery has various useful lives:

Tractors: 10 years

Washing Equipment: 4 years

Cranes: 15 years.

(d) The Department has entered into a contract to replace the cranes it uses to clean and maintain the buildings - the contracted cost is CU100,000 currency units.

4. **Furniture and Fixtures**

(a) Furniture and fixtures are measured at cost less depreciation.

(b) Depreciation is calculated on a straight-line basis over the useful life of the furniture and fixtures.

(c) All items within this class have a useful life of five years.

Reconciliations

(in '000 of currency units)

	Land		**Buildings**		**Machinery**		**Furniture and Fixtures**	
Reporting Period	**20X1**	**20X0**	**20X1**	**20X0**	**20X1**	**20X0**	**20X1**	**20X0**
Opening Balance	2,250	2,025	2,090	2,260	1,085	1,100	200	150
Additions	-	-	250	100	120	200	20	100
Disposals	-	-	150	40	60	80	20	-
Depreciation (as per Statement of Financial Performance)	-	-	160	180	145	135	50	50
Revaluations (net)	250	225	(30)	(50)	-	-	-	-
Closing Balance (as per Statement of Financial Position	2,500	2,250	2,000	2,090	1,000	1,085	150	200

Sum of Revaluation Surpluses (Paragraph 92(f))	750	500	250	250	-	-	-	-
Sum of Revaluation Deficits (Paragraph 92(g))	25	25	380	350	-	-	-	-

Gross Carrying Amount	2,500	2,250	2,500	2,430	1,500	1,440	250	250
Accumulated Depreciation	-	-	500	340	500	355	100	50
Net Carrying Amount	2,500	2,250	2,000	2,090	1,000	1,085	150	200

Comparison with IAS 16

International Public Sector Accounting Standard 17, "Property, Plant and Equipment" (IPSAS 17) is drawn primarily from International Accounting Standard 16 (~~Revised 1998~~2003), "Property, Plant and Equipment" (IAS 16). At the time of issuing this Standard, the IPSASB has not considered the applicability of International Financial Reporting Standard 5, "Non-current Assets Held for Sale and Discontinued Operations" (IFRS 5) to public sector entities, therefore IPSAS 17 does not reflect amendments made to IAS 16 consequent upon the issue of IFRS 5. The main differences between IPSAS 17 and IAS 16 are as follows:

- ~~At the time of issuing this Standard, the PSC has not considered the applicability of IAS 41, "Agriculture", to public sector entities, therefore IPSAS 17 does not reflect amendments made to IAS 16 consequent upon the issuing of International Accounting Standard IAS 41.~~
- IPSAS 17 does not require or prohibit the recognition of heritage assets. An entity which recognizes heritage assets is required to comply with the disclosure requirements of this Standard with respect to those heritage assets that have been recognized and may, but is not required to, comply with other requirements of this Standard in respect of those heritage assets. IAS 16 does not have a similar exclusion.
- IAS 16 requires items of property, plant and equipment to be initially measured at cost. IPSAS 17 states that where an item is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date it is acquired.
- ~~IAS 16 requires subsequent expenditures on property, plant and equipment to be capitalized when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the entity. IPSAS 17 adopts a similar treatment, but refers to the most recently assessed standard of performance — rather than that originally assessed — as the benchmark.~~
- IAS 16 requires, where an enterprise adopts the ~~allowed alternative treatment~~ revaluation model and carries items of property, plant and equipment at revalued amounts, the equivalent historical cost amount is to be disclosed. This requirement is not included in IPSAS 17.
- Under IAS 16, revaluation increases and decreases may only be matched on an individual item basis. Under IPSAS 17, revaluation increases and decreases ~~may be~~ are offset on a class of asset basis.
- ~~IPSAS 17 does not provide an exemption from requiring comparative information for the disclosures in paragraph 73, IAS 16 provides an exemption~~IPSAS 17 contains transitional provisions for both the first time

adoption and changeover from the previous version of IPSAS 17. IAS 16 only contains transitional provisions for entities that have already used IFRSs. Specifically, IPSAS 17 contains transitional provisions allowing entities to not recognize property, plant and equipment for reporting periods beginning on a date within five years following the date of first adoption of this Standard accrual accounting in accordance with International Public Sector Accounting Standards. The transitional provisions also allow entities to recognize property, plant and equipment at fair value on first adopting this Standard. IAS 16 does not include these transitional provisions.

- IPSAS 17 contains definitions of "impairment loss of a non-cash-generating asset" and "recoverable service amount"a different set of definitions of technical terms from IAS 16. IAS 16 does not contain these definitions.
- The IASC Framework defines an asset as a resource controlled by an enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise. IPSAS 17 adopts a slightly amended definition that incorporates the notion of service potential.
- Commentary additional to that in IAS 16 has been included in IPSAS 17 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 17 uses different terminology, in certain instances, from IAS 16. The most significant examples are the use of the terms "entity", "revenue", "statement of financial performance", "statement of financial position" and "net assets/equity" in IPSAS 17. The equivalent terms in IAS 16 are "enterprise", "income", "income statement", "balance sheet" and "equity".
- IPSAS 17 contains Implementation Guidance on the frequency of revaluation of property, plant and equipment. IAS 16 does not contain similar guidance.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed International Public Sector Accounting Standards.

Background

BC1. The International Public Sector Accounting Standards Board (IPSASB)'s International Financial Reporting Standards (IFRSs) Convergence Program is an important element in IPSASB's work program. The IPSASB's policy is to converge the accrual basis International Public Sector Accounting Standards (IPSASs) with IFRSs issued by the International Accounting Standards Board (IASB) where appropriate for public sector entities.

BC2. Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure and text of the IFRSs, unless there is a public sector specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS is not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSASs and their equivalent IFRSs are identified in the "Comparison with IFRS" included in each IPSAS.

BC3. In May 2002, the IASB issued an exposure draft of proposed amendments to thirteen (13) International Accounting Standards (IASs)[1] as part of its General Improvements project. The objectives of the IASB's General Improvements project were "to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements". The final IASs were issued in December 2003.

BC4. Twelve (12) of the IPSASs currently on issue are based on the IASs that were reissued in December 2003. In late 2003, the IPSASB's predecessor, the Public Sector Committee (PSC)[2], actioned an IPSAS Improvements Project to converge IPSASs with the improved IASs issued in December 2003 where appropriate.

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[1] The International Accounting Standards (IASs) were issued by the IASB's predecessor – the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRSs). The IASB has defined IFRSs to consist of IFRSs, IASs and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IASs, in which case the old IAS number remains.

[2] The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

BC5. The IPSASB reviewed the improved IASs and generally concurred with the IASB's reasons for revising the IASs and with the amendments made. (The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Bases for Conclusions on the IASB's website - www.iasb.org). In some limited cases, the IPSASB disagreed with the amendments made to the IASs, and consequently, the IPSAS departs from its equivalent IAS in this respect. This Basis for Conclusions explains the public sector specific reasons for any departure.

Proposed Improved IPSASs

BC6. The IPSASs subject to revisions in the IPSAS Improvements Project are:

- IPSAS 1, "Presentation of Financial Statements"
- IPSAS 3, "Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies"
- IPSAS 4, "The Effect of Changes in Foreign Exchange Rates"
- IPSAS 6, "Consolidated Financial Statements and Accounting for Controlled Entities"
- IPSAS 7, "Accounting for Investments in Associates"
- IPSAS 8, "Financial Reporting of Interests in Joint Ventures"
- IPSAS 12, "Inventories"
- IPSAS 13, "Leases"
- IPSAS 14, "Events After the Reporting Date"
- IPSAS 16, "Investment Property"
- IPSAS 17, "Property, Plant and Equipment".

BC7. IAS 24, "Related Party Disclosures" was included in the IASB's General Improvements project. While IPSAS 20, "Related Party Disclosures" deals with relationships similar to those dealt with in IAS 24, there are significant differences between the requirements of IPSAS 20 and IAS 24. These differences are necessary to reflect the differences between the private and public sector environments. Changes made in IAS 24 have no impact on the requirements of IPSAS 20 and little relevance in the public sector. Consequently, IPSAS 20 has not been revised as part of the IPSAS Improvements Project.

BC8. The IASB's General Improvements project also included improvements to IAS 33, "Earnings per Share". There is no IPSAS on earnings per share.

BC9. In some cases, the improved IASs specify the application of another IFRS. Where an IPSAS based on that IFRS has been issued, a reference to it (the IPSAS) is included in the proposed IPSASs. Where there is no equivalent IPSAS, the proposed IPSASs allow entities to apply the relevant international or national accounting standard dealing with that particular issue. For example, in accordance with:

(a) IPSASs 12, 13, 16 and 17, an entity may apply the relevant international or national accounting standard that specify the accounting requirements on agriculture; and

(b) IPSASs 7 and 8, an entity may apply the relevant international or national accounting standard that specify the recognition and measurement of financial instruments in accounting for certain types of associates and joint venture entities such as mutual funds or unit trusts.

BC10. This approach reflects the proposed "hierarchy of pronouncements" in IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors". The hierarchy provides that, in the absence of an IPSAS dealing with a particular transaction, event or condition, an entity may consider the relevant international or national accounting standard dealing with that particular issue provided they do not conflict with IPSASs.

BC11. A number of IFRSs issued in December 2003 have been further amended as a consequence of IFRSs issued after December 2003. The proposed IPSASs do not include the consequential amendments arising from IFRSs issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRSs to public sector entities.

Transitional Provisions

BC12. In many cases, the transitional provisions in existing IPSASs provide more generous relief than in the equivalent IFRSs. The IPSASB is of the view that such transitional provisions are necessary to facilitate and assist first-time adopters of accrual accounting in accordance with IPSASs. Consequently, they have been retained.

BC13. The IPSASB does not have an equivalent IPSAS to IFRS 1, "First-time Adoption of International Financial Reporting Standards". In limited cases, IFRS 1 provides more generous relief to first-time adopters of accrual accounting in accordance with IPSASs. The IPSASB is of the view that similar additional relief should also be provided to first-time adopters of IPSASs. Therefore, proposed IPSAS 4, "The Effects of Changes in Foreign Exchange Rates" includes new transitional provisions based on the exemptions in IFRS 1.

IASB's Interpretations

BC14. The IASB defines IFRSs to encompass International Financial Reporting Standards, International Accounting Standards and Interpretations of those Standards. In the text of the relevant improved IASs, the IASB included the consensus of some (but not all) of the Interpretations. The IPSASB has not included the consensus in existing Interpretations in the proposed IPSASs when the IASB has not done so – the IPSASB has not identified a public sector specific reason to depart from the equivalent IAS/IFRS.

BC15. The IPSASB does not operate an interpretations committee or issue interpretations of IPSASs. The IPSASB reviews relevant Interpretations associated with an IFRS when it reviews that IFRS for adoption as an IPSAS. An entity may apply these Interpretations in accordance with the proposed "hierarchy of pronouncements" in IPSAS 3.

Departures from the Changes Made to Equivalent Improved IASB Standards

BC16. In limited cases, the changes to the proposed IPSASs differ from the changes made to the equivalent IASs as a consequence of the IASB's General Improvements project. Paragraphs BC17–BC20 explain the reasons for such differences.

Extraordinary Items (IPSAS 1, "Presentation of Financial Statements")

BC17. IAS 1, "Presentation of Financial Statements" prohibits an entity from presenting any item of income or expense as extraordinary items, either on the face of the income statement or in the notes. The IASB concluded that "items treated as extraordinary result from the normal business risks faced by an entity and do not warrant presentation in a separate component of the income statement. The nature or function of a transaction or other event, rather than its frequency, should determine its presentation within the income statement".

BC18. The definition of extraordinary items in IPSAS 1, "Presentation of Financial Statements" differed from the definition included in the previous (1993) version of IAS 8, "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies"[3]. This difference reflected the public sector view of what constituted an extraordinary item.

BC19. The majority of the IPSASB members are of the view that IPSASs should not prohibit entities from disclosing extraordinary items in the notes or on

[3] IPSAS 1 defines extraordinary items as "revenue or expenses 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". IAS 8 defined extraordinary items as "income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and therefore are not expected to recur frequently or regularly".

the face of the financial statement. This is because they believe that there may be user needs for information about extraordinary items. However, other members note that the proposed IPSAS 1 does not preclude the separate presentation of items that are distinct from the ordinary activities of a government, either on the face of the financial statements or in the notes, as long as these items are material. They are not convinced that there is a public sector specific reason to depart from the IASB's prohibition on presenting "extraordinary items" in the financial statements.

Definition of Recoverable Amount in IPSAS 17, "Property, Plant and Equipment"

BC20. IAS 16, "Property, Plant and Equipment" defines recoverable amount as "the higher of an asset's net selling price and its value in use". The proposed IPSAS 17 defines recoverable amount as "the higher of a cash-generating asset's fair value less costs to sell and its value in use". The definition in proposed IPSAS 17 is the same as in IAS 36, "Impairment of Assets" but not IAS 16. The IPSASB is of the view that the definition in IPSAS 17 is appropriate because:

(a) IPSAS 17 requires an entity to determine the recoverable amount or recoverable service amount in accordance with IPSAS 21, "Impairment of Non-Cash-Generating Assets"; and

(b) IPSAS 21 requires an entity to apply IAS 36 in determining the recoverable amount of cash-generating assets.

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