



IPSAS Summary

In this brochure, we summarize the provisions of all International Public Sector Accounting Standards (IPSAS) in issue at 1 September 2006. These summaries are intended as general information and are not a substitute for reading the entire Standard.



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IPSAS 1 *Presentation of Financial Statements*

Effective date

Annual periods beginning on or after 1 July 2001 The revised draft version described below is expected to be effective from 1 January 2008.

Objective

To set out the overall framework for presenting general purpose financial statements prepared under the accrual basis of accounting, including guidelines for their structure and the minimum content.

Summary

- An entity whose financial statements comply with International Public Sector Accounting Standards should disclose that fact.
- Fundamental principles underlying the preparation of financial statements, including going concern assumption, consistency in presentation and classification, accrual basis of accounting, and materiality.
- Assets and liabilities, and revenue and expenses, may not be offset unless offsetting is permitted or required by another IPSAS.
- Comparative prior-period information must be presented for amounts shown in the financial statements and notes.
- A complete set of financial statements includes a statement of financial position, statement of financial performance, statement of changes in net assets/equity, cash flow statement, accounting policies and notes to the financial statements.
- The statement of changes in net assets/equity must show all changes in net assets/equity.
- Financial statements generally to be prepared annually. If the date of the year end changes, and financial statements are presented for a period other than one year, disclosure thereof is required.
- Current/non-current distinction for assets and liabilities is normally required. In general, post-balance sheet events are not considered in classifying items as current or non-current.
- IPSAS 1 specifies minimum line items to be presented on the face of the statement of financial position, statement of financial performance and statement of changes in net assets/equity, and includes guidance for identifying additional line items.
- Analysis of expenses in the statement of financial performance may be given by nature or by function. If presented by function, classification by nature must be provided in the notes.
- IPSAS 1 specifies minimum note disclosures. These must include information about:
 - accounting policies followed;

- the judgments that 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; and
 - the key assumptions concerning the future, and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.
- An appendix to IPSAS 1 provides illustrative statements of financial position, statements of financial performance and statements of changes in net assets/equity.

IPSAS 2 *Cash Flow Statements*

Effective date

Periods beginning on or after 1 July 2001.

Objective

To require the presentation of information about historical changes in a public sector entity's cash and cash equivalents by means of a cash flow statement that classifies cash flows during the period according to operating, investing and financing activities.

Summary

- Cash flow statement must analyze changes in cash and cash equivalents during a period.
- Cash equivalents include investments that are short term (less than three months from date of acquisition), readily convertible to a known amount of cash, and subject to an insignificant risk of changes in value. Generally exclude equity investments.
- Cash flows from operating, investing and financing activities must be separately reported.
- Cash flows for operating activities are reported using either the direct (recommended) or the indirect method.
- Public sector entities reporting cash flows from operating activities using the direct method are encouraged to provide a reconciliation of the surplus/deficit from ordinary activities with the net cash flow from operating activities.
- The cash flows associated with extraordinary items should be classified as arising from operating, investing or financing activities as appropriate, and separately disclosed.
- Cash flows from interest and dividends received and paid should each be disclosed separately and classified as either operating, investing or financing activities.



- Cash flows arising from taxes on net surplus are classified as operating unless they can be specifically identified with financing or investing activities.
- The exchange rate used for translation of transactions denominated in a foreign currency and the cash flows of a foreign controlled entity should be the rate in effect at the date of the cash flows.
- Aggregate cash flows relating to acquisitions and disposals of controlled entities and other operating units should be presented separately and classified as investing activities, with specified additional disclosures.
- Investing and financing transactions that do not require the use of cash should be excluded from the cash flow statement, but they should be separately disclosed.
- Illustrative cash flow statements are included in appendices to IPSAS 2.

IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors

Effective date

Annual periods beginning on or after 1 July 2001 The revised draft version described below is expected to be effective from 1 January 2008.

Objective

To prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in estimates, and corrections of errors.

Summary

- Prescribes a hierarchy for choosing accounting policies:
 - IPSAS, taking into account any relevant implementation guidance, issued by the IPSASB
 - in the absence of a directly applicable IPSAS, look to the requirements and guidance in IPSASs dealing with similar and related issues; and the definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described in other IPSASs; and
 - management may also consider the most recent pronouncements of other standard-setting bodies, and accepted public and private sector practices.
- Apply accounting policies consistently to similar transactions.
- Make a change in accounting policy only if it is required by an IPSAS, or it results in reliable and more relevant information.
- If a change in accounting policy is required by an IPSAS, follow that pronouncement's transition requirements. If none are specified, or if the change is voluntary, apply the new accounting policy retrospectively by restating prior periods.



If restatement is impracticable, include the cumulative effect of the change in net assets/equity. If the cumulative effect cannot be determined, apply the new policy prospectively.

- Changes in accounting estimates (for example, change in useful life of an asset) are accounted for in the current period, or future periods, or both (no restatement).
- All material errors should be corrected by restating comparative prior period amounts and, if the error occurred before the earliest period presented, by restating the opening statement of financial position.

IPSAS 4 The Effects of Changes in Foreign Exchange Rates

Effective date

Annual periods beginning on or after 1 July 2001 The revised draft version described below is expected to be effective from 1 January 2008.

Objective

To prescribe the accounting treatment for an entity's foreign currency transactions and foreign operations.

Summary

- First, determine the reporting entity's functional currency – the currency of the primary economic environment in which the entity operates.
- Then translate all foreign currency items into the functional currency:
 - at date of transaction, record using the transaction-date exchange rate for initial recognition and measurement;
 - at subsequent reporting dates:
 - use closing rate for monetary items;
 - use transaction-date exchange rates for non-monetary items carried at historical cost; and
 - use valuation-date exchange rates for non-monetary items that are carried at fair value; and
 - exchange differences arising on settlement of monetary items and on translation of monetary items at a rate different than when initially recognized are included in surplus or deficit, with one exception: exchange differences arising on monetary items that form part of the reporting entity's net investment in a foreign operation are recognized in the consolidated financial statements that include the foreign operation in a separate component of net assets/equity; such differences will be recognized in surplus or deficit on disposal of the net investment.



- The results and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy are translated into a different presentation currency using the following procedures:
 - assets and liabilities for each statement of financial position presented (including comparatives) are translated at the closing rate at the date of that statement of financial position;
 - revenue and expenses for each statement of financial performance (including comparatives) are translated at exchange rates at the dates of the transactions; and
 - all resulting exchange differences are recognized as a separate component of net assets/equity.
- Special rules for translating into a presentation currency the financial performance and financial position of an entity whose functional currency is hyperinflationary.

IPSAS 5 Borrowing Costs

Effective date

Periods beginning on or after 1 July 2001.

Objective

To prescribe the accounting treatment for borrowing costs.

Summary

- Borrowing costs include interest, amortization of discounts or premiums on borrowings, and amortization of ancillary costs incurred in the arrangement of borrowings.
- Two accounting models are allowed:
 - expense model: charge all borrowing costs to expense when incurred; and
 - capitalization model: capitalize borrowing costs directly attributable to the acquisition or construction of a qualifying asset, but only when it is probable that these costs will result in future economic benefits or service potential to the entity, and the costs can be measured reliably. All other borrowing costs that do not satisfy the conditions for capitalization are to be expensed when incurred. Where an entity adopts the capitalization model, that model should be applied consistently to all borrowing costs that are directly attributable to the acquisition, construction or production of all qualifying assets of the entity.
- A qualifying asset is one that requires a substantial period of time to make it ready for its intended use or sale. Examples include office buildings, hospitals, infrastructure assets such as roads, bridges and power generation facilities, and some inventories.



- If funds are borrowed generally and used for the purpose of obtaining the qualifying asset, apply a capitalization rate (weighted average of borrowing costs applicable to the general outstanding borrowings during the period) to outlays incurred during the period, to determine the amount of borrowing costs eligible for capitalization.

IPSAS 6 Consolidated and Separate Financial Statements

Effective date

Annual periods beginning on or after 1 January 2001 (The revised draft version described below is expected to be effective from 1 January 2008)

Objective

To prescribe requirements for preparing and presenting consolidated financial statements for an economic entity. To prescribe how to account for investments in controlled entities, jointly controlled entities and associates in separate financial statements.

Summary

- A controlled entity is an entity controlled by another entity, known as the controlling entity. Control is the power to govern the operating and financial policies. Consolidated financial statements are financial statements of an economic entity (controlling entity and controlled entities) presented as those of a single entity.
- Consolidated financial statements must include all controlled entities, except when there is evidence that:
 - 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
 - management is actively seeking a buyer.

No exemption for controlled entity that operates under severe long-term funds transfer restrictions”.

- Balances, transactions, revenue and expenses between entities within the economic entity are eliminated in full.
- All entities in the economic entity must use the same accounting policies.
- Reporting dates of controlled entities cannot be more than three months different from reporting date of the controlling entity.
- Minority interest is reported in net assets/equity in the consolidated statement of financial position, separately from the controlling entity’s net assets/equity, and is not deducted in measuring the economic entity’s revenue or expense. However, surplus or deficit of the economic entity is allocated between minority and majority interest on the face of the statement of financial performance.

- In the controlling entity's separate financial statements: account for all of its investments in controlling entities, associates and joint ventures either at cost or as financial instruments.

IPSAS 7 *Investments in Associates*

Effective date

Annual periods beginning on or after 1 July 2001 The revised draft version described below is expected to be effective from 1 January 2008.

Objective

To prescribe the investor's accounting 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.

Summary

- Applies to all investments in which an investor has significant influence unless the investor is:
 - a venture capital organization, or
 - a mutual fund or unit trust or a similar entity, such as an investment-linked insurance fund that is 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.
- When there is evidence that:
 - the investment is acquired and held exclusively with a view to its disposal within twelve months from acquisition; and
 - management is actively seeking a buyer,the investment 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.
- Otherwise, an investor must use the equity method for all investments in associates over which it has significant influence.
- Rebuttable presumption of significant influence if investment held, directly and indirectly, is more than 20% of associate.
- Under the equity method, the investment is initially recorded at cost. It is subsequently adjusted by the investor's share of the investee's post acquisition change in net assets/equity. Investor's statement of financial performance reflects its share of the investee's post-acquisition surplus or deficit.



- Associate's accounting policies must be the same as those of the investor.
- Reporting dates of associates cannot be more than three months different from the investor's reporting date.
- Even if consolidated accounts are not prepared, for example, because the investor has no controlled entities, equity accounting is required. However, the investor does not apply the equity method when presenting "separate financial statements" as defined in IPSAS 6. Instead, the investor accounts for the investment either at cost or as a financial instrument.
- If there is an indication that an investment in an associate may be impaired, an entity should consider the relevant international and/or national standards on accounting for such an impairment.
- If application of the requirements in the relevant international or national accounting standard dealing with the recognition and measurement of financial instruments indicates that the investment may be impaired, an entity applies IPSAS 21.

IPSAS 8 *Interests in Joint Ventures*

Effective date

Annual periods beginning on or after 1 July 2001 The revised draft version described below is expected to be effective from 1 January 2008.

Objective

To prescribe the accounting treatment required for interests in joint ventures, regardless of the structure or legal form of the joint venture activities.

Summary

- Applies to all investments in which investor has joint control unless the investor is:
 - a venture capital organization, or
 - a mutual fund or unit trust or a similar entity, such as an investment-linked insurance fundthat is 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.

The key characteristic of a joint venture is a binding arrangement to share control. Joint ventures may be classified as jointly controlled operations, jointly controlled assets or jointly controlled entities. Different recognition principles for each type of joint venture.



- Jointly controlled operations: venturer recognizes the assets it controls, and expenses and liabilities it incurs, and its share of revenue earned, in both its separate and consolidated financial statements.
- Jointly controlled assets: venturer recognizes its share of the joint assets, any liabilities that it has incurred directly, and its share of any liabilities incurred jointly with the other venturers, revenue from the sale or use of its share of the output of the joint venture, its share of expenses incurred by the joint venture, and expenses incurred directly in respect of its interest in the joint venture. These rules apply to both separate and consolidated financial statements.
- Jointly controlled entities: two accounting policy choices are permitted:
 - proportionate consolidation: under this method, the venturer's statement of financial position includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. Its statement of financial performance includes its share of the revenue and expenses of the jointly controlled entity; and
 - the equity method, as described in IPSAS 7.
- When there is evidence that
 - the interest in a joint venture is acquired and held exclusively with a view to its disposal within twelve months from acquisition; and
 - that management is actively seeking a buyer,the interest 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.
- Even if consolidated accounts are not prepared (for example, because the venturer has no controlled entities), proportionate consolidation/ equity accounting is required. However, in the venturer's "separate financial statements" as defined in IPSAS 6, interests in joint ventures should be accounted for either at cost or as a financial instrument.

IPSAS 9 Revenue from Exchange Transactions

Effective date

Periods beginning on or after 1 July 2002.

Objective

To prescribe the accounting treatment for revenue arising from exchange transactions and events.

Summary



- Revenue should be measured at the fair value of the consideration received/receivable.
- Recognition:
 - from sale of goods: when significant risks and rewards have been transferred to purchaser, loss of effective control by seller, and amount can be reliably measured;
 - from sale of services: percentage of completion method; and
 - for interest, royalties, and dividends: Recognized when it is probable that economic benefits or service potential will flow to the entity.
 - Interest – on a time proportion basis that takes into account the effective yield on the asset.
 - Royalties – as they are earned in accordance with the substance of the relevant agreement.
 - Dividends or their equivalents – when the shareholder’s or the entity’s right to receive payment is established.

IPSAS 10 Financial Reporting in Hyperinflationary Economies

Effective date

Periods beginning on or after 1 July 2002.

Objective

To prescribe specific standards for entities reporting in the currency of a hyperinflationary economy, so that the financial information provided is meaningful.

Summary

- The financial statements of an entity that reports in the currency of a hyperinflationary economy should be stated in terms of the measuring unit current at the reporting date.
- Comparative figures for prior period(s) should be restated into the same current measuring unit.
- When entities in the public sector include in their financial statements the related budgetary information, the budgetary information should also be restated into the same current measuring unit.
- Generally an economy is hyperinflationary when there is 100% inflation over 3 years.



IPSAS 11 *Construction Contracts*

Effective date

Periods beginning on or after 1 July 2002.

Objective

To prescribe the accounting treatment for revenue and costs associated with construction contracts in the financial statements of the contractor.

Summary

- Contract revenue should comprise the amount agreed in the initial contract together with variations in contract work, claims, and incentive payments to the extent that it is probable that they will result in revenues and can be measured reliably.
- Contract costs should comprise costs that relate directly to the specific contract, costs that are attributable to general contract activity and that can be allocated to the contract on a systematic and rational basis, together with such other costs as are directly attributable to the customer under the terms of the contract.
- Where the outcome of a construction contract can be estimated reliably, revenue and costs should be recognized by reference to the stage of completion of contract activity (the percentage of completion method of accounting).
- If the outcome cannot be estimated reliably, no surplus should be recognized. Instead, contract revenue should be recognized only to the extent that contract costs incurred are expected to be recovered, and contract costs should be expensed as incurred.
- In respect of construction contracts in which it is intended at inception of the contract that contract costs are to be fully recovered from the parties to the construction contract: if it is probable that total contract costs will exceed total contract revenue, the expected deficit should be recognized immediately.

IPSAS 12 *Inventories*

Effective date

Annual periods beginning on or after 1 July 2002 The revised draft version described below is expected to be effective from 1 January 2008.

Objective

To prescribe the accounting treatment for inventories under the historical cost system, including cost determination and expense recognition.

Summary

- Inventories are required to be stated at the lower of cost and net realizable value (NRV). However, inventories are required to be stated at the lower of cost and current replacement cost where they are held for:
 - Distribution at no charge or for a nominal charge; or
 - Consumption in the production process of goods to be distributed at no charge or for a nominal charge.
- Costs include purchase cost, conversion cost (materials, labor and overhead), and other costs to bring inventory to its present location and condition, but not foreign exchange differences.
- For inventory items that are not interchangeable, specific costs are attributed to the specific individual items of inventory.
- For interchangeable items, cost is determined on either a FIFO or weighted average basis. LIFO is not permitted.
- When inventories are sold, exchanged or distributed, the carrying amount 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.
- Write-downs to NRV are recognized as an expense in the period of the write-down. Reversals arising from an increase in NRV are recognized as a reduction of the inventory expense in the period in which they occur.

IPSAS 13 *Leases*

Effective date

Annual periods beginning on or after 1 January 2003. The revised draft version described below is expected to be effective from 1 January 2008.

Objective

To prescribe, for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to finance and operating leases.

Summary

- A lease is classified as a finance lease if it transfers substantially all risks and rewards incidental to ownership. Examples:
 - lease covers substantially all of the asset's life; and/or
 - present value of lease payments is substantially equal to the asset's fair value.
- All other leases are classified as operating leases.
- A lease of both land and buildings should be split into land and building elements. Land element is generally an operating lease. Building element is an operating or

finance lease based on the criteria in IPSAS 13. However, separate measurement of the land and buildings elements is not required if the lessee's interest in both land and buildings is classified as an investment property under IPSAS 16 and the fair value model is adopted. Finance leases – Lessee's Accounting:

- recognize asset and liability at the lower of the present value of minimum lease payments and the fair value of the asset;
 - depreciation policy – as for owned assets; and
 - finance lease payment – apportioned between interest and reduction in liability.
- Finance leases – Lessor's Accounting:
 - recognize as a receivable in the statement of financial position at an amount equal to the net investment in the lease; and
 - recognize finance revenue based on a pattern reflecting a constant periodic rate of return on the lessor's net investment.
 - Operating leases – Lessee's Accounting:
 - recognize lease payments as an expense in the statement of financial performance on a straight-line basis over the lease term, unless another systematic basis is representative of the pattern of benefit.
 - Operating leases – Lessor's Accounting:
 - assets held for operating leases should be presented in the lessor's statement of financial position according to the nature of the asset; and
 - lease revenue should be recognized on a straight-line basis over the lease term, unless another systematic basis is more representative of the pattern of benefit.
 - Lessors must spread initial direct costs over the lease term (immediate expensing prohibited).
 - Accounting for sale and leaseback transactions depends on whether these are essentially finance or operating leases.

IPSAS 14 *Events After the Reporting Date*

Effective date

Annual periods beginning on or after 1 January 2003. The revised draft version described below is expected to be effective from 1 January 2008.

Objective

To prescribe:

- When an entity should adjust its financial statements for events after the reporting date.



- Disclosures about the date when the financial statements were authorized for issue, and about events after the reporting date.

Summary

- Events after the reporting date are those events, both favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized for issue.
- Adjusting events – adjust the financial statements to reflect those events that provide evidence of conditions that existed at the reporting date (such as settlement of a court case after the reporting date, that confirms that the entity had a present obligation at the reporting date).
- Non-adjusting events – do not adjust the financial statements to reflect events that arose after the reporting date (such as a decline in the fair value of property after year end, which does not change the valuation of the property at the reporting date).
- Dividends proposed or declared after the reporting date shall not be recognized as a liability at the reporting date. Disclosure is required.
- An entity shall not prepare its financial statements on a going concern basis if events after the reporting date indicate that the going concern assumption is not appropriate.
- An entity must disclose the date its financial statements are authorized for issue and who gave that authorization. If another body has the power to amend the financial statements after issuance, the entity should disclose that fact.

IPSAS 15 Financial Instruments: Disclosure and Presentation

Effective date

Annual periods beginning on or after 1 January 2003.

Objective

To enhance users' understanding of the significance of on-balance sheet and off-balance sheet financial instruments to an entity's financial position, performance, and cash flows.

Summary

- Issuer's classification of an instrument either as a liability or as net assets/equity:
 - based on substance, not form of the instrument;
 - classification is made at the time of issuance and is not subsequently altered;
 - an instrument is a financial liability if the issuer may be obligated to deliver cash or another financial asset or the holder has a right to demand cash or

- another financial asset. An example is mandatorily redeemable preferred shares;
- an instrument that does not give rise to such a contractual obligation is an equity instrument; and
- interest, dividends, gains and losses relating to an instrument classified as a liability should be reported in the statement of financial performance as revenue or expense as appropriate.
- At issuance, an issuer must classify separately the debt and net assets/equity components of a single compound instrument such as convertible debt and debt issued with detachable rights or warrants.
- A financial asset and a financial liability should be offset and the net amount reported in the statement of financial position when, and only when, an entity has a legally enforceable right to set off the amounts, and intends either to settle on a net basis or simultaneously.
- Costs of issuing or reacquiring equity instruments (other than in a business combination) are accounted for as a deduction from equity, net of any related income tax benefit.
- Disclosure requirements include:
 - risk management and hedging policies;
 - hedge accounting policies and practices, and gains and losses from hedges;
 - terms and conditions of, and accounting policies for, all financial instruments;
 - information about exposure to interest rate risk;
 - information about exposure to credit risk;
 - fair values of all financial assets and financial liabilities, except when it is not practicable within constraints of timeliness or cost to determine the fair value of a financial asset or financial liability with sufficient reliability
 -
 - financial assets carried at an amount in excess of fair value; and
 - hedges of anticipated future transactions.

IPSAS 16 *Investment Property*

Effective date

Annual periods beginning on or after 1 January 2003 The revised draft version described below is expected to be effective from 1 January 2008.

Objective

To prescribe the accounting treatment for investment property and related disclosures.

Summary

- Investment property is land or buildings held (whether by the owner or under a finance lease) to earn rentals or for capital appreciation or both.
- IPSAS 16 does not apply to owner-occupied property or property that is being constructed or developed for future use as investment property, or property held for sale in the ordinary course of business.
- Where an investment is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.
- Permits an entity to choose either the fair value model or cost model:
 - fair value model: investment property is measured at fair value, and changes in fair value are recognized in surplus or deficit for the period in which it arises; and
 - cost model: investment property is measured at depreciated cost less any accumulated impairment losses. Fair value of the investment property must still be disclosed.
- The chosen measurement model must be applied to all of the entity's investment property.
- If an entity uses the fair value model but, when a particular property is acquired, there is clear evidence that the entity will not be able to determine fair value on a continuing basis, the cost model is used for that property – and it must continue to be used until disposal of the property.
- Change from one model to the other is permitted if it will result in a more appropriate presentation (highly unlikely for change from fair value to cost model).
- A property interest held by a lessee under an operating lease can qualify as investment property provided that the lessee uses the fair value model of IPSAS 16. In this case, the lessee accounts for the lease as if it were a finance lease.

IPSAS 17 *Property, Plant & Equipment*

Effective date

Annual periods beginning on or after 1 January 2003 The revised draft version described below is expected to be effective from 1 January 2008.

Objective

To prescribe the principles for the initial recognition and subsequent accounting for property, plant and equipment.

Summary

- Items of property, plant and equipment shall be recognized as assets when it is probable that the future economic benefits or service potential associated with the item will flow to the entity, and the cost or fair value of the item can be measured reliably.
- 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 IPSAS 17 with respect to those heritage assets that have been recognized and may, but is not required to, comply with other requirements of IPSAS 17 in respect of those heritage assets.
- Initial recognition at cost, which includes all costs necessary to get the asset ready for its intended use. 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. If payment is deferred, interest must be recognized.
- Subsequent to acquisition, IPSAS 17 allows a choice of accounting model:
 - cost model: the asset is carried at cost less accumulated depreciation and impairment; or
 - revaluation model: the asset is carried at revalued amount, which is fair value at revaluation date less subsequent depreciation and impairment.
- Under the revaluation model, revaluations must be carried out regularly. All items of a given class must be revalued. Revaluation increases are credited directly to revaluation surplus. However, the increase 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. Revaluation decreases are debited first against the revaluation surplus related to the same class of assets, and any excess against surplus or deficit. When the revalued asset is disposed of, the revaluation surplus is transferred directly to accumulated surpluses or deficits and is not recycled through surplus or deficit.
- 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.
- Components of an asset with differing patterns of benefits must be depreciated separately.
- Depreciation is charged systematically over the asset's useful life. The depreciation method must reflect the pattern in which the asset's future economic benefits or service potential is expected to be consumed by the entity. The residual value must be reviewed at least annually and shall equal the amount the entity would receive currently if the asset were already of the age and condition expected at the end of its useful life. If operation of an item of property, plant and equipment (for example, an aircraft) requires regular major inspections, when each major inspection is performed, its cost is recognized in the carrying amount of the asset as a replacement, if the recognition criteria are satisfied.



- Impairment of property, plant and equipment must be assessed under IPSAS 21.
- All exchanges of property, plant and equipment shall be measured at fair value, including exchanges of similar items, unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable.

IPSAS 18 Segment Reporting

Effective date

Periods beginning on or after 1 July 2003.

Objective

To establish principles for reporting financial information by segments to better understand the entity's past performance and to identify the resources allocated to support the major activities of the entity.

Summary

- An entity which prepares and presents financial statements under the accrual basis of accounting should apply IPSAS 18 in the presentation of segment information.
- Requires entities to report segments on a basis appropriate for assessing the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources.
- An entity normally looks to its organizational structure and internal reporting system for the purpose of identifying its service segments and geographical segments.
- Guidance is provided on which segments are reportable, but IPSAS 18 does not specify quantitative thresholds that must be applied in identifying reportable segments.
- A primary and secondary segment reporting structure may be adopted with only limited disclosures made about secondary segments.
- Segment information should be based on the same accounting policies as the consolidated group or entity.
- IPSAS 18 sets out disclosure requirements for each segment.

IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets

Effective date

Periods beginning on or after 1 January 2004.

Objective

To prescribe appropriate recognition criteria and measurement bases for provisions, contingent liabilities and contingent assets, and to ensure that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount. IPSAS 19 thus aims to ensure that only genuine obligations are dealt with in the financial statements. Planned future expenditure, even where authorized by management, is excluded from recognition, as are accruals for self-insured losses, general uncertainties, and other events that have not yet taken place.

Summary

- Recognize a provision only when a past event has created a legal or constructive obligation, an outflow of resources embodying economic benefits or service potential is probable, and the amount of the obligation can be estimated reliably.
- Amount recognized as a provision is the best estimate of settlement amount at reporting date.
- Requires a review of provisions at each reporting date to adjust for changes in estimate.
- Utilize provisions only for original purposes.
- Examples of provisions may include onerous contracts, restructuring provisions, warranties, refunds and site restoration.
- Contingent liability arises when:
 - there is a possible obligation to be confirmed by a future event that is outside the control of the entity; or
 - a present obligation may, but probably will not, require an outflow of resources embodying economic benefits or service potential; or
 - a sufficiently reliable estimate of the amount of a present obligation cannot be made (this is rare).
- Contingent liabilities require disclosure only (no recognition). If the possibility of outflow is remote, then no disclosure.
- Contingent asset arises when the inflow of economic benefits or service potential is probable, but not virtually certain, and occurrence depends on an event outside the control of the entity.
- Contingent assets require disclosure only. If the realisation of revenue is virtually certain, the related asset is not a contingent asset and recognition is appropriate.
- If an entity has an onerous contract, the present obligation (net of recoveries) under the contract should be recognized and measured as a provision.



IPSAS 20 *Related Party Disclosures*

Effective date

Annual periods beginning on or after 1 January 2004.

Objective

To ensure that financial statements disclose the existence of related party relationships and transactions between the entity and its related parties. This information is required for accountability purposes and to facilitate a better understanding of the financial position and performance of the reporting entity.

Summary

- Related parties are parties that control or have significant influence over the reporting entity (including controlling entities, owners and their families, major investors, and key management personnel) and parties that are controlled or significantly influenced by the reporting entity (including controlled entities, joint ventures, associates, and postemployment benefit plans). If the reporting entity and another entity are subject to common control, these entities are also considered related parties.
- Requires disclosure of:
 - relationships involving control, even when there have been no transactions;
 - related party transactions; and
 - management compensation (including an analysis by type of compensation).
- For related party transactions, disclosure is required of the nature of the relationship, the types of transactions that have occurred and the elements of the transactions necessary to clarify the significance of these transactions to its operations and sufficient to enable the financial statements to provide relevant and reliable information for decision making and accountability purposes.
- Examples of related party transactions that may lead to disclosures by a reporting entity:
 - purchases or transfers/sales of goods (finished or unfinished);
 - purchases or transfers/sales of property and other assets;
 - rendering or receiving of services;
 - agency arrangements;
 - leases;
 - transfers of research and development;
 - transfers under licence agreements;
 - transfers under finance arrangements (including loans and equity contributions); and
 - provision of guarantees or collateral.

IPSAS 21 *Impairment of Non-Cash-Generating Assets*

Effective date

Annual periods beginning on or after 1 January 2006.

Objective

To ensure that non-cash-generating assets are carried at no more than their recoverable service amount, and to prescribe how recoverable service amount is calculated.

Summary

- IPSAS 21 applies to all non-cash-generating assets except assets arising from construction contracts (see IPSAS 11), inventories (see IPSAS 12), financial assets that are included in the scope of IPSAS 15, investment property measured at fair value (see IPSAS 16), non-cash-generating property, plant and equipment that is measured at revalued amounts (see IPSAS 17), and other assets in respect of which accounting requirements for impairment are included in another IPSAS.
- Public sector entities that hold cash-generating assets shall apply International Accounting Standard IAS 36, "Impairment of Assets" to such assets.
- Impairment loss of a non-cash-generating asset to be recognized when the carrying amount of an asset exceeds its recoverable service amount.
- Recognize impairment loss immediately in net surplus/deficit.
- Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. Value in use of a non-cash-generating is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using any one of the following three approaches:
 - depreciated replacement cost approach: the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.
 - restoration cost approach: the present value of the remaining service potential of the asset is determined by subtracting the estimated



restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset whichever is lower.

- service units approach: the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment to conform with the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.
- At each reporting date, review assets to look for any indication that an asset may be impaired. If impairment is indicated, calculate recoverable service amount.
- Reversal of prior years' impairment losses allowed in certain instances.



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