Exposure Draft 53
October 2013
Comments due: February 15, 2014

Proposed International Public Sector Accounting Standard

First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)

International Public Sector Accounting Standards Board™

This Exposure Draft was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The IPSASB sets International Public Sector Accounting Standards (IPSASs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies. A key part of the IPSASB's strategy is to converge the IPSASs, to the extent appropriate, with the IFRSs issued by the IASB.

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening transparency and accountability of public sector finances.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants (IFAC).

REQUEST FOR COMMENTS

This Exposure Draft 53, *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)*, was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by February 15, 2014.**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although IPSASB prefers that comments are submitted via its website, comments can also be sent to Stephenie Fox, IPSASB Technical Director at stepheniefox@ipsasb.org.

This publication may be downloaded free of charge from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Objective of the Exposure Draft

The first time adoption of IPSAS, and accrual accounting, is a complex issue that often requires detailed guidance. The objective of this Exposure Draft is to provide a comprehensive set of principles that provides relief to entities that adopt the accrual basis International Public Sector Accounting Standards (IPSASs) for the first time. While the Exposure Drafts have some Implementation Guidance, it is not within the scope of this project to develop more detailed practical guidance on the first-time adoption of IPSASs. The IPSASB has, however, issued the following guidance to assist a first-time adopter with the transition to accrual accounting:

- Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities* issued by the IPSASB.
- IFAC is in the process of developing training material on the IPSASs which will be made available shortly.
- The International Public Sector Accounting Standard: Financial Reporting Under the Cash Basis of Accounting.

Countries transitioning to accrual accounting my also develop various guidance in assisting local entities with the adoption of accrual basis IPSASs.

The transitional exemptions provided in this Exposure Draft will replace many of the existing transitional provisions in the suite of IPSASs. IPSASs will in future only prescribe transitional provisions that deal with changes in the respective Standard once it is applied. When the IPSASB issues new pronouncements, it will specifically develop transitional provisions for the first-time adoption of accrual basis IPSASs that will be included in this IPSAS.

In developing transitional exemptions relating to consolidated financial statements, the IPSASB considered the existing guidance in IPSAS 6, *Consolidated Financial Statements*, IPSAS 7, *Investments in Associates* and IPSAS 8, *Interests in Joint Ventures*. The IPSASB will reconsider these transitional exemptions once comment is received on the proposed IPSASs on *Separate Financial Statements* (ED

48), *Consolidated Financial Statements* (ED 49), *Investments in Associates and Joint Ventures* (ED 50), *Joint Arrangements (ED 51)*, and *Disclosure of Interests in Other Entities* (ED 52) which are issued at the same time as this Exposure Draft.

This Exposure Draft requires an entity to comply with each effective IPSAS on the date of adoption, but grants limited exemptions from requirements in certain areas where the cost of complying would be likely to exceed the benefits to users of financial statements. The Exposure Draft also prohibits retrospective application of IPSASs in some areas, particularly where retrospective application would require judgments by management about past conditions.

Some of the transitional exemptions provided in this Exposure Draft will affect fair presentation and compliance with accrual basis IPSASs until the exemptions that provided the relief have expired, or the relevant items are recognized, measured and/or the relevant information is presented and/or disclosed in the financial statements in accordance with the applicable IPSASs (whichever is earlier). This Exposure Draft therefore requires certain disclosures during the period of transition until the first-time adopter can present its first IPSAS financial statements.

Guide for Respondents

The IPSASB would welcome comments on all of the matters discussed in this Exposure Draft. 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.

The Specific Matters for Comment requested for the Exposure Draft is provided below.

Matter for Comment 1:

The objective of this Exposure Draft is to provide a comprehensive set of principles that provides relief to entities that adopt accrual basis IPSASs for the first time.

(a) Do you agree with the proposed transitional exemptions included in the Exposure Draft; and

(b) Do you believe that the IPSASB achieved its goal in providing appropriate relief to a first-time adopter in transitioning to accrual basis IPSASs?

Please provide a reason for your response.

Matter for Comment 2:

The IPSASB agreed that there should be a differentiation between those transitional exemptions that do not affect the fair presentation of a first-time adopter`s financial statements and its ability to assert compliance with accrual basis IPSASs, and those that do.

(a) Do you agree with the proposed differentiation and how it is addressed in the Exposure Draft, and

(b) Do you agree that the individual categorization is appropriate?

If not, please provide a reason for your response and provide an alternative approach.

Matter for Comment 3:

This Exposure Draft proposes a relief period of three years for the recognition and/or measurement of specific assets and/or liabilities in allowing a first-time adopter to transition to accrual basis IPSASs. Do you agree that a relief period of three years is appropriate? If not, please indicate the time frame that, in your view, would be appropriate, supported with the reason for the longer or shorter transitional relief period.

IPSAS XX (ED 53)—FIRST-TIME ADOPTION OF ACCRUAL BASIS INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSASS)

CONTENTS

International Public Sector Accounting Standard XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* is set out in paragraphs 1–143. All the paragraphs have equal authority. IPSAS XX (ED 53) 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.

Objective

1. The objective of this Standard is to ensure that an entity's first annual financial statements prepared using accrual basis IPSASs, contain high quality information that:

    (a) Provides transparent reporting about a first-time adopter's transition to accrual basis IPSASs;

    (b) Provides a suitable starting point for accounting in accordance with accrual basis IPSASs irrespective of the basis of accounting the first-time adopter has used prior to the date of adoption of accrual basis IPSASs; and

    (c) Can be generated at a cost that does not exceed the benefits.

Scope

2. An entity shall apply this Standard when it prepares and presents its annual financial statements on the adoption of, and during the transition to, accrual basis IPSASs.

3. This Standard applies when an entity first adopts accrual basis IPSASs and during the transitional period allowed in this Standard. It does not apply when, for example, a first-time adopter:

    (a) Stops presenting financial statements in accordance with prescribed requirements, having previously presented them as well as another set of financial statements that contained an explicit and unreserved statement of compliance with accrual basis IPSASs;

    (b) Presented financial statements in the previous reporting period in accordance with prescribed requirements and those financial statements contained an explicit and unreserved statement of compliance with accrual basis IPSASs; or

    (c) Presented financial statements in the previous reporting period that contained an explicit and unreserved statement of compliance with accrual basis IPSASs, even if the auditors modified their audit report on those financial statements.

4. This Standard does not apply to changes in accounting policies made by an entity that already applies IPSASs. Such changes are the subject of:

    (a) Requirements on changes in accounting policies in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*; and

    (b) Specific transitional requirements in other IPSASs. The transitional provisions in other IPSASs apply only to changes in accounting policies made by an entity that already applies accrual basis IPSASs; they do not apply to a first-time adopter's transition to IPSASs.

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 IPSASB explains that Government Business Enterprises (GBEs) apply IFRSs issued by the IASB. GBEs are defined in IPSAS 1, *Presentation of Financial Statements.*

Definitions

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

<u>Date of adoption of IPSASs</u> is the date an entity adopts accrual basis IPSASs for the first time, and is the beginning of the earliest period for which the entity presents its first transitional IPSAS financial statements or its first IPSAS financial statements.

<u>Deemed cost</u> is an amount used as a surrogate for acquisition cost or depreciated cost at a given date.

<u>First IPSAS financial statements</u> are the first annual financial statements in which an entity complies with the accrual basis IPSASs and can make an explicit and unreserved statement of compliance with other IPSASs because it adopted one or more of the transitional exemptions in this IPSAS that do not impact the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSASs.

<u>First-time adopter</u> is an entity that adopts accrual basis IPSASs for the first time and presents its first transitional IPSAS financial statements or its first IPSAS financial statements.

<u>Opening statement of financial position</u> is a first-time adopter's statement of financial position at the date of adoption of IPSASs.

<u>Period of transition</u> is the period during which a first-time adopter applies one or more of the exemptions in this IPSAS before it complies with the accrual basis IPSASs by an explicit and unreserved statement of such compliance with IPSASs.

<u>Previous basis of accounting</u> is the basis of accounting that a first-time adopter used immediately before adopting accrual basis IPSASs.

<u>Transitional IPSAS financial statements</u> are the financial statements prepared in accordance with this Standard where a first-time adopter cannot make an explicit and unreserved statement of compliance with other IPSASs because it adopted one or more of the transitional exemptions in this Standard that impact the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSASs.

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

Date of Adoption of IPSASs

8. The date of adoption of IPSASs is the date that an entity adopts accrual basis IPSASs for the first time, and is the beginning of the earliest period for which the entity presents its first transitional IPSAS financial statements or its first IPSAS financial statements. If a first-time adopter takes advantage of the exemptions in this Standard that affect fair presentation and compliance with accrual basis IPSASs (see paragraphs 32–60) in producing its first transitional IPSAS financial statements, it can only make an explicit and unreserved statement of compliance with accrual basis IPSASs when the exemptions that provided the relief have expired, and/or when the relevant items are recognized, measured and/or the relevant information is presented and/or disclosed in the financial statements in accordance with the applicable IPSASs (whichever is earlier).

First IPSAS Financial Statements

9. An entity's first IPSAS financial statements are the first annual financial statements in which the first-time adopter can make an explicit and unreserved statement in those financial statements of compliance with IPSASs. If a first-time adopter does not adopt the exemptions in this Standard that affect fair presentation and compliance with accrual basis IPSASs (see paragraphs 32–60), its first financial statements following the adoption of accrual basis IPSASs will also be its first IPSAS financial statements.

Previous Basis of Accounting

10. The previous basis of accounting is the basis of accounting that a first-time adopter used immediately before adopting accrual basis IPSASs which can either be the cash basis of accounting or the accrual basis of accounting. The first-time adopter may also have applied a modified version of either the cash basis or the accrual basis of accounting, or prescribed requirements.

Transitional IPSAS Financial Statements

11. An entity's transitional IPSAS financial statements are the annual financial statements in which an entity transitions to accrual basis IPSASs and adopts certain exemptions in this Standard that impact the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSASs. If a first-time adopter adopts the exemptions in this Standard that affect fair presentation and compliance with accrual basis IPSASs (see paragraphs 32–60), it will not be able to make an explicit and unreserved statement of compliance with other accrual basis IPSASs until the exemptions that provided the relief in this Standard have expired and/or when the relevant items are recognized, measured and/or the relevant information has been presented and/or disclosed in accordance with the applicable IPSASs (whichever is earlier).

12. An entity's transitional IPSAS financial statements are those financial statements, for example, where the entity transitions from another accounting basis such as when it:

    (a) Prepared its most recent previous financial statements in accordance with the IPSAS, *Financial Reporting Under the Cash Basis of Accounting*;

    (b) Presented its most recent previous financial statements:

        (i) In accordance with prescribed requirements that are not consistent with IPSASs in all respects;

        (ii) In conformity with IPSASs in all respects, except that the financial statements did not contain an explicit and unreserved statement that they complied with IPSASs;

        (iii) Containing an explicit statement of compliance with some, but not all, IPSASs, including the adoption of the exemptions provided in this Standard that affect fair presentation and compliance with accrual basis IPSASs (see paragraphs 32–60);

        (iv) In accordance with prescribed requirements inconsistent with IPSASs, using some individual IPSASs to account for items for which prescribed requirements did not exist; or

        (v) In accordance with prescribed requirements, with a reconciliation of some amounts to the amounts determined in accordance with IPSASs;

(c) Prepared financial statements in accordance with IPSASs for internal use only, without making them available to external users;

(d) Prepared a reporting package in accordance with IPSASs for consolidation purposes without preparing a complete set of financial statements as defined in IPSAS 1; or

(e) Did not present financial statements for previous periods.

Recognition and Measurement

Opening Statement of Financial Position on Adoption of IPSASs

13. A first-time adopter shall prepare and present an opening statement of financial position at the date of adoption of IPSASs. This is the starting point for its accounting in accordance with IPSASs.

Accounting Policies

14. On the date of adoption of IPSASs, a first-time adopter shall apply the effects of the IPSASs retrospectively except if required, or otherwise permitted, in this Standard.

15. A first-time adopter shall use the same accounting policies in its opening statement of financial position and throughout all periods presented, except as specified in paragraphs 32–125. The accounting policies shall comply with each IPSAS effective at the date of adoption of IPSASs, except as specified in paragraphs 32–125.

16. A first-time adopter that takes advantage of the exemptions in paragraph 32–125 will be required to amend its accounting policies after the exemptions that provided the relief have expired and/or when the relevant items are recognized, measured and/or the relevant information is presented and/or disclosed in the financial statements in accordance with the applicable IPSASs (whichever is earlier).

17. A first-time adopter shall apply the versions of IPSASs effective at the date of adoption of IPSASs. A first-time adopter may apply a new IPSAS that is not yet mandatory if that IPSAS permits early application. Any new IPSASs that become effective during the period of transition should be applied by the first-time adopter from the date it becomes effective.

18. Except as described in paragraphs 32–125, a first-time adopter shall, in its opening statement of financial position:

(a) Recognize all assets and liabilities whose recognition is required by IPSASs;

(b) Not recognize items as assets or liabilities if IPSASs do not permit such recognition;

(c) Reclassify items that it recognized in accordance with the previous basis of accounting as one type of asset, liability or component of net assets/equity, but are a different type of asset, liability or component of net assets/equity in accordance with IPSASs; and

(d) Apply IPSASs in measuring all recognized assets and liabilities.

19. The accounting policies that a first-time adopter uses in its opening statement of financial position may differ from those that it used at the end of its comparative period under its previous basis of accounting. The resulting adjustments arise from transactions, other events or conditions before the date of adoption of IPSASs. Therefore, a first-time adopter shall recognize those adjustments to the opening balance of accumulated surplus or deficit in the period in which the items are recognized

and/or measured (or, if appropriate, another category of net assets/equity). The first-time adopter shall recognize these adjustments in the earliest period presented.

Exceptions to the Retrospective Application of IPSASs

20. This Standard prohibits retrospective application of some aspects, which are set out in paragraphs 21–24.

Estimates

21. A first-time adopter's estimates in accordance with IPSASs at the date of adoption of IPSASs, shall be consistent with estimates made in accordance with the previous basis of accounting (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were inconsistent with the requirements in IPSASs.

22. A first-time adopter may receive information after the date of adoption of IPSASs about estimates that it had made under its previous basis of accounting. In accordance with paragraph 21, a first-time adopter shall treat the receipt of that information in the same way as non-adjusting events after the reporting period in accordance with IPSAS 14, *Events after the Reporting Period*.

23. A first-time adopter may need to make estimates in accordance with IPSASs at the date of adoption of IPSASs or during the period of transition that were not required at that date under the previous basis of accounting. To achieve consistency with IPSAS 14, those estimates in accordance with IPSASs shall reflect conditions that existed at the date of adoption of IPSASs or at the date during the period of transition. In particular, estimates determined at the date of adoption of IPSASs or during the period of transition of market prices, interest rates or foreign exchange rates shall reflect market conditions at that date. For non-financial assets, such as property, plant and equipment, estimates about the asset's useful life, residual value or condition reflect management's expectations and judgment at the date of adoption of IPSASs or the date during the period of transition.

24. Paragraphs 21–23 apply to the opening statement of financial position. They also apply to a comparative period where an entity elects to present comparative information in accordance with paragraph 76, in which case the references to the date of adoption of IPSASs are replaced by references to the end of that comparative period.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSASs During the Period of Transition

Fair Presentation and Compliance with IPSASs

25. A first-time adopter's first IPSAS financial statements shall fairly present the financial position, financial performance, and cash flows of the 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 IPSASs. If a first-time adopter takes advantage of the exemptions in paragraphs 32–60, these exemptions will affect the fair presentation of the financial statements and the first-time adopter's ability to assert compliance with accrual basis IPSASs, until the exemptions that provided the relief have expired and/or when the relevant items are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).

26. A first-time adopter shall claim full compliance with IPSASs only when it has complied with all the requirements of the applicable IPSASs effective at that date. If a first-time adopter's adopts one or more of the exemptions in paragraph 32–60, the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSASs will be affected. An entity's whose financial statements comply with IPSASs shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with IPSASs unless they comply with all the requirements of IPSASs.

27. According to IPSAS 1, fair presentation is achieved in virtually all circumstances by compliance with applicable IPSASs. For a first-time adopter to claim full compliance with IPSASs, all the requirements of the applicable IPSAS needs to be complied with to ensure that information is presented in a manner that meets the qualitative characteristics.

28. The exemptions in paragraphs 32–60 provide relief from the recognition, measurement, presentation and/or disclosure requirements in IPSASs on the date of adoption of IPSASs. A first-time adopter may elect to adopt these exemptions, but should consider that applying these exemptions will affect the fair presentation of its financial statements and its ability to assert compliance with accrual basis IPSASs in accordance with paragraphs 25 and 26 until the exemptions that provided the relief have expired and/or when the relevant items are recognized, measured, and/or the relevant information is presented and/or disclosed in the financial statements in accordance with the applicable IPSASs (whichever is earlier). Before making use of such exemptions, a first-time adopter shall consider all the relevant facts and circumstances and the potential effect on its financial statements.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSASs

29. A first-time adopter may take advantage of the exemptions in paragraphs 32–60. These exemptions will affect the fair presentation of a first-time adopter's financial statements and its ability to assert compliance with accrual basis IPSASs during the period of transition in accordance with paragraphs 25 and 26 while they are applied. A first-time adopter shall not apply these exemptions by analogy to other items.

30. Notwithstanding the exemptions provided in paragraphs 32–60 a first-time adopter is encouraged to comply in full with all the requirements of the applicable IPSASs as soon as possible.

31. To the extent that a first-time adopter takes advantage of the exemptions in paragraph 32–60, it is not required to apply any associated presentation and/or disclosure requirements in the applicable IPSASs until the exemptions that provided the relief have expired or the relevant items are recognized and/or measured in the financial statements in accordance with the applicable IPSASs (whichever is earlier).

Three Year Transitional Relief Period for the Recognition and/or Measurement of Assets and/or Liabilities

Recognition and/or Measurement of Assets and/or Liabilities

32. Where a first-time adopter has not recognized assets and/or liabilities under its previous basis of accounting, it is not required to recognize the following assets and/or liabilities for

reporting periods beginning on a date within three years following the date of adoption of IPSASs:

(a) Investment property (see IPSAS 16, *Investment Property*);

(b) Property, plant and equipment (see IPSAS 17, *Property, Plant and Equipment*);

(c) Defined benefit plans and other long-term employee benefits (see IPSAS 25, *Employee Benefits*);

(d) Biological assets and agricultural produce (see IPSAS 27, *Agriculture*);

(e) Intangible assets (see IPSAS 31, *Intangible Assets*);

(f) Service concession assets and the related liabilities, either under the financial liability model or the grant of a right to the operator model (see IPSAS 32, *Service Concession Arrangements: Grantor*); and

(g) Financial instruments (see IPSAS 29, *Financial Instruments: Recognition and Measurement*).

33. Where a first-time adopter takes advantage of the exemption in paragraph 32(c), it shall recognize the obligation and any related plan assets at the same time.

34. Where a first-time adopter has recognized the assets and/or liabilities included in paragraph 32 under its previous basis of accounting, it is not required to change its accounting policy in respect of the measurement of these assets and/or liabilities for reporting periods beginning on a date within three years following the date of adoption of IPSASs.

35. Subject to paragraphs 32 and 34, a first-time adopter is not required to change its accounting policy in respect of the recognition and/or measurement of assets and/or liabilities for reporting periods beginning on a date within three years following the date of adoption of IPSASs. The transitional exemptions in paragraphs 32 and 34 are intended to allow a first-time adopter a period to develop reliable models for measuring its assets and/or liabilities during the period of transition. The first-time adopter may apply accounting policies for the measurement of such assets and/or liabilities that do not comply with the provisions of other IPSASs

36. Subject to the provisions of paragraphs 32 and 34, a first-time adopter shall only change its accounting policies during the period of transition to better conform to the accounting policies in accrual basis IPSASs, and may retain its existing accounting policies until the exemptions that provided the relief have expired or when the relevant items are recognized and/or measured in the financial statements in accordance with the applicable IPSASs (whichever is earlier).

37. To the extent that a first-time adopter has taken advantage of the exemptions in paragraphs 32 and 34 which allows a three year transitional relief period to not recognize and/or measure financial instruments, it is not required to recognize and/or measure any related revenue in terms of IPSAS 9, *Revenue from Exchange Transactions*, or other receivables settled in cash or another financial asset in terms of IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers).*

Recognition and/or Measurement of Non-Exchange Revenue

38. A first-time adopter is not required to change its accounting policy in respect of the recognition and measurement of non-exchange revenue for reporting periods beginning on a date within three years following the date of adoption of IPSASs.

39. The transitional provision in paragraph 38 is intended to allow a first-time adopter a period to develop reliable models for recognizing and measuring revenue from non-exchange transactions in accordance with IPSAS 23 during the period of transition. The first-time adopter may apply accounting policies for the recognition and/or measurement of revenue from non-exchange transactions that do not comply with the provisions of IPSAS 23. The transitional provision in paragraph 38 allows a first-time adopter to apply IPSAS 23 incrementally to different classes of revenue from non-exchange transactions. For example, a first-time adopter may be able to recognize and measure property taxes and some other classes of transfers in accordance with IPSAS 23 from the date of adoption of IPSASs, but may require three years to fully develop a reliable model for recognizing and measuring income tax revenue.

40. Subject to the provisions of paragraph 38, a first-time adopter shall only change its accounting policies to better conform to the accounting policies of IPSAS 23. A first-time adopter may change its accounting policy in respect of revenue from non-exchange transactions on a class-by-class basis.

41. When a first-time adopter takes advantage of the transitional exemption in paragraphs 38 and 40, it may retain its existing accounting policies until it decides to fully apply the provisions of IPSAS 23, or until the relief provided expires, whichever is earlier.

Other Exemptions

IPSAS 5, Borrowing Costs

42. Where a first-time adopter takes advantage of the exemption in paragraph 32 which allows a three year transitional relief period to not recognize and/or measure assets, and elects to account for borrowing costs in terms of the allowed alternative treatment, it is not required to capitalize any borrowing costs on qualifying assets for which the commencement date for capitalization is prior to the date of adoption of accrual basis IPSASs, until the exemption that provided the relief has expired and/or when the relevant assets are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier).

43. This Standard allows a first-time adopter a period of up to three years from the date of adoption of IPSASs to not recognize and/or measure assets in accordance with IPSAS 16, 17, 27, 31 and 32. During this period, a first-time adopter may need to consider the requirements of those IPSASs at the same time as the capitalization of borrowing costs where it applies the allowed alternative method. Where a first-time adopter takes advantage of the transitional exemption period for the recognition and/or measurement of assets in accordance with IPSASs 16, 17, 27, 31 and 32 it is not required to capitalize any borrowing costs on qualifying assets until the exemptions that provided the relief have expired, and/or when the relevant assets are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier).

IPSAS 6, Consolidated and Separate Financial Statements

44. A first-time adopter shall present consolidated financial statements following the adoption of accrual basis IPSASs. A first-time adopter is, however, not required to eliminate all

balances, transactions, revenue and expenses between entities within the economic entity for reporting periods beginning on a date within three years following the date of adoption of IPSASs. A first-time adopter.

45. On adoption of IPSASs, an entity may have controlled entities with a 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 44 provides relief for a period of up to three years to fully eliminate balances, transactions, revenue and expenses between entities within the economic entity.

46. Notwithstanding the transitional exemption in paragraph 44, a first-time adopter is encouraged to eliminate those balances, transactions, revenue and expenditure that are known on the date of adoption of IPSASs to comply in full with the provisions of IPSAS 6 as soon as possible.

IPSAS 7, Investments in Associates

47. When a first-time adopter applies the equity method on adoption of IPSAS 7, the investor is not required to eliminate its share in the associate's surplus and deficit resulting from upstream and downstream transactions between the investor and the associate for reporting periods beginning on a date within three years following the date of adoption of IPSASs.

48. On adoption of IPSASs, a first-time adopter may have one or more associates with a significant number of upstream and downstream transactions between them. Accordingly, it may be difficult to identify some upstream and/or downstream transactions in which the investor's share in the associate's surplus or deficit needs to be eliminated in applying the equity method. For this reason, paragraph 47 provides the investor relief with a period of up to three years to fully eliminate its share in the associate's surplus or deficit resulting from upstream and/or downstream transactions between the investor and its associates.

49. Notwithstanding the transitional exemption in paragraph 47, a first-time adopter is encouraged to eliminate its share in the associate's surplus and deficit resulting from upstream and downstream transactions that are known on the date of adoption of IPSASs, to comply in full with the provisions of IPSAS 7 as soon as possible.

IPSAS 8, Interests in Joint Ventures

50. When a first-time adopter applies the proportionate consolidation treatment on adoption of IPSAS 8, a venturer is not required to eliminate all balances and transactions between itself and entities that are jointly controlled for reporting periods beginning on a date within three years following the date of adoption of IPSASs.

51. On adoption of IPSASs, a first-time adopter may have one or more jointly controlled entities with a significant number of transactions between these entities. Accordingly, it may initially be difficult to identify some transactions and balances that need to be eliminated for the purpose of preparing the financial statements. For this reason, paragraph 50 provides a first-time adopter relief with a period of up to three years to fully eliminate balances and transactions between the first-time adopter and its jointly controlled entities.

52. When a first-time adopter applies the equity method on adoption of IPSAS 8, the venturer can elect to apply the transitional exemptions provided in paragraph 47.

53. Notwithstanding the transitional exemptions in paragraphs 50 and 52, a first-time adopter is encouraged to eliminate those balances and transactions, or eliminate its share in the jointly controlled entity's surplus and deficit resulting from upstream and downstream transactions, that are known on the date of adoption of IPSASs, to comply in full with the provisions of IPSAS 8 as soon as possible.

IPSAS 13, Leases

54. Where a first-time adopter takes advantage of the exemption in paragraph 32 which allows a three year transitional relief period to not recognize assets, it is not required to apply the requirements related to finance leases until the exemption that provided the relief has expired, and/or when the relevant assets are recognized in accordance with the applicable IPSASs (whichever is earlier).

55. This Standard allows a first-time adopter a period of up to three years from the date of adoption of IPSASs to not recognize assets in accordance with IPSAS 16, 17, 27, 31 and 32. During this period, a first-time adopter may need to consider the recognition requirements of those IPSASs at the same time as considering the recognition of finance leases in this Standard. Where a first-time adopter takes advantage of the exemption in accordance with IPSASs 16, 17, 27, 31 and 32 it is not required to recognize finance lease assets until the exemptions that provided the relief have expired, and/or when the relevant assets are recognized in accordance with the applicable IPSASs (whichever is earlier).

IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets

56. Where a first-time adopter takes advantage of the exemption in paragraph 32 which allows a three year transitional relief period to not recognize and/or measure property, plant and equipment, it is not required to recognize and/or measure the liability relating to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located until the exemption for IPSAS 17 has expired, and/or the relevant asset is recognized and/or measured in accordance with IPSAS 17 (whichever is earlier).

57. This Standard allows a first-time adopter a period of up to three years from the date of adoption of IPSASs to not recognize and/or measure property, plant and equipment. IPSAS 17 requires an entity to include as part of the cost of an item of property, plant and equipment, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Where a first-time adopter takes advantage of the exemption that allows a three year transitional relief period for the recognition and/or measurement of property, plant and equipment, a first-time adopter is not required to apply the requirements related to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located until the exemption that provided the relief has expired, and/or when the relevant asset is recognized and/or measured in accordance with IPSAS 17 (whichever is earlier). The liability shall be measured as at the date of adoption of IPSASs, or where a first-time adopter has taken advantage of the exemption that allows a three year transitional relief period for the recognition and/or measurement of an asset, the date on which the exemption that provides the relief has expired and/or the asset has been recognized and/or measured in accordance with the applicable IPSASs.

58. Where a first-time adopter takes advantage of the exemption in paragraph 56, it shall recognize and/or measure the obligation and any related asset at the same time

IPSAS 20, Related Party Disclosures

59. A first-time adopter is not required to disclose related party relationships, related party transactions and information about key management personnel for reporting periods beginning on a date within three years following the date of adoption of IPSASs.

60. Notwithstanding the transitional provision in paragraph 59, a first-time adopter is encouraged to disclose information about related party relationships, related party transactions and information about key management personnel that is known at the date of adoption of IPSASs.

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSASs

61. A first-time adopter is required, or may elect to take advantage of the exemptions in paragraphs 62–125. These exemptions will not affect the fair presentation of a first-time adopter's financial statements and its ability to assert compliance with accrual basis IPSASs during the period of transition in accordance with paragraphs 25 and 26 while they are applied. A first-time adopter shall not apply these exemptions by analogy to other items.

Date at which Deemed Cost can be Determined

62. The date at which deemed cost is determined may vary depending on whether the first-time adopter takes advantage of the exemptions that provides a three year transitional relief period to not recognize and/or measure certain assets. When the first-time adopter takes advantage of the exemption, deemed cost can be determined at any date during this period, or on the date that the exemption expires (whichever is earlier), and shall be recognized in accordance with paragraph 71. If a first-time adopter does not take advantage of the exemption, deemed cost shall be determined at the beginning of the earliest period for the first-time adopter presents IPSAS financial statements.

63. Where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, it may determine a deemed cost for that asset at any point of time within the three year transitional relief period.

Using Deemed Cost to Measure Assets

64. A first-time adopter may elect to measure the following assets at their fair value when reliable cost information about the asset is not available, and use that fair value as the deemed cost for:

(a) Inventory (see IPSAS 12);

(b) Investment property, if the first-time adopter elects to use the cost model in IPSAS 16;

(c) Property, plant and equipment (see IPSAS 17);

(d) Intangible assets, other than internally generated intangible assets (see IPSAS 31) that meets:

(i) **The recognition criteria in IPSAS 31 (excluding the reliable measurement criterion); and**

(ii) **The criteria in IPSAS 31 for revaluation (including the existence of an active market);**

(e) **Financial Instruments (see IPSAS 29); or**

(f) **Service concession assets (see IPSAS 32).**

65. Deemed cost can only be determined where the acquisition cost of the asset is not available. Deemed cost assumes that the entity had initially recognized the asset or liability at the given date. Subsequent depreciation or amortization is based on that deemed cost on the premise that the acquisition cost is equal to the deemed cost. For example, a first-time adopter may elect to measure property, plant and equipment at deemed cost at the date of adoption of IPSASs because cost information about the item of property, plant and equipment was not available on that date, and use fair value as its deemed cost at that date. Any subsequent depreciation is based on the fair value determined at that date and starts from the date that it has been determined the deemed cost.

66. The use of deemed cost is not considered a revaluation or the application of the fair value model for subsequent measurement in accordance with other IPSASs.

67. A first-time adopter may elect to use the revaluation amount of property, plant and equipment under its previous basis of accounting as deemed cost if the revaluation was, at the date of the revaluation, broadly comparable to:

(a) **Fair value; or**

(b) **Cost or depreciated cost, where appropriate, in accordance with IPSASs adjusted to reflect, for example, changes in a general or specific price index.**

68. A first-time adopter may have established a deemed cost in accordance with its previous basis of accounting for property, plant and equipment by measuring it at fair value at one particular date because of a specific event:

(a) If the measurement date is at or before the date of adoption of IPSASs, a first-time adopter may use such event-driven fair value measurements as deemed cost for IPSASs at the date of that measurement.

(b) If the measurement date is after the date of adoption of IPSASs, but during the period of transition where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, the event-driven fair value measurements may be used as deemed cost when the event occurs. A first-time adopter shall recognize the resulting adjustments directly in accumulated surplus or deficit when the asset is recognized and/or measured.

69. The exemption in paragraph 67 refers to fair value. In determining a fair value in accordance with this Standard, the first-time adopter shall apply the definition of fair value and guidance in other applicable IPSASs in determining the fair value of the asset in question. The fair value shall reflect conditions that existed at the date on which it was determined.

70. If reliable market-based evidence of fair value is not available for inventory, or investment property that is of a specialized nature, a first-time adopter may consider the following measurement alternatives in determining a deemed cost:

(a) For inventory, current replacement cost; and

(b) For investment property of a specialized nature, depreciated replacement cost.

71. When a deemed cost is determined during the period in which a first-time adopter takes advantage of the exemption that provides a three year transitional exemption not to recognize and /or measure an asset, a first-time adopter shall recognize the adjustment against the opening accumulated surplus or deficit in the year in which the deemed cost of the asset is recognized and/or measured.

Using Deemed Cost to Measure Assets Acquired Through a Non-Exchange Transaction

72. A first-time adopter may elect to measure an asset acquired through a non-exchange transaction at its fair value when reliable cost information about the asset is not available, and use that fair value as its deemed cost.

Using Deemed Cost for Investments in Controlled Entities, Jointly Controlled Entities and Associates (IPSAS 6, 7 and 8)

73. Where a first-time adopter measures an investment in a controlled entity, joint venture or associate at cost in its separate financial statements, it may, on the date of adoption of IPSASs, elect to measure that investment at one of the following amounts in its separate opening statement of financial position:

(a) Cost determined in accordance with IPSAS 6; or

(b) Deemed cost. The deemed cost of such an investment shall be its fair value (determined in accordance with IPSAS 29) at the first-time adopter's date of adoption of IPSASs in its separate financial statements.

74. A first-time adopter may have established a deemed cost in accordance with its previous basis of accounting for an investment in a controlled entity, joint venture or associate by measuring it at their fair value at one particular date because of a specific event. In such instances, a first-time adopter applies paragraph 67(a) and (b).

IPSAS 1, Presentation of Financial Statements

Comparative Information

75. A first-time adopter is encouraged, but not required, to present comparative information in its transitional IPSAS financial statements or its first IPSAS financial statements presented in accordance with this Standard.

76. Where a first-time adopter elects to present comparative information, the transitional IPSAS financial statements or the first IPSAS financial statements presented in accordance with this Standard shall include:

(a) Two statements of financial position, and an opening statement of financial position as at the beginning of the reporting period prior to the date of adoption of accrual basis IPSASs;

(b) Two statements of financial performance;

(c) Two statements of changes in net assets/equity;

(d) Two cash flow statements;

(e) A comparison of budget and actual amounts for the current year as a separate additional financial statement or as a budget column in the financial statements if the first-time adopter makes its approved budget publicly available; and

(f) Related notes including comparative information, and the disclosure of narrative information about material adjustments as required by paragraph 130.

77. Where a first-time adopter elects to not present comparative information, its transitional IPSAS financial statements following the adoption of accrual basis IPSASs or its first IPSAS financial statements presented in accordance with this Standard shall include:

(a) One statement of financial position, and an opening statement of financial position at the date of adoption of accrual basis IPSASs;

(b) One statement of financial performance;

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

(d) One cash flow statement;

(e) A comparison of budget and actual amounts for the current year as a separate additional financial statement or as a budget column in the financial statements if the first-time adopter makes its approved budget publicly available; and

(f) Related notes and the disclosure of narrative information about material adjustments as required by paragraph 130.

78. Where a first-time adopter takes advantage of the exemptions in paragraph 32–60 which allow a three year transitional relief period to not recognize and/or measure an item, comparative information for the year following the date of adoption of IPSASs shall be adjusted only when information is available about the items following their recognition and/or measurement during the relief period.

79. IPSAS 1 requires an entity to present comparative information in respect of the previous period for all amounts reported in the financial statements. Where a first-time adopter takes advantage of the exemption that provides a three year transitional exemption to not recognize and/or measure an item, it shall, during the period of transition present comparative information for an item recognized and/or measured during that period only, if information is available about the item for the comparative period. The first-time adopter shall apply the requirements in IPSAS 1 after it has adjusted its first IPSAS financial statements.

Non-IPSAS Comparative Information

80. A first-time adopter may present comparative information in accordance with its previous basis of accounting. In any financial statements containing comparative information in accordance with the previous basis of accounting, the first-time adopter shall label the information prepared using the previous basis of accounting information as not being prepared in accordance with IPSASs, and disclose the nature of the main adjustments that would be required to comply with IPSASs.

Non-IPSAS Historical Summaries

81. A first-time adopter may elect to present historical summaries of selected data for periods before the first period for which it presents financial statements in accordance with IPSASs. This Standard does not require such summaries to comply with the recognition and measurement requirements of IPSASs. In any financial statements containing historical summaries in accordance with the previous basis of accounting, the first-time adopter shall label the previous basis of accounting information prominently as not being prepared in accordance with IPSASs, and disclose the nature of the main adjustments that would be required to comply with IPSASs. The first-time adopter need not quantify those adjustments.

IPSAS 4, The Effects of Changes in Foreign Exchange Rates

82. On the date of adoption of IPSASs a first-time adopter need not comply with the requirements for cumulative translation differences that exist at that date. 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 adoption of IPSASs; and

(b) The gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of adoption of IPSASs and shall include later translation differences.

83. A first-time adopter shall apply the requirement to treat any goodwill (see the relevant international or national accounting standard dealing with entity combinations) 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, as assets and liabilities of the foreign operation, prospectively on the date of adoption of IPSASs.

84. In applying the transitional exemption in paragraph 82, a first-time adopter shall not restate prior years for the acquisition of a foreign operation acquired prior to the date of adoption of IPSASs, and accordingly shall, where appropriate, treat goodwill and fair value adjustments arising on 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.

IPSAS 5, Borrowing Costs

85. A first-time adopter is encouraged, but not required, to apply the requirements of IPSAS 5 retrospectively where it adopts or changes its accounting policy to the benchmark treatment.

86. Where a first-time adopter adopts or changes its accounting policy to the benchmark treatment it is allowed to designate any date before the date of adoption of IPSASs and apply IPSAS 5 prospectively on or after that designated date.

87. Where a first-time adopter changes its accounting policy to the allowed alternative treatment, any borrowing costs incurred both before and after date of adoption of IPSASs on qualifying assets for which the commencement date for the capitalization is prior to the date

of adoption of IPSASs, shall be recognized retrospectively in accordance with the allowed alternative treatment.

IPSAS 6, Consolidated and Separate Financial Statements, IPSAS 7, Investments in Associates and IPSAS 8, Interests in Joint Ventures

88. **If a controlled entity becomes a first-time adopter later than its controlling entity, the controlled entity shall, in its financial statements, measure its assets and liabilities at either:**

    (a) **The carrying amounts determined in accordance with this Standard that would be included in the controlling entity's consolidated financial statements, based on the controlled entity's date of adoption of IPSASs, if no adjustments were made for consolidation procedures and for the effects of the entity combination in which the controlling entity acquired the controlled entity; or**

    (b) **The carrying amounts required by the rest of this Standard, based on the controlled entity's date of adoption of IPSASs. These carrying amounts could differ from those described in (a):**

        (i) **When the exemptions in this Standard result in measurements that depend on the date of adoption of IPSASs.**

        (ii) **When the accounting policies used in the controlled entity's financial statements differ from those in the consolidated financial statements. For example, the controlled entity may use as its accounting policy the cost model in IPSAS 17, whereas the economic entity may use the revaluation model.**

    A similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it.

89. **However, if a controlling entity becomes a first-time adopter later than its controlled entity (or associate or joint venture) the controlling entity shall, in its consolidated financial statements, measure the assets and liabilities of the controlled entity (or associate or joint venture) at the same carrying amounts as in the financial statements of the controlled entity (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the entity combination in which the controlling entity acquired the controlled entity (or associate or joint venture), subject to the exemptions that may be adopted in terms of this Standard. Similarly, if a controlled entity becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, subject to the exemptions that may be adopter in this Standard, except for consolidation adjustments.**

IPSAS 10, Financial Reporting in Hyperinflationary Economies

Severe Hyperinflation

90. **If a first-time adopter has a functional currency that was, or is, the currency of a hyperinflationary economy, it shall determine whether it was subject to severe hyperinflation before the date of adoption of IPSASs.**

91. The currency of a hyperinflationary economy is subject to severe hyperinflation if it has both of the following characteristics:

(a) A reliable general price index is not available to all entities with transactions and balances in the currency.

(b) Exchangeability between the currency and a relatively stable foreign currency does not exist.

92. The functional currency of a first-time adopter ceases to be subject to severe hyperinflation on the functional currency normalisation date. That is the date when the functional currency no longer has either, or both, of the characteristics in paragraph 91 or when there is a change in the first-time adopter's functional currency to a currency that is not subject to severe hyperinflation.

93. When a first-time adopter's date of adoption of IPSASs is on, or after, the functional currency normalisation date, the first-time adopter may elect to measure all assets and liabilities held before the functional currency normalisation date at fair value on the date of adoption to IPSASs. The first-time adopter may use that fair value as the deemed cost of those assets and liabilities in the opening statement of financial position.

IPSAS 13, Leases

94. A first-time adopter shall, on the date of adoption of IPSAS, classify all existing leases as operating or finance leases on the basis of circumstances existing at the inception of the lease, to the extent that these are known on the date of adoption of IPSASs.

IPSAS 18, Segment Reporting

95. A first-time adopter is not required to present segment information for reporting periods beginning on a date within three years following the date of adoption of IPSASs.

IPSAS 21, Impairment of Non-Cash-Generating Assets

96. A first-time adopter shall apply the requirements in IPSAS 21 prospectively from the date of adoption of IPSASs, except in relation to those assets where a first-time adopter takes advantage of the exemption in paragraph 32 which allows a three year transitional relief period to not recognize and/or measure assets. When a first-time adopter takes advantage of the exemption that provides a three year transitional relief period in IPSAS 16, 17, 27, 31 and 32, it applies IPSAS 21 when the exemption that provided the relief has expired, and/or the relevant assets are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier).

97. On the date that the transitional exemption that provided the relief has expired, and/or when the relevant assets are recognized and/or measured in the financial statements (whichever is earlier), a first-time adopter shall assess whether there is any indication that the non-cash-generating assets recognized and/or measured in the opening statement of financial position, are impaired. Any impairment loss shall be recognized in opening accumulated surplus or deficit on the date of adoption of IPSASs, or in opening accumulated surplus or deficit in the reporting period in which the transitional exemption expires, and/or the relevant assets are recognized and/or measured (whichever is earlier).

98. A first-time adopter shall apply the requirements of IPSAS 21 prospectively. This means that only when the three year transitional exemption expires, and/or when the relevant assets are recognized

and/or measured in the financial statements (whichever is earlier), will a first-time adopter be required to assess whether there is an indication that any non-cash-generating assets included in the opening statement of financial position, are impaired.

IPSAS 25, Employee Benefits

99. A first-time adopter shall recognize and/or measure all employee benefits on the date of adoption of IPSASs, except for defined benefit plans and other long-term employee benefits where it takes advantage of the exemption in paragraph 32.

Defined Benefit Plans and Other Long-Term Employee Benefits

100. On the date of adoption of IPSASs, or where a first-time adopter takes advantage of the three year transitional exemption, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), a first-time adopter shall determine its initial liability for defined benefit plans and other long-term employee benefits at that date as:

(a) The present value of the obligation at the date of adoption of IPSASs, or where a first-time adopter takes advantage of the three year transitional relief period, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), by using the Projected Unit Credit Method;

(b) Minus the fair value, at the date of adoption of IPSASs, or where a first-time adopter takes advantage of the three year transitional relief period, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier) of plan assets (if any) out of which the obligations are to be settled directly; and

(c) Minus any past service cost that shall be recognized in later periods as an expense on a straight-line basis over the average period until the benefits become vested.

101. If the initial liability in accordance with paragraph 100 is more or less than the liability that was recognized and/or measured at the end of the comparative period under the first-time adopter's previous basis of accounting, the first-time adopter shall recognize that increase/decrease in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.

102. The effect of the change in the accounting policy to IPSAS 25 includes any actuarial gains and losses that arose, if any, in earlier periods, even if they fall outside the corridor specified in IPSAS 25. Under its previous basis of accounting, a first-time adopter may not have recognized and/or measured any liability, in which case the increase in the liability will represent the full amount of the liability minus the fair value, at the date of adoption of IPSASs or where a first-time adopter takes advantage of the three year transitional relief period, the date on which the exemption expires, or when the relevant liabilities are recognized and/or measured in the financial statements (whichever is earlier), of any plan assets in accordance with paragraph 100(b) and any past service cost to be recognized in later periods in accordance with paragraph 100(c). This increased liability is recognized in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.

103. A first-time adopter shall not separate the cumulative actuarial gains and losses from the inception of the defined benefit plan(s), until the date of adoption of IPSASs into a recognized and unrecognized portion. All cumulative actuarial gains and losses shall be recognized in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.

104. A first-time adopter is not permitted to separate cumulative actuarial gains and losses into recognized and unrecognized portions on adoption of IPSAS 25. All cumulative actuarial gains and losses shall be recognized in opening accumulated surplus or deficit in the period in which the items are recognized and/or recognized. This requirement does however not preclude a first-time adopter electing to recognize only parts of its actuarial gains and losses in accordance with paragraphs 105–107 in IPSAS 25 in subsequent reporting periods.

105. A first-time adopter shall disclose information on experience adjustments in accordance with IPSAS 25 prospectively on the date of adoption of IPSASs.

IPSAS 26, Impairment of Cash-Generating Assets

106. A first-time adopter shall apply the requirements in IPSAS 26 prospectively from the date of adoption of IPSASs, except in relation to those assets where a first-time adopter takes advantage of the exemption in paragraph 32 which allows a three year transitional relief period to not recognize and/or measure assets. When a first-time adopter takes advantage of the exemption that provides a three year transitional relief period in IPSAS 16, 17, 27, 31 and 32, it applies IPSAS 26 when the exemption that provided the relief has expired, and/or the relevant assets are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier).

107. On the date that the transitional exemption that provided the relief has expired, and/or when the relevant assets are recognized and/or measured in the financial statements (whichever is earlier), a first-time adopter shall assess whether there is any indication that the cash-generating assets recognized and/or measured in the opening statement of financial position, are impaired. Any impairment loss shall be recognized in opening accumulated surplus or deficit on the date of adoption of IPSASs, or in opening accumulated surplus or deficit in the reporting period in which the transitional exemption expires, and/or the relevant assets are recognized and/or measured (whichever is earlier).

108. A first-time adopter shall apply the requirements of IPSAS 26 prospectively. This means that only when the three year transitional exemption expires, and/or when the relevant assets are recognized and/or measured in the financial statements (whichever is earlier), will a first-time adopter be required to assess whether there is an indication that any cash-generating assets included in the opening statement of financial position, are impaired.

IPSAS 28, Financial Instruments: Presentation

109. On the date of adoption of IPSASs, a first-time adopter shall evaluate the terms of the financial instrument to determine whether it contains both a liability component and a net asset/equity component. If the liability component is no longer outstanding on the date of adoption of IPSASs, the first-time adopter need not separate the compound financial instrument into a liability component and net asset/equity component.

110. IPSAS 28 requires an entity to split a compound financial instrument at inception into separate liability and net asset/equity components. If the liability component is no longer outstanding, retrospective application of IPSAS 28 involves separating two portions of net assets/equity. The first portion is in accumulated surplus and deficit and represents the cumulative interest accreted on the liability component. The other portion represents the original net asset/equity component. However, this Standard allows a first-time adopter to not separate these two portions if the liability component is no longer outstanding at the date of adoption of IPSASs.

IPSAS 29, Financial Instruments: Recognition and Measurement

Designation of Financial Instruments on the Date of Adoption of IPSAS or During the Period of Transition

111. A first-time adopter may designate a financial asset or financial liability as a financial asset or financial liability at fair value through surplus or deficit that meet the criteria for designation in IPSAS 29, in accordance with paragraph 112. A first-time adopter shall disclose the fair value of financial assets and financial liabilities designated into each category at the date of designation, their classification and carrying amount.

112. IPSAS 29 permits a financial asset to be designated on initial recognition as available for sale or a financial instrument (provide it meets certain criteria) to be designated as a financial asset or financial liability at fair value though surplus or deficit. Despite this requirement, exceptions apply in the following circumstances:

(a) A first-time adopter is permitted to make an available-for-sale designation at the date of adoption of IPSASs.

(b) A first-time adopter is permitted to designate, at the date of adoption of IPSASs, any financial asset or financial liability as at fair value through surplus or deficit provided the asset or liability meets the criteria in paragraph 10(b)(i), 10(b)(ii) or 13 of IPSAS 29 at that date.

Derecognition of Financial Assets and Financial Liabilities

113. Except as permitted by paragraph 114, a first-time adopter shall apply the derecognition requirements in IPSAS 29 prospectively for transactions occurring on or after the date of adoption of IPSASs, or where a first-time adopter takes advantage of the exemptions not to recognize financial instruments, the date on which the exemptions that provided the relief have expired and/or the financial instruments are recognized (whichever is earlier). For example, if a first-time adopter derecognized non-derivative financial assets or non-derivative financial liabilities in accordance with its previous basis of accounting as a result of a transaction that occurred before the date of adoption of IPSASs, it shall not recognize those assets and liabilities in accordance with IPSAS 29, unless they qualify for recognition as a result of a later transaction or event.

114. Notwithstanding the provision in paragraph 113, a first-time adopter may apply the derecognition requirements in IPSAS 29 retrospectively from a date of the first-time adopter choosing, provided that the information needed to apply IPSAS 29 to financial assets and financial liabilities derecognized as a result of past transactions was obtained at the time of initially accounting for these transactions.

Hedge Accounting

115. As required by IPSAS 29, a first-time adopter shall at the date of adoption of IPSASs, or where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure financial instruments, the date when the exemption that provided the relief has expired and/or the relevant financial instruments are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier):

(a) Measure all derivatives at fair value; and

(b) Eliminate all deferred losses and gains arising on derivatives that were reported in accordance with its previous basis of accounting as if they were assets or liabilities.

116. A first-time adopter shall not reflect in its opening statement of financial position a hedging relationship of a type that does not qualify for hedge accounting in accordance with IPSAS 29 (for example, many hedging relationships where the hedging instrument is a cash instrument or written option; or where the hedged item is a net position). However, if a first-time adopter designated a net position as a hedged item in accordance with its previous basis of accounting, it may designate an individual item within that net position as a hedged item in accordance with IPSASs, provided that it does so no later than the date of adoption of IPSASs or where it takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure financial instruments, the date when the exemption that provided the relief has expired, and/or the relevant financial instruments are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier).

117. If, before the date of adoption of IPSASs, or where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure financial instruments the date on which the exemption that provided the relief has expired, and/or the relevant financial instruments are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier), a first-time adopter had designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in IPSAS 29, the first-time adopter shall apply paragraphs 102 and 112 of IPSAS 29 to discontinue hedge accounting. Transactions entered into before the date of adoption of IPSASs, or where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure financial instruments, the date when the transitional exemption expires and/or the relevant financial instruments are recognized and/or measured in accordance with IPSAS 29 (whichever is earlier), shall not be retrospectively designated as hedges.

Impairment and Uncollectability of Financial Assets

118. A first-time adopter shall apply the impairment requirements prospectively from the date of adoption of IPSASs, except in relation to those financial assets where it takes advantage of the exemptions in paragraphs 32, 34 and 38 which allow a three year transitional relief period to not recognize and/or measure financial instruments. When a first-time adopter adopts the three year transitional relief period provided, it applies the impairment provisions when exemption that provided the relief has expired, and/or the relevant financial instruments are recognized and/or measured in accordance with IPSAS 29 (whichever is

earlier).

119. A first-time adopter shall on the date of adoption of IPSASs, or when the exemptions that provided the relief have expired, and/or when the relevant financial instruments are recognized and/or measured and relevant information has been presented and/or disclosed in the financial statements in accordance with the applicable IPSAS (whichever is earlier), assess at that date whether there is any indication that the financial instrument recognized and/or measured in the statement of financial position, is impaired. Any impairment loss incurred shall be recognized in opening accumulated surplus or deficit in the period in which the financial instrument is recognized and/or measured.

120. A first-time adopter shall apply the impairment requirements prospectively. This means that on the date of adoption of IPSAS 29, when the exemptions that provided the relief have expired, and/ or when the relevant financial instruments are recognized and/or measured, a first-time adopter shall be required to assess whether there is an indication that the financial instrument is impaired. Any impairment loss shall be recognized in opening accumulated surplus or deficit on the date of adoption of IPSASs, or in the opening accumulated surplus or deficit of the reporting period in which the exemptions that provided the relief have expired, and/or the relevant financial instruments are recognized and/or measured (whichever is earlier).

IPSAS 30, Financial Instruments: Disclosures

121. Where the first-time adopter elects to present comparative information in accordance with paragraph 76, it is not required to present information about the nature and extent of risks arising from financial instruments for the comparative period in its transitional IPSAS financial statements or its first IPSAS financial statements.

122. A first-time adopter shall apply the requirements in IPSAS 30 prospectively from the date of adoption of IPSASs, or when the exemptions that provided the relief have expired, and/or when the relevant financial instrument is recognized and/or measured in accordance with IPSAS 29 (whichever is earlier).

IPSAS 31, Intangible Assets

123. A first-time adopter shall recognize and/or measure an internally generated intangible asset if it meets the definition of an intangible asset and the recognition criteria in IPSAS 31, even if the first-time adopter has, under its previous basis of accounting, expensed such costs. A deemed cost may not be determined for internally generated intangible assets.

IPSAS 32, Service Concession Arrangements

Initial Measurement of Related Liability

124. Where a first-time adopoter elects to measure service concession assets using deemed cost, the related liabilities shall be measured as follows:

(a) For the liability under the financial liability model, the remaining contractual cash flows specified in the binding arrangement and the rate prescribed in IPSAS 32; or

(b) For the liability under the grant of a right to the operator model, the fair value of the asset less any financial liabilities, adjusted to reflect the remaining period of the service concession arrangement.

125. A first-time adopter shall recognize and/or measure any difference between the value of the service concession asset and the financial liability under the financial liability model in paragraph 124 in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.

Presentation and Disclosure

126. Where a first-time adopter takes advantage of the transitional exemptions in this Standard, the following disclosures shall be made in the financial statements:

(a) The extent to which it has taken advantage of the transitional exemptions that impact the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSASs;

(b) The extent to which it has taken advantage of the transitional exemptions that do not impact the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSASs

(c) Where it has taken advantage of the transitional exemption not to eliminate some balances, transactions, revenue and expenses, the nature of the balances, transactions, revenue and expenses that have been eliminated during the reporting period;

(d) The assets, liabilities, revenue and/or expenses that have not been recognized, measured, presented and/or disclosed in the previous reporting period, but which are now recognized and/or measured, and/or presented and/or disclosed;

(e) The items that have been recognized and measured under an accounting policy that is not consistent with the requirements of applicable IPSASs; and

(f) The nature and amount of any adjustments recognized during the reporting period.

127. A first-time adopter shall provide information on the progress made towards recognizing, measuring, presenting and/or disclosing assets, liabilities revenue and/or expenses in accordance with the requirements of the applicable IPSAS, and an indication of how and by when it intends to comply in full with the requirements of the applicable IPSAS.

128. The disclosure requirements of paragraphs 126 and 127 will assist users to track the progress of the first-time adopter in conforming its accounting policies to the requirements in the applicable IPSASs during the period of transition.

Explanation of Transition to IPSASs

129. A first-time adopter shall disclose:

(a) The date of adoption of IPSASs; and

(b) Information and explanations about how the transition from the previous basis of accounting to IPSASs affected its reported financial position, and, where appropriate, its reported financial performance and cash flows.

Reconciliations

130. A first-time adopter shall present in the notes to its transitional IPSAS financial statements or its first IPSAS financial statements:

(a) A reconciliation of its net assets/equity reported in accordance with its previous basis of accounting to its opening balance of net assets/equity at the date of adoption of IPSASs; and

(b) A reconciliation of its surplus or deficit in accordance with its previous basis of accounting to its opening balance of surplus or deficit at the date of adoption of IPSASs.

A first-time adopter that has applied the cash basis of accounting in its previous financial statements is not required to present such reconciliations.

131. The reconciliation presented in terms of paragraph 131 shall provide sufficient detail, both quantitative and qualitative, to enable users to understand the material adjustments to the opening statement of financial position and, where applicable, the opening statement of financial performance presented in accordance with accrual basis IPSASs. Where narrative explanations are included in other public documents issued in conjunction with the financial statements, a cross reference to those documents shall be included in the notes.

132. If an entity becomes aware of errors made under its previous basis of accounting, the reconciliations required by paragraph 131 shall distinguish the correction of those errors from changes in accounting policies.

133. IPSAS 3 does not apply to the changes in accounting policies an entity makes when it adopts IPSASs or to changes in those policies until after it presents its first IPSAS financial statements. Therefore, the requirements of IPSAS 3 about changes in accounting policies do not apply in an entity's first IPSAS financial statements.

134. If an entity did not present financial statements for previous periods, its transitional IPSAS financial statements or its first IPSAS financial statements shall disclose that fact.

135. Where a first-time adopter takes advantage of the exemptions in paragraph 32–41 which allow a three year transitional relief period to not recognize and/or measure items, it shall present as part of the notes, a reconciliation of items that have been recognized and/or measured during the reporting period when these items were not included in the previous reported financial statements. The reconciliation shall be presented in each period when new items are recognized and/or measured in accordance with this Standard.

136. The reconciliation presented in terms of paragraph 136 shall provide sufficient detail to enable users to understand which items have been recognized and/or measured during the reporting period where the first-time adopter adopts one of more of the exemptions that provide a three year transitional relief period to not recognize and/or measure an item. The reconciliation should explain the adjustments to the previously reported statement of financial position and, where applicable, the previously reported statement of financial performance in each period when new items are recognized and/or measured in accordance with this Standard.

Disclosure where Deemed Cost is Used for Inventory, Investment Property, Property, Plant and Equipment, Intangible Assets or Service Concession Assets

137. If a first-time adopter uses fair value, or the alternative in paragraphs 64, 67 or 70, as deemed cost for inventory, investment property, property, plant and equipment, intangible assets, financial instruments, or service concession assets, its financial statements shall disclose:

(a) The aggregate of those fair values or other measurement alternatives that were considered in determining deemed cost;

(b) The aggregate adjustment to the carrying amounts recognized under the previous basis of accounting; and

(c) Whether the deemed cost was determined on the date of adoption of IPSASs or during the period of transition.

Disclosures Where Deemed Cost is Used for Investments in Controlled Entities, Jointly Controlled Entities and Associates

138. If a first-time adopter uses fair value as deemed cost in its opening statement of financial position for an investment in a controlled entity, jointly controlled entity or associate in its separate financial statements, its separate financial statements shall disclose:

(a) The aggregate deemed cost of those investments for which deemed cost is fair value; and

(b) The aggregate adjustment to the carrying amounts reported under the previous basis of accounting.

139. The disclosure requirements required in paragraph 137 and 138 shall be disclosed in each period when new items are recognized and/or measured until the exemptions that provided the relief have expired and/or when the relevant assets are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier).

Exemptions from Disclosure Requirements in IPSASs During the Period of Transition

140. To the extent that a first-time adopter takes advantage of the exemption that provides a three year relief period to not recognize and/or measure items, it is not required to apply any associated presentation and/or disclosure requirements related to such items as required in IPSAS 1, IPSAS 18 and/or the applicable IPSASs until such time as the exemptions that provided the relief have expired and/or when the relevant items have been recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier).

141. Notwithstanding the transitional provision in paragraph 140, a first-time adopter is encouraged to disclose the information required by IPSAS 1, IPSAS 18 and/or the applicable IPSASs as soon as possible.

Transitional Provisions

142. Where a first-time adopter has adopted the existing transitional provisions in other accrual basis IPSASs, it shall continue to apply those transitional provisions until they expire and/or the relevant items are recognized and/or measured in accordance with the applicable IPSAS

(whichever is earlier). If the first-time adopter elects to adopt the transitional exemptions in this Standard, the relief period applied in adopting accrual basis IPSASs, may not be longer than the relief period provided in this Standard.

Effective Date

143. **A first-time adopter shall apply this Standard if its first IPSAS financial statements are for a period beginning on or after DDMMYY. Earlier application is permitted.**

Appendix A

Amendments to Other IPSASs

IPSAS 1, *Presentation of Financial Statements*

Paragraphs 151, 152 and 154 are amended as follows:

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 IPSAS. The disclosure provisions of this Standard would not be required to apply to such items until the transitional provision in the other IPSAS expires. Comparative information is not required in respect of the financial statements to which accrual accounting is first adopted in accordance with IPSASs.**~~

~~152. Notwithstanding the existence of transitional provisions under another IPSAS, 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

154. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 2, Cash Flow Statements

Paragraph 64 is amended as follows:

Effective Date

64. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*

Paragraph 60 is amended as follows:

Effective Date

60. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 4, *The Effects of Changes in Foreign Exchange Transactions*

Paragraphs 67, 68, 69 and 72 are amended as follows:

Transitional Provisions

First-time Adoption of Accrual Accounting

~~**67. 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 IPSASs. 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 IPSASs; 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 of IPSASs, and shall include later translation differences.**~~

~~68. 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.~~

~~The transitional provisions provide first-time adopters of IPSASs with relief from this requirement.~~

Transitional Provisions for All Entities

~~**69. An entity shall apply paragraph 56 prospectively to all acquisitions occurring after the beginning of the financial reporting period in which this Standard is first applied. Retrospective application of paragraph 56 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 nonmonetary foreign currency items, which are reported using the exchange rate at the date of the acquisition.**~~

~~**70. All other changes resulting from the application of this Standard shall be accounted for in accordance with the requirements of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**~~

Effective Date

72. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 5, *Borrowing Costs*

Paragraphs 41 and 43 are amended as follows:

Transitional Provision

~~**41. When the adoption of this Standard constitutes a change in accounting policy, an entity is encouraged to adjust its financial statements in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. Alternatively, entities following the allowed alternative treatment shall capitalize only those borrowing costs incurred after the effective date of this Standard that meet the criteria for capitalization.**~~

Effective Date

43. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 6, *Consolidated and Separate Financial Statements*

Paragraphs 65, 66, 67, 68 and 70 are amended as follows:

Transitional Provisions

~~**65. Entities are not required to comply with the requirement in paragraph 45 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 accrual accounting in accordance with IPSASs.**~~

~~66. Controlling entities that adopt accrual accounting for the first time in accordance with IPSASs may have many controlled entities, with a 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 65 provides relief from the requirement to fully eliminate balances and transactions between entities within the economic entity.~~

~~**67. Where entities apply the transitional provision in paragraph 65, they 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 (2006).~~

Effective Date

70. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 7, *Investments in Associates*

Paragraph 48 is amended as follows:

Effective Date

48. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 8, *Interests in Joint Ventures*

Paragraphs 65, 66, 67, 68 and 70 are amended as follows:

Transitional Provisions

~~**65. Where the proportionate consolidation treatment set out in this Standard is adopted, 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 accrual accounting in accordance with IPSASs.**~~

~~66. Entities that adopt accrual accounting for the first time in accordance with IPSASs 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 financial statements. For this reason, paragraph 65 provides temporary relief from eliminating, in full, balances and transactions between entities and their jointly controlled entities.~~

~~**67. Where entities apply the transitional provision in paragraph 65, they 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 period from the date of first application of IPSAS 8 (2000).~~

Effective Date

70. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 9, *Revenue from Exchange Transactions*

Paragraph 42 is amended as follows:

Effective Date

42. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53),

First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) ~~by IPSASs~~ 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 of IPSASs.

IPSAS 10, *Financial Reporting in Hyperinflationary Economies*

Paragraph 39 is amended as follows:

Effective Date

39. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 11, *Construction Contracts*

Paragraph 58 is amended as follows:

Effective Date

58. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 12, *Inventories*

Paragraph 52 is amended as follows:

Effective Date

52. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 13, *Leases*

Paragraphs 79, 80 and 86 are amended as follows:

Transitional Provisions

~~**79. All provisions of this Standard shall be applied from the date of first adoption of accrual accounting in accordance with IPSASs, except in relation to leased assets that have not been recognized as a result of transitional provisions under another IPSAS. The provisions of this Standard would not be required to apply to such assets until the transitional provision in the other IPSAS expires. In no case shall the existence of transitional provisions in other Standards preclude the full application of accrual accounting in accordance with IPSASs.**~~

~~80. Notwithstanding the existence of transitional provisions under another IPSAS, 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.~~

Effective Date

86. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 14, *Events After the Reporting Date*

Paragraph 33 is amended as follows:

Effective Date

33. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 16, *Investment Property*

Paragraphs 91, 92, 93, 94, 95, 96, 98, 99 and 102 are amended as follows:

Transitional Provisions

~~**Initial Adoption of Accrual Accounting**~~

~~**91. An entity that adopts accrual accounting for the first time in accordance with IPSASs 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.**~~

~~**92. The entity 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 accrual accounting is first adopted in accordance with IPSASs.**~~

~~93. Prior to first adoption of accrual accounting in accordance with IPSASs, an entity (a) may recognize investment property on a basis other than cost or fair value as defined in this Standard, or (b) may control investment property that it has not recognized. This Standard 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 IPSASs. 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

~~**94. Under the fair value model, an entity shall recognize the effect of applying this Standard as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which this Standard is first 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 7 and the guidance in paragraphs 45–61), the entity is encouraged, but not required:**~~

~~**(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), it shall not restate comparative information and shall disclose that fact.**~~

~~95. On the 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 from that required by IPSAS 3. IPSAS 3 requires comparative information to be restated unless such restatement is impracticable. This Standard only encourages such comparative information to be restated in certain circumstances.~~

~~96. When an entity first 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.~~

Cost Model

~~98. Prior to first 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 is made when an entity first 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 (a) initially recognizes investment property at cost, and (b) 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.~~

Effective Date

102. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 17, *Property, Plant and Equipment*

Paragraphs 95, 96, 97, 98, 99, 100, 101, 102, 103, 104 and 108 are amended as follows:

Transitional Provisions

~~**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 accrual accounting in accordance with IPSASs.**~~

~~**96. An entity that adopts accrual accounting for the first time in accordance with IPSASs 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.**~~

~~98. Prior to first 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 recognized. This Standard 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 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.~~

~~100. Paragraph 14 of this Standard requires the cost of an item of property, plant, and equipment to be recognized as an asset if, and only if:~~

~~(a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and~~

~~(b) The cost or fair value of the item can be measured reliably.~~

~~101. The transitional provisions in paragraphs 95 and 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 IPSASs, with effect from the effective date of this Standard or subsequently. When entities adopt accrual accounting in accordance with IPSASs 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 accrual accounting in accordance with IPSASs, entities are not required to comply fully with the requirements of paragraph 14.~~

~~102. Notwithstanding the transitional provisions in paragraph 95 and 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.~~

103~~.~~ ~~The exemption from the requirements of paragraph 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 95 and 96.~~

~~104.~~ ~~When an entity takes advantage of the transitional provisions in paragraphs 95 and 96, that fact shall be disclosed. Information on the major classes of asset that have not been recognized by virtue of paragraph 95 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 that are now recognized shall be disclosed.~~

Effective Date

108. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 18, *Segment Reporting*

Paragraph 77 is amended as follows:

Effective Date

77. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*

Paragraphs 110 and 112 are amended as follows:

Transitional Provision

~~110.~~ ~~The effect of adopting this Standard on its effective date (or earlier) shall be reported as an adjustment to the opening balance of accumulated surpluses/(deficits) for the period in which the Standard is first adopted. Entities are encouraged, but not required, to (a) adjust the opening balance of accumulated surpluses/(deficits) for the earliest period presented, and (b) to restate comparative information. If comparative information is not restated, this fact shall be disclosed.~~

Effective Date

112. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 20, *Related Party Disclosures*

Paragraph 43 is amended as follows:

Effective Date

43. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

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

Paragraphs 80, 81 and 83 are amended as follows:

Transitional Provisions

~~**80.**~~ ~~**This Standard shall be applied prospectively from the date of its application. Impairment losses (reversals of impairment losses) that result from adoption of this IPSAS shall be recognized in accordance with this Standard (i.e., in surplus or deficit).**~~

~~81.~~ ~~Before the adoption of this Standard, entities may have adopted accounting policies for the recognition and reversal of impairment losses. On adoption of this Standard, a change in accounting policy may arise. It would be difficult to determine the amount of adjustments resulting from a retrospective application of the change in accounting policy. Therefore, on adoption of this Standard, an entity shall not apply the benchmark or the allowed alternative treatment for other changes in accounting policies in IPSAS 3,~~ ~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~~~.~~

Effective Date

83. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 22, *Disclosure of Financial Information about the General Government Sector*

Paragraph 48 is amended as follows:

Effective Date

48. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*

Paragraphs 116, 117, 118, 119, 120, 121, 122, 123 and 125 are amended as follows:

Transitional Provisions

~~116. Entities are not required to change their accounting policies in respect of the recognition and measurement of taxation revenue for reporting periods beginning on a date within five years following the date of first adoption of this Standard.~~

~~117. Entities are not required to change their accounting policies in respect of the recognition and measurement of revenue from non-exchange transactions, other than taxation revenue, for reporting periods beginning on a date within three years following the date of first adoption of this Standard.~~

~~118. Changes in accounting policies in respect of the recognition and measurement of revenue from non-exchange transactions made before the expiration of the five year period permitted in paragraph 116, or the three year period permitted in paragraph 117, shall only be made to better conform to the accounting policies of this Standard. Entities may change their accounting policies in respect of revenue from non-exchange transactions on a class-by-class basis.~~

~~119. When an entity takes advantage of the transitional provisions in paragraph 116 or 117, that fact shall be disclosed. The entity shall also disclose (a) which classes of revenue from non-exchange transactions are recognized in accordance with this Standard, (b) those that have been recognized under an accounting policy that is not consistent with the requirements of this Standard, and (c) the entity's progress towards implementation of accounting policies that are consistent with this Standard. The entity shall disclose its plan for implementing accounting policies that are consistent with this Standard.~~

~~120. When an entity takes advantage of the transitional provisions for a second or subsequent reporting period, details of the classes of revenue from non-exchange transactions previously recognized on another basis, but which are now recognized in accordance with this Standard, shall be disclosed.~~

~~121. The transitional provisions are intended to allow entities a period to develop reliable models for measuring revenue from non-exchange transactions during the transitional period. Entities may adopt accounting policies for the recognition of revenue from non-exchange transactions that do not comply with the provisions of this Standard. The transitional provisions allow entities to apply this Standard incrementally to different classes of revenue from non-exchange transactions. For example, entities may be able to recognize and measure property taxes and some classes of transfers in accordance with this Standard from the date of application, but may require up to five years to fully develop a reliable model for measuring income tax revenue.~~

~~122. When an entity takes advantage of the transitional provisions in this Standard, its accounting policies for each class of revenue from non-exchange transactions may only be changed to better conform to this Standard. An entity may retain its existing accounting policies until it decides to fully apply the provisions of this Standard, or until the transitional provisions expire, whichever is earlier, or it may change them to apply the requirements of this Standard progressively. An entity may, for example, change from a policy of recognition on a cash basis to a modified cash or modified accrual basis before it fully applies this Standard.~~

~~123. The disclosure requirements of paragraph 119 assist users to track the progress of the entity in conforming its accounting policies to the requirements of this IPSAS during the reporting periods in which the transitional provisions apply. This disclosure facilitates the objective of full accountability and transparency.~~

Effective Date

125. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 24, *Presentation of Budget Information in Financial Statements*

Paragraph 55 is amended as follows:

Effective Date

55. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 25, *Employee Benefits*

Paragraphs 166, 167, 168, 169, 170, 171, 172, 173, 174, 175, 176 and 178 are amended as follows:

First Time Adoption of this Standard

~~166. On first adopting this Standard, an entity shall determine its initial liability for defined benefit plans at that date as:~~

~~(a) The present value of the obligations (see paragraph 77) at the date of adoption;~~

~~(b) Minus the fair value, at the date of adoption, of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs 118–120);~~

~~(c) Minus any past service cost that, under paragraph 112, shall be recognized in later periods.~~

~~167. If the initial liability determined in accordance with paragraph 166 is more or less than the liability that would have been recognized at the same date under the entity's previous accounting policy, the entity shall recognize that increase/decrease in opening accumulated surpluses or deficits.~~

~~168. On the initial adoption of this Standard, the effect of the change in accounting policy includes all actuarial gains and losses that arose in earlier periods, even if they fall inside the corridor specified in paragraph 105. Entities reporting under accrual accounting for the first time will not have recognized any liability, in which case the increase in the liability will represent the full amount of the liability minus the fair value, at the date of adoption, of any plan assets in accordance with paragraph 166(b) and any past service cost to be recognized in later periods in accordance with paragraph 166(c). Under the provisions of this Standard, this increased liability is recognized in~~

~~accumulated surpluses or deficits.~~

~~**169. On first adopting this Standard, an entity shall not split the cumulative actuarial gains and losses from the inception of the defined benefit plan(s) until the date of first adoption of this Standard into a recognized and unrecognized portion. All cumulative actuarial gains and losses shall be recognized in opening accumulated surpluses or deficits.**~~

~~170. On first adoption of this Standard, entities are not permitted to split cumulative actuarial gains and losses into recognized and unrecognized portions. All cumulative gains and losses are recognized in opening accumulated surpluses or deficits. This requirement on first-time adoption of this Standard does not preclude an entity electing to recognize only part of its actuarial gains and losses in accordance with the requirements in paragraphs 105–107 in subsequent reporting periods.~~

~~**171. In the first year of adoption of this Standard, an entity is not required to provide comparative information.**~~

~~172. Paragraph 171 provides relief from the inclusion of comparative information to all entities in the first year of adoption of this Standard. An entity is encouraged to include comparative information where this is available.~~

~~**173. In the first year of adoption of this Standard, an entity is not required to provide the disclosures in paragraphs 141(c), 141(e), and 141(f).**~~

~~174. The reconciliations in paragraphs 141(c) and 141(e) both involve the disclosure of opening balances relating to components of defined benefit obligations, plan assets, and reimbursement rights. The disclosure in paragraph 141(f) requires a reconciliation that relies on information in paragraphs 141(c) and 141(e). These disclosures are not required in the first year of adoption of this Standard. An entity is encouraged to include these disclosures where the information is available.~~

~~**175. In the first year of adoption of this Standard, an entity may provide the information required in paragraph 141(p) prospectively.**~~

~~176. The information specified in paragraph 141(p) relates to the present value of the defined benefit obligation, the fair value of the plan assets, the surplus or deficit in the plan, and certain experience adjustments. This disclosure is only required for the current annual period in the first year of adoption. Information on prior annual periods can be provided prospectively as the entity reports under the requirements of this Standard. This allows entities to build trend information over a period, rather than producing such information for reporting periods prior to the period of first adoption of the Standard.~~

Effective Date

178. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 26, *Impairment of Cash-Generating Assets*

Paragraph 127 is amended as follows:

Effective Date

127. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 27, *Agriculture*

Paragraphs 55 and 57 are amended as follows:

Transitional Provision

~~**Initial Adoption of Accrual Accounting**~~

~~**55.**~~ **Where an entity initially recognizes biological assets or agricultural produce on the first-time adoption of the accrual basis of accounting, the entity shall report the effect of the initial recognition of those assets, and that produce as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which this Standard is first adopted.**

Effective Date

57. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-tTme Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 28, *Financial Instruments: Presentation*

Paragraphs 56, 57, 58 and 61 are amended as follows:

Transition

~~**56. An entity shall apply this Standard retrospectively on first time application.**~~

~~**57. When an entity that previously applied IPSAS 15, *Financial Instruments: Disclosure and Presentation*, applies the requirements in paragraphs 15 to 18, an entity is required to split a compound financial instrument with an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation into a liability and net assets/equity component. If the liability component is no longer outstanding, a retrospective application of these requirements would involve separating two components of net assets/equity. The first component would be in accumulated surpluses and deficits and represent the cumulative interest accreted on the liability component. The other component would represent the original net assets/equity component. Therefore, an entity need not separate these two components if the liability component is no longer outstanding when the Standard is adopted.**~~

~~**58. An entity that either previously did not apply IPSAS 15 or adopts accrual accounting for the**~~

~~first time, applies the transitional provision in paragraph 57 to all compound financial instruments.~~

Effective Date

61. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 29, *Financial Instruments: Recognition and Measurement*

Paragraphs 114, 115, 116, 117, 118, 119, 120, 121, 122, 123 and 126 are amended as follows:

Transitional

~~114. This Standard shall be applied retrospectively except as specified in paragraphs 115–123. The opening balance of accumulated surplus or deficit for the earliest prior period presented and all other comparative amounts shall be adjusted as if this Standard had always been in use unless restating the information would be impracticable. If restatement is impracticable, the entity shall disclose that fact and indicate the extent to which the information was restated.~~

~~115. When this Standard is first applied, an entity is permitted to designate a financial asset, including those that may have been recognized previously, as available for sale. For any such financial asset the entity shall recognize all cumulative changes in fair value in a separate component of net assets/equity until subsequent derecognition or impairment, when the entity shall transfer that cumulative gain or loss to surplus or deficit. For financial assets that were previously recognized, the entity shall also:~~

~~(a) Restate the financial asset using the new designation in the comparative financial statements; and~~

~~(b) Disclose the fair value of the financial assets at the date of designation and their classification and carrying amount in the previous financial statements.~~

~~116. When this Standard is first applied, an entity is permitted to designate a financial asset or a financial liability, including those that may have been recognized previously, at fair value through surplus or deficit that meet the criteria for designation in paragraphs 10, 13, 14, 15, 51, AG7–AG16, AG47, and AG48. Where an entity previously recognized financial assets and financial liabilities, the following apply:~~

~~(a) Notwithstanding paragraph 111, any financial assets and financial liabilities designated as at fair value through surplus or deficit in accordance with this subparagraph that were previously designated as the hedged item in fair value hedge accounting relationships shall be de-designated from those relationships at the same time they are designated as at fair value through surplus or deficit.~~

~~(b) Shall disclose the fair value of any financial assets or financial liabilities designated in accordance with subparagraph (a) at the date of designation and their classification and carrying amount in the previous financial statements.~~

~~**(c) Shall de-designate any financial asset or financial liability previously designated as at fair value through surplus or deficit if it does not qualify for such designation in accordance with those paragraphs. When a financial asset or financial liability will be measured at amortized cost after de-designation, the date of dedesignation is deemed to be its date of initial recognition.**~~

~~**(d) Shall disclose the fair value of any financial assets or financial liabilities de-designated in accordance with subparagraph (c) at the date of de-designation and their new classifications.**~~

~~**117. An entity shall restate its comparative financial statements using the new designations in paragraph 116 provided that, in the case of a financial asset, financial liability, or group of financial assets, financial liabilities or both, designated as at fair value through surplus or deficit, those items or groups would have met the criteria in paragraph 10(b)(i), 10(b)(ii), or 13 at the beginning of the comparative period or, if acquired after the beginning of the comparative period, would have met the criteria in paragraph 10(b)(i), 10(b)(ii), or 13 at the date of initial recognition.**~~

~~**118. Except as permitted by paragraph 119, an entity shall apply the derecognition requirements in paragraphs 17–39 and Appendix A paragraphs AG51–AG67 prospectively. If an entity derecognized financial assets under another basis of accounting as a result of a transaction that occurred before the adoption of this Standard and those assets would not have been derecognized under this Standard, it shall not recognize those assets.**~~

~~**119. Notwithstanding paragraph 118, an entity may apply the derecognition requirements in paragraphs 17–39 and Appendix A paragraphs AG51–AG67 retrospectively from a date of the entity's choosing, provided that the information needed to apply this Standard to assets and liabilities derecognized as a result of past transactions was obtained at the time of initially accounting for those transactions.**~~

~~**120. Notwithstanding paragraph 114, an entity may apply the requirements in the last sentence of paragraph AG108, and paragraph AG109, in either of the following ways:**~~

~~**(a) Prospectively to transactions entered into after the adoption of this Standard; or**~~

~~**(b) Retrospectively from a date of the entity's choosing, provided that the information needed to apply this Standard to assets and liabilities as a result of past transactions was obtained at the time of initially accounting for those transactions.**~~

~~**121. An entity shall not adjust the carrying amount of non-financial assets and non-financial liabilities to exclude gains and losses related to cash flow hedges that were included in the carrying amount before the beginning of the financial year in which this Standard is first applied. At the beginning of the financial period in which this Standard is first applied, any amount recognized directly in net assets/equity for a hedge of a firm commitment that under this Standard is accounted for as a fair value hedge shall be reclassified as an asset or liability, except for a hedge of foreign currency risk that continues to be treated as a cash flow hedge.**~~

~~**122. If an entity has designated as the hedged item an external forecast transaction that:**~~

~~**(a) Is denominated in the functional currency of the entity entering into the transaction;**~~

~~**(b) Gives rise to an exposure that will have an effect on consolidated surplus or deficit**~~

~~(i.e., is denominated in a currency other than the economic entity's presentation currency); and~~

~~(c) Would have qualified for hedge accounting had it not been denominated in the functional currency of the entity entering into it;~~

~~it may apply hedge accounting in the consolidated financial statements in the period(s) before the date of first application of the last sentence of paragraph 89 and paragraphs AG133 and AG134.~~

~~123. An entity need not apply paragraph AG134 to comparative information relating to periods before the date of application of the last sentence of paragraph 89 and paragraph AG133.~~

Effective Date

126. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 30, *Financial Instruments: Disclosures*

Paragraph 53 is amended as follows:

Effective Date and Transition

53. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 31, *Intangible Assets*

Paragraphs 129, 130 131 and 133 are amended as follows:

Transition

~~129. An entity that has not previously recognized intangible assets and uses the accrual basis of accounting shall apply this Standard prospectively. However, retrospective application is permitted.~~

~~130. For intangible items that meet:~~

~~(a) The recognition criteria in this Standard (including reliable measurement of original cost); and~~

~~(b) The criteria in this Standard for revaluation (including existence of an active market);~~

~~an entity may elect to measure an intangible asset on the date of transition, at its fair value and use that fair value as its deemed cost at that date.~~

~~131. An entity may elect to use a previous revaluation of an intangible asset at, or before, the date of transition as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to:~~

~~(a) Fair value; or~~

~~(b) Cost or depreciated cost in accordance with IPSASs, adjusted to reflect, for example, changes in a general or specific price index.~~

Effective Date

133. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

IPSAS 32, *Service Concession Arrangements: Grantor*

Paragraphs 35, 37 and Application Guidance AG68–AG73 are amended as follows:

Transition (see paragraphs AG68–AG73)

~~35. A grantor that has not previously recognized service concession assets and related liabilities, revenues, and expenses shall either:~~

~~(a) Apply this Standard retrospectively in accordance with IPSAS 3; or~~

~~(b) Elect to recognize and measure service concession assets and related liabilities at the beginning of the earliest period for which comparative information is presented in the financial statements.~~

~~When the grantor makes this election, it shall disclose this fact, along with disclosures relating to the measurement of those assets and liabilities.~~

Effective Date

37. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS XX (ED 53), *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)* ~~by IPSASs~~ 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 of IPSASs.

Application Guidance

Transition (see paragraphs 34–35)

~~AG68. Where the grantor has not previously recognized service concession assets, it may elect to under paragraph 35(b) to recognize and measure service concession assets and related liabilities prospectively, using deemed cost. Deemed cost is determined at the beginning of the earliest period for which comparative information is presented in the financial statements.~~

~~AG69. Deemed cost for service concession assets should be determined using the following measurement bases:~~

~~(a) For property, plant, and equipment – fair value, or depreciated replacement cost as a means of estimating fair value where there is no market. IPSAS 17 allows revaluation using fair value or depreciated replacement cost (see IPSAS 17, paragraphs 46–48); and~~

~~(b) For intangible assets – fair value. IPSAS 31 only allows fair value for revaluation, thus the deemed cost is limited to fair value.~~

~~AG70. The related liability should be determined using the following approaches:~~

~~(a) For the liability under the financial liability model, the remaining contractual cash flows specified in the binding arrangement and the rate described in paragraphs AG41–AG46.~~

~~(b) For the liability under the grant of a right to the operator model, the fair value of the asset less any financial liabilities, adjusted to reflect the remaining period of the service concession arrangement.~~

~~AG71. Depreciation or amortization is based on that deemed cost and starts from the date for which the entity established the deemed cost.~~

~~Use of Deemed Cost under the Financial Liability Model~~

~~AG72. Where the grantor uses deemed cost under the financial liability model, it measures:~~

~~(a) The service concession asset at fair value (see paragraph 11); and~~

~~(b) The financial liability using the remaining contractual cash flows specified in the binding arrangement and the rate described in paragraphs AG41–AG46 at the beginning of the earliest period for which comparative information is presented in the financial statements.~~

~~Any difference between the value of the asset and the financial liability is recognized directly in net assets/equity. If the entity chooses as its accounting policy the revaluation model in IPSAS 17 or IPSAS 31, this difference is included in any revaluation surplus.~~

~~Use of Deemed Cost under the Grant of a Right to the Operator Model~~

~~AG73. Where the grantor uses deemed cost under the grant of a right to the operator model, it measures:~~

~~(a) The service concession asset at fair value (see paragraph 11); and~~

~~(b) The liability representing the unearned portion of any revenue arising from the receipt of the service concession asset. This amount should be determined as the fair value of the asset less any financial liabilities, adjusted to reflect the remaining period of the service concession arrangement.~~

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS XX (ED 53).

Background

BC1. There is no International Public Sector Accounting Standard (IPSAS) that addresses issues arising from the first-time adoption of International Public Sector Accounting Standards (IPSASs). As a result, the IPSASB approved a project in June 2011 to develop a comprehensive set of principles to be used by entities on the adoption of accrual basis IPSASs.

BC2. While the proposed Standard has some Implementation Guidance, it is not within the scope of this project to develop more detailed practical guidance on the first-time adoption of IPSASs as part of this project.

BC3. The proposed Standard addresses the transition from either a cash basis, or an accrual basis under another reporting framework, or a modified version of either the cash or accrual basis of accounting. Consequently, the IPSASB agreed that the project is not an IFRS convergence project.

BC4. The IPSASB did, however, consider the transitional exemptions included in IFRS 1 *First-Time Adoption of International Financial Reporting Standards,* as well as the transitional provisions included in the existing suite of IPSASs, in developing the proposed IPSAS.

BC5. The transitional exemptions provided in the proposed Standard will replace many of the existing transitional provisions in the suite of IPSASs. IPSASs will in future only prescribe transitional provisions that deal with changes in the respective IPSAS once it is applied.

BC6. When the IPSASB issues new pronouncements, it will consider specific transitional provisions to be included in this proposed Standard that will provide relief to a first-time adopter.

Scope

BC7. The proposed Standard applies when an entity first adopts accrual basis IPSASs and during the period that it transitions to accrual basis IPSASs. The proposed Standard provides relief to a first-time adopter in presenting its opening statement of financial position, and allows a first-time adopter certain voluntary exemptions during the period of transition.

Developing Criteria to Develop and Assess Transitional Exemptions

BC8. The proposed Standard requires an entity to comply with each effective IPSAS on the date of adoption, but grants limited exemptions from requirements in certain areas where the cost of complying with those requirements likely exceeds the benefits to users of financial statements. Retrospective application of some IPSASs is prohibited, particularly where they require judgment by management about past conditions.

BC9. The exemptions provided in the proposed Standard may override some of the requirements in existing accrual basis IPSASs.

BC10. In developing the transitional exemptions in the proposed Standard, the IPSASB developed a set of criteria based on what user information needs are likely to be on the adoption of and transition to accrual basis IPSASs as set out in the *Conceptual Framework for General Purpose Financial*

Reporting by Public Sector Entities (the Conceptual Framework). These criteria were used to evaluate the proposed transitional provisions, along with an assessment of the qualitative characteristics, and constraints on, information included in general purpose financial reports (GPFRs) as outlined in the Conceptual Framework. The results of these evaluations are included in BC18 to BC97.

BC11. In developing requirements for the first-time adopter's opening statement of financial position and in considering the transitional exemptions, the IPSASB referred to the objective of financial statements, as set out in the Conceptual Framework.

BC12. The Conceptual Framework states that the objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in providing information for accountability and decision-making purposes.

BC13. The Conceptual Framework also identifies qualitative characteristics of information included in the GPFRs of public sector entities. These qualitative characteristics are relevance, faithful representation, understandability, timeliness, comparability and verifiability. The constraints on information included in GPFRs are materiality and cost-benefit.

The Criteria That Were Used to Develop the Transitional Exemptions

Fair Presentation and Compliance with IPSASs

BC14. IPSAS 1 requires that an entity whose financial statements comply with IPSASs shall make an explicit and unreserved statement of such compliance in the notes to the financial statements. Financial statements shall not be described as complying with IPSASs unless they comply with all the requirements of IPSASs. Due to the complexity of issues relating to the first-time adoption of IPSASs, the IPSASB agreed that relief should be provided in certain instances. The IPSASB however agreed that some relief will affect the fair presentation of a first-time adopter's financial statements and its ability to assert compliance with accrual basis IPSASs.

BC15. The IPSASB agreed that there should be a differentiation between those transitional exemptions which do not affect fair presentation of a first-time adopter's financial statements and those that do. Following the differentiation, the IPSASB agreed that first-time adopters should be alerted to the fact that they will not be able to assert compliance with accrual basis IPSASs as required by IPSAS 1 if they take advantage of the exemptions provided in the proposed Standard.

BC16. The IPSASB agreed that where a first-time adopter takes advantage of the exemptions that affect fair presentation and compliance with accrual basis IPSASs in this proposed Standard, it will not be able to make an unreserved statement of compliance with accrual basis IPSASs until such time as the exemptions that provided the relief have expired, or when the relevant items are recognized, measured and/or the relevant information has been presented and/or disclosed in the financial statements in accordance with the applicable IPSASs (whichever is earlier).

BC17. The IPSASB agreed that the financial statements presented at the end of the first reporting period where a first-time adopter takes advantage of one of more of the transitional exemptions that affect fair presentation and compliance with accrual basis IPSASs, should be referred to as the transitional IPSAS financial statements. This is because the first-time adopter will not be able to make an explicit and unreserved statement of compliance with IPSASs while applying the exemptions in this proposed Standard that affect the fair presentation of the financial statements and a first-time adopter's ability to assert compliance with accrual basis IPSASs.

BC18. A first-time adopter will present its first IPSAS financial statements if it does not adopt any of the exemptions that affect fair presentation and compliance with accrual basis IPSASs, or when the transitional exemptions that provided the relief have expired, or when the relevant items are recognized, measured and/or the relevant information has been presented and/or disclosed in accordance with the applicable IPSASs (whichever is earlier).

BC19. To ensure that users are provided with relevant information during the transition to accrual basis IPSASs, the IPSASB agreed that certain disclosures should be provided during the period of transition until the first-time adopter presents its first IPSAS financial statements. These disclosures are necessitated to inform users about the transitional exemptions adopted by a first-time adopter, and how it transitions from its previous basis of accounting to accrual basis IPSASs.

Presentation of Information on First-Time Adoption

Presenting Comparative Information Following the Adoption of Accrual Basis IPSASs

BC20. The IPSASB considered whether comparative information should be required on the adoption of IPSASs, as the existing transitional provisions in IPSAS 1 do not require comparative information in respect of the financial statements in which accrual accounting is first adopted in accordance with IPSASs.

BC21. In considering the cost-benefit criterion, the IPSASB confirmed that the current approach in IPSAS 1 towards the presentation of comparative information should be retained to promote the adoption of accrual IPSASs. The proposed Standard therefore only encourages the provision of comparative information, with no requirement that a first-time adopter should provide comparative information in its transitional IPSAS financial statements, or first IPSAS financial statements.

BC22. Where a first-time adopter elects to not present comparative information, the IPSASB agreed that, as a minimum, a first-time adopter's transitional IPSAS financial statements should include one statement of financial position and an opening statement of financial position at the date of adoption of accrual basis IPSASs.

BC23. Where an entity elects to present comparative information, the IPSASB agreed that a first-time adopter should present two statements of financial position and an opening statement of financial position as at the beginning of the reporting period prior to the date of adoption of accrual basis IPSASs.

BC24. As the adoption of the three year transitional relief period also impacts the presentation of comparative information, the IPSASB agreed that where the first-time adopter takes advantage of any of the transitional relief periods permitted, it should only adjust comparative information for the year following the date of adoption of accrual basis IPSASs when information is available about the items that were recognized and/or measured during that period. Comparative information will thus only be adjusted retrospectively to the extent that the information is available.

BC25. A first-time adopter shall apply the requirements in IPSAS 1 relating to the disclosure of comparative information after it has presented its first IPSAS financial statements.

Presenting a Reconciliation Following the Adoption of Accrual Basis IPSASs

BC26. In considering what information would be useful to users of the financial statements in relation to the first-time adoption of IPSASs, the IPSASB agreed that a reconciliation should be presented in the notes to the transitional IPSAS financial statements, or first IPSAS financial statements. The presentation of a reconciliation provides an important link between the information previously presented under the first-time adopter's previous basis of accounting, and the information prepared using IPSASs. The purpose of the reconciliation is to illustrate the adjustments that are necessary to conform with the requirements of accrual basis IPSASs, and how the transition from the previous basis of accounting to IPSASs affected the first-time adopter's reported financial position, financial performance and cash flows. This information will be useful to the users of general purpose financial statements (GPFSs).

BC27. The IPSASB considered two types of reconciliations that could be presented – the first one reconciling opening balances as on the date of adoption of IPSASs, and the second a reconciliation reconciling the end of the latest period presented in the first-time adopter's most recent annual financial statements in accordance with its previous basis of accounting.

BC28. The IPSASB concluded that the latter option will be too onerous and that the cost of presenting the reconciliation, outweighs the benefit. It was also concluded that users will not likely make use of such reconciliations and that the information will not have predictive value.

BC29. As a result, it was agreed that a first-time adopter should only present a reconciliation of its closing balances reported under its previous basis of accounting, to its net assets/equity in accordance with IPSASs for the opening statement of financial position. The information should be presented in the notes to the transitional IPSAS financial statements, or the first IPSAS financial statements.

BC30. If a first-time adopter previously applied the cash basis of accounting it would not have presented net assets/equity. The IPSASB therefore agreed that if a first-time adopter's previous basis of accounting is cash, it is not required to present a reconciliation.

BC31. To meet the qualitative characteristics of relevance, understandability and comparability during the period of transition where a first-time adopter takes advantage of the exemption that provides relief from the recognition and/or measurement of assets and/or liabilities, the IPSASB considered whether a first-time adopter should be required to present a reconciliation at different points during its transition to accrual basis IPSASs.

BC32. The IPSASB agreed that where a first-time adopter takes advantage of any of the transitional relief periods permitted, it should present a reconciliation of items that have been recognized and/or measured during the reporting period when these items have not been recognized and/or measured in the previous reported financial statements. This reconciliation should be presented in addition to the reconciliation that is presented to explain differences between the first-time adopter's previous basis of accounting and those items that are recognized and/or measured in accordance with IPSASs in the opening statement of financial position.

Presenting a Comparison of Budget and Actual Information in a First-Time Adopter's Financial Statements

BC33. The IPSASB debated whether a first-time adopter should be required to present a comparison of budget and actual information following the adoption of accrual basis IPSASs, and whether such information is useful to the users of the financial statements.

BC34. The IPSASB considered that if a first-time adopter prepares its budget on the cash-basis of accounting after the adoption of IPSASs, presenting this comparison in its transitional IPSAS financial statements, or its first IPSAS financial statements could be onerous. The IPSASB, however, agreed that such a comparison should be included in a first-time adopter's financial statements, as the comparison is a unique feature of IPSASs and promotes accountability and decision-making.

Alignment of Accrual IPSASs and Government Finance Statistics Reporting

BC35. As the objective of this proposed Standard is to provide a suitable starting point for accounting in accordance with accrual basis IPSAS it does not provide specific guidance to a first-time adopter on alignment of Government Finance Statistics (GFS) reporting and accrual basis IPSASs. In its Consultation Paper, *Alignment of IPSASs and Government Finance Statistics Reporting Guidelines: Resolution of Differences through Convergence and Management*, the IPSASB discusses where guidance on GFS alignment options within the suite of IPSASB's pronouncements will be best addressed. By choosing GFS aligned policy options on the first-time adoption of accrual IPSASs, a first-time adopter may facilitate production of high quality and timely data for inclusion in their GFS reports. Once the IPSASB has made a decision on where alignment guidance will be located, the proposed Standard may be modified.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS

Transitional Exemptions Relating to the Recognition of Non-Monetary Assets

BC36. When an entity first adopts IPSASs, it may not have comprehensive information about the existence of all the assets under its control, and may require a period of time to obtain and compile appropriate records to account for such assets. As this is relevant to entities that previously did not apply the accrual basis of accounting, it is likely that these entities will require considerable effort to recognize, measure and/or classify their assets in accordance with IPSASs.

BC37. In considering the relief that should be provided to a first-time adopter for the recognition of its assets, the IPSASB considered the existing relief provided in IPSAS 17, which allows entities a five year relief period. To encourage entities to prepare for the adoption of IPSASs in advance of preparation of their transitional IPSAS financial statements, or their first IPSAS financial statements, the IPSASB agreed that a three year grace period should be allowed. A three year transitional period is also more manageable, and reduces the period over which entities will not be able to assert compliance with IPSASs.

BC38. The IPSASB agreed that a relief period of three years should be provided for the following assets:

(a) Investment property;

(b) Property, plant and equipment;

(c) Biological assets and agricultural produce;

(e) Intangible assets; and

(f) Service concession assets.

BC39. In considering whether a relief period should be allowed for the recognition of biological assets and agricultural produce, the IPSASB noted that these assets and activities may be limited in some jurisdictions while they may be more significant in other jurisdictions, for example, developing countries. On balance, the IPSASB agreed that a three year relief period should be provided for the recognition of biological assets and agricultural produce to assist those jurisdictions where this is a significant issue.

BC40. IPSAS 5 allows a first-time adopter to either adopt the benchmark treatment or the allowed alternative treatment in accounting for borrowing costs incurred on qualifying assets. When a first-time adopter elects to apply the allowed alternative treatment, there may a timing difference between the capitalization of borrowing costs on qualifying assets where the first-time adopter takes advantage of the three year transitional relief period to not recognize certain assets. To address this timing difference, and because it might not be practical to obtain information on borrowing costs incurred prior to the recognition of the asset where the first-time adopter takes advantage of the three year transitional exemption period, the IPSASB agreed that a first-time adopter should not be required to capitalize any borrowing costs on qualifying assets for which the commencement date for capitalization is prior to the date of adoption of accrual basis IPSASs, until such time as the exemptions that provided the relief have expired and/or when the relevant assets are recognized in accordance with the applicable IPSASs (whichever is earlier).

Transitional Exemptions relating to the Measurement of Non-Monetary Assets

BC41. The IPSASB acknowledged that some entities may have recognized non-monetary assets under its previous basis of accounting. The IPSASB therefore agreed that a three year transitional relief period should be allowed for the measurement of all non-monetary assets that were recognized by a first-time adopter under its previous basis of accounting. During this transitional period, a first-time adopter will be able to develop reliable models for applying the principles in the IPSASs. The first-time adopter will, during the transitional period, not be required to change its accounting policy in respect of the measurement of these assets.

Transitional Exemptions Relating to the Recognition of Liabilities

Interaction Between the Asset Standards and Other IPSASs

BC42. Where a first-time adopter takes advantage of one of more the transitional exemptions relating to the recognition of assets, it would, as part of this process, analyze title deeds, contracts and other similar arrangements, including lease arrangements, in determining what assets should be accounted and at what value. As a result, a first-time adopter may not be in a position to account for finance lease liabilities related to finance lease assets until such time as the transitional relief period provided has expired and/or the relevant assets are recognized in accordance with the applicable IPSASs (whichever is earlier).

BC43. Likewise, where a first-time adopter has elected to adopt the transitional relief provided for the recognition of service concession assets in terms of IPSAS 32, it will not be in a position to account for the related liability under either the financial liability model or the grant of a right to the operator model until such time as the transitional relief period provided has expired and/or the relevant assets are recognized and/or measured in accordance with IPSAS 32 (whichever is earlier).

BC44. The IPSASB agreed that the recognition of finance lease liabilities and the recognition and/or measurement of liabilities related to service concession assets should also be delayed until the relief period related to the relevant assets have expired and/or the applicable assets have been recognized and/or measured.

Recognition of Provisions Included in the Initial Cost of Property, Plant and Equipment

BC45. The IPSASB concluded that no transitional relief period should be provided for provisions in IPSAS 19 and that a first-time adopter should account for all its liabilities on the date of adoption of IPSASs. The IPSASB, however, acknowledges that the delay in the recognition and/or measurement of property, plant and equipment affects the recognition and/or measurement of certain provisions which are included in the cost of such assets.

BC46. IPSAS 17 requires an entity to include as part of the cost of an item of property, plant and equipment, 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. IPSAS 17 requires that the obligation for costs accounted for in accordance with IPSAS 17 is recognized and measured in accordance with IPSAS 19.

BC47. The IPSASB agreed that it would not be possible to recognize and/or measure provisions for the initial estimate of costs to dismantle and remove the item and restore the site on which it is located until such time as the relevant item of property, plant and equipment is recognized and/or measured in accordance with IPSAS 17. A transitional relief period was therefore also provided for the recognition and/or measurement of the provision to address the timing difference.

IPSAS 25, Employee Benefits

BC48. The IPSASB acknowledged that the recognition and/or measurement of specific liabilities in IPSAS 25 will be challenging for many public sector entities as new systems may be required and/or existing systems may need to be upgraded. The IPSASB therefore agreed that a first-time adopter should be given a three year relief period for the recognition and/or measurement of defined benefit plans and other long-term employee benefits. To avoid a skewed statement of financial position, the IPSASB further agreed that any plan assets should be recognized and/or measured at the same time as the liabilities. All other employee benefits should be recognized and/or measured on the date of adoption of IPSASs.

BC49. The IPSASB further noted that full retrospective application of IPSAS 25 would require a first-time adopter to determine actuarial gains or losses for each year since the inception of the plan in order to determine the net cumulative unrecognized gains or losses at the date of adoption of IPSASs. It was concluded that this would not benefit users and would be costly. A first-time adopter is therefore not required to separate cumulative actuarial gains and losses into recognized and unrecognized portions. All cumulative actuarial gains and losses should be recognized in the opening accumulated surplus or deficit.

Transitional Exemptions Relating to the Recognition and Measurement of Monetary Assets

IPSAS 29, Financial Instruments: Recognition and Measurement

BC50. The existing transitional provisions in IPSAS 29 do not provide any relief to a first-time adopter for the recognition and/or measurement of financial instruments. Because many public sector entities will need some time to identify and appropriately classify their financial instruments, the IPSASB agreed that a transitional relief period should be provided to a first-time adopter for the recognition and/or measurement of financial instruments. A transitional relief period of three years was granted in line with the relief period provided for the recognition and/or measurement of other items.

BC51. The IPSASB, however, agreed that a distinction should be made between those entities that previously recognized financial instruments and those that did not. The IPSASB was of the view that many basic financial instruments such as cash, debtors and creditors are already recognized by public sector entities. A three year relief period for the recognition of financial instruments that have not been recognized under a first-time adopter's previous basis of accounting, is provided.

BC52. As with non-monetary assets, the IPSASB agreed that the same principle should be applied to the recognition and/or measurement of monetary assets, i.e. to the extent that a first-time adopter has recognized financial instruments under its previous basis of accounting, the IPSASB agreed that a three year relief period should be granted for the measurement and classification of financial instruments following the date of adoption of IPSASs. During this transitional period, a first-time adopter will be able to develop reliable models for applying the principles in IPSAS 29. It would also be allowed to apply accounting policies for the measurement of financial instruments that differs from the requirements in IPSAS 29 during the period of transition.

Transitional Exemptions Relating to the Recognition and Measurement of Non-Exchange Revenue

IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)

BC53. The existing transitional provisions in IPSAS 23 allow a first-time adopter to not change its accounting policy in respect of the recognition and measurement of taxation revenue for a period of five years. IPSAS 23 also allows a first-time adopter to not change its accounting policy in respect of recognition and measurement of revenue from non-exchange transactions, other than taxation revenue, for a period of three years. It also requires that changes in accounting policies should only be made to better conform to IPSAS 23.

BC54. The IPSASB concluded that it will be challenging for many public sector entities to implement IPSAS 23 as new systems may be required and/or existing systems may need to be upgraded. Based on these practical challenges, the IPSASB agreed that a transitional relief period should be provided. The IPSASB, however, acknowledged that a first-time adopter should build up models to assist with the transition to accrual accounting prior to the adoption of accrual basis. In line with the relief period of three years provided for the recognition of assets and/or liabilities in other IPSASs, and in line with the existing three year transitional relief period provided for other non-exchange revenue in IPSAS 23, it was agreed that a first-time adopter should be granted a relief period of three years to develop reliable models for recognizing and measuring revenue from non-exchange transactions. The IPSASB agreed that a transitional period of three years is more manageable, and reduces the period over which an entity will not be able to assert compliance with accrual basis IPSASs. During the period of transition, a first-time adopter will be allowed to apply accounting policies for the recognition of non-exchange revenue transactions that do not comply with the provisions in IPSAS 23.

Exemptions from Providing Presentation and/or Disclosure Requirements Where a First-time Adopter Takes Advantage of the Exemptions that Provide a Three Year Transitional Relief Period

BC55. The IPSASB acknowledged and agreed that the three year exemption provided for the recognition and/or measurement of assets and/or liabilities also implies that the associated presentation and/or disclosure requirements in the applicable IPSASs do not need to be complied with as the information will not be available. The IPSASB agreed that the information need not be provided until the exemptions that provided the relief have expired or when the relevant assets and/or liabilities are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier).

BC56. For the same reason, the IPSASB agreed that a first-time adopter should not be required to provide any related disclosure requirements in IPSAS 1 and IPSAS 18.

IPSAS 5, Borrowing Costs

BC57. The existing transitional provisions in IPSAS 5 encouraged a first-time adopter to adjust its financial statements retrospectively if it did not recognize borrowing costs under its previous basis of accounting. The IPSASB agreed that it does not want to provide more relief to a first-time adopter than to those entities that already apply IPSASs, particularly where the allowed alternative treatment is elected.

BC58. As a result, the IPSASB agreed that a first-time adopter should only be encouraged to apply the requirements of IPSAS 5 retrospectively where it adopts or changes its accounting policy to the benchmark treatment. Providing this relief was seen a necessary because obtaining information retrospectively may be costly and considerable effort may be needed to obtain such information.

BC59. The IPSASB did however acknowledge that some information may be available to a first-time adopter depending on its previous basis of accounting. It was therefore agreed that a first-time adopter who adopted or changed its accounting policy to the benchmark treatment, should apply the principles in IPSAS 5 prospectively, but it may designate a date before the date of adoption of IPSASs in applying IPSAS 5. This relief can only be adopted to the extent that the information is available.

BC60. As the IPSASB does not want to encourage first-time adopters to adopt the allowed alternative treatment, it was agreed that where a first-time adopter changes its accounting policy to the allowed alternative treatment, any borrowing costs incurred on qualifying assets both before and after the date of adoption of IPSASs, for which the commencement date for capitalization is prior to the date of adoption of IPSASs, should be recognized retrospectively where the first-time adopter has not taken advantage of the transitional relief to not recognise and/or measure assets for a period of three years.

IPSAS 6, Consolidated and Separate Financial Statements, IPSAS 7, Investments in Associates and IPSAS 8, Interests in Joint Ventures

BC61. The IPSASB considered whether it should provide transitional relief that allows a first-time adopter to not present consolidated financial statements on adoption of IPSASs. In considering this proposal, it was argued that providing such an exemption would contradict the concept of a reporting entity and would not result in fair presentation.

BC62. The IPSASB therefore agreed that providing a relief period to not present consolidated financial statements should not be provided, but instead, a first-time adopter should be given a three year relief period from eliminating balances, transactions, revenues and expenses between entities within the economic entity.

BC63. As some balances, transactions revenues and expenses may be known on adoption of IPSASs, a first-time adopter is encouraged to eliminate only those known balances, transactions revenues and expenses.

BC64. For the same reason, the IPSASB agreed that a similar exemption should also be provided where a first-time adopter has one or more jointly controlled entity in terms of IPSAS 8, and where it has one or more associate in terms of IPSAS 7.

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS

Deemed Cost

Deemed Cost for Tangible Assets

BC65. Some measurements in accordance with IPSASs are based on an accumulation of past costs or other transaction data. If a first-time adopter has not previously collected the necessary information, collecting or estimating it retrospectively may be costly. To avoid excessive cost, the proposed IPSAS allows a first-time adopter to use the fair value as a substitute for the initial cost of inventory, investment property where the first-time adopter elects to use the cost model in IPSAS 16, property, plant and equipment, financial instruments and service concession assets at the date of adoption of IPSASs, or where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, the date at which the asset is recognized and/or measured during the period of transition. Fair value is its deemed cost at that date.

BC66. Even though it could be argued that the use of fair value would lead to a lack of comparability, the IPSASB noted that cost is generally equivalent to fair value at the date of acquisition. Therefore, the use of fair value as the deemed cost of an asset means that a first-time adopter reports the same cost data as if it had acquired an asset with the same value or some remaining service potential at the date of adoption of IPSASs. If there is any lack of comparability, it arises from the aggregation of costs incurred at different dates, rather than from the targeted use of fair value as deemed cost for some assets at a date. Using deemed cost facilitates the introduction of IPSASs in a cost-effective way.

BC67. Under the revaluation model in IPSAS 17, if an entity revalues an asset, it must revalue all assets in that class. This restriction prevents selective revaluation of only those assets whose revaluation would lead to a particular result. The IPSASB considered whether a similar restriction should be included in determining a deemed cost. IPSAS 21 and IPSAS 26 require an impairment test if there is any indication that an asset is impaired. Thus, if a first-time adopter uses fair value as deemed cost for assets whose fair value is above cost, it cannot ignore indications that the recoverable amount or recoverable service amount of other assets may have fallen below their carrying amount.

BC68. The IPSASB also considered the circumstances under which a first-time adopter should be allowed to determine a deemed cost on initial adoption of IPSAS, or where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, the date at which the asset is recognized and/or measured during the period of transition. It was considered whether it should be restricted to those situations where cost information is not available for assets, or whether it should be allowed in all circumstances, irrespective of whether cost information is available on the date of adoption of IPSASs, or the date on which the asset is recognized and/or measured where a first-time adopter has taken advantage of exemption that provides a three year transitional relief period to not recognize and/or measured certain assets.

BC69. The IPSASB agreed that, to avoid the selective valuation of assets, the use of a deemed cost should be restricted to those circumstances where reliable cost information about the historical cost of the asset is not available.

Deemed Cost for Investments in Controlled Entities, Joint Ventures or Associates

BC70. The IPSASB also agreed that a first-time adopter may elect to measure an investment in a controlled entity, joint venture or associate at cost in its separate financial statements on the date of adoption of IPSASs at either cost as determined in accordance with IPSAS 6, or deemed cost. Deemed cost is determined as fair value in accordance with IPSAS 29.

Deemed Cost for Intangible Assets

BC71. In considering whether a first-time adopter should be allowed to determine a deemed cost for intangible assets, the IPSASB considered the existing transitional provisions in IPSAS 31. IPSAS 31 allows a first-time adopter to use a previous revaluation of intangible assets at, or before, the date of transition as deemed cost at the date of the revaluation if the revaluation is broadly comparable to fair value or cost or depreciated cost that is adjusted to reflect for example, changes in a general or specific price index. IPSAS 31, however, only allows a first-time adopter to determine a deemed cost if the recognition criteria in IPSAS 31 (including the reliable measurement of original cost), and the criteria for revaluation (including the existence of an active market), have been met.

BC72. The IPSASB debated whether public sector entities will be likely to fulfill the second criterion on initial adoption of IPSASs, i.e. existence of an active market. The IPSASB debated that it may be uncommon for an active market to exist in the public sector for intangible assets, and as a consequence, the use of the deemed cost approach will likely be considerably restricted. As a result, a first-time adopter may be unable to determine a deemed cost for some intangible assets such as in-house developed IT systems.

BC73. It was also debated whether the reliable measurement of original cost should be required for first-time adopters which previously applied the cash basis of accounting, as some entities might find it cumbersome to identify the original cost of their intangible assets. It was also argued that where a first-time adopter has previously applied the accrual basis of accounting and it has acquired intangible assets through a non-exchange transaction, it might not be able to reliably measure original cost.

BC74. Based on these considerations, the IPSASB concluded that the reliable measurement of the original cost should be excluded as a criterion for the application of the deemed cost approach on first-time adoption of IPSASs.

BC75. The IPSASB therefore agreed that a first-time adopter is allowed to determine a deemed cost for intangible assets that meets (a) the recognition criteria in IPSAS 31 (excluding the reliable measurement criterion) and (b) the criteria in IPSAS 31 for revaluation (including the existence of an active market).

BC76. In considering whether a first-time adopter should be allowed to determine a deemed cost for internally generated intangible assets, the IPSASB concluded that it would be difficult to retrospectively assess the probability of expected future economic benefits or service potential through reasonable an supportable assumptions as management would not be able to apply hindsight in obtaining such information. Due to the absence of reliable information on the date of adoption of IPSASs, it was therefore agreed that a deemed cost may not be determined for internally generated intangible assets.

Alternative Measurement Bases for Fair Value in Determining Deemed Cost

BC77. The IPSASB considered whether some revaluations in accordance with a first-time adopter's previous basis of accounting might be more relevant to users than original cost. It was concluded that it would not be reasonable to require time-consuming and expensive reconstruction of cost, if previous revaluations already comply with IPSASs. The proposed Standard therefore allows a first-time adopter to use a revaluation under its previous basis of accounting for property, plant and equipment determined at or before the date of adoption of IPSASs as deemed cost. This may be used if the revaluation is, at the date of the revaluation, broadly comparable to:

(a) Fair value; or

(b) Cost or depreciated cost, where appropriate, in accordance with IFRSs adjusted to reflect, for example, changes in a general or specific price index.

BC78. In determining "fair value", the guidance in each applicable IPSAS is considered, where such guidance is provided. In IPSAS 17 it is noted that fair value is normally determined by reference to market-based evidence, often by appraisal. IPSAS 17 also states that if market based evidence is not available to measure items of property, plant and equipment, an entity can estimate fair value using replacement cost, reproduction cost or a service units approach.

BC79. The IPSASB noted that the fair value guidance in IPSAS 16 only considers a market-based value, and that limited guidance is provided in IPSAS 12 in determining fair value. The IPSASB concluded that because a first-time adopter may find it difficult to determine a market-based fair value for all investment properties and all inventories if only the guidance in the existing IPSASs to be applied, other measurement alternatives may need to be considered in determining deemed cost for inventory or investment property.

BC80. The IPSASB agreed that a first-time adopter may consider the following measurement alternatives in determining a deemed cost if reliable market-based evidence of fair value is not available on the date of adoption of IPSASs, or on the date that the asset is recognized and/or measured where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets:

(a) for inventory, current replacement cost; and

(b) for investment property of a specialized nature, depreciated replacement cost.

Determining a Deemed Cost Where the First-Time Adopter has Taken Advantage of the Three Year Transitional Exemption Period

BC81. The IPSASB concluded that, to the extent that a first-time adopter has elected to adopt one of more of the transitional exemptions that provides relief for the recognition and/or measurement of assets, it may not be able to retrospectively adjust the value of the asset to the date of adoption of accrual basis IPSASs. Retrospectively adjusting the value of the asset would require consideration of the price of the asset and other market factors that existed on the date of adoption of accrual basis IPSASs, including whether there was any indication that the asset was impaired.

BC82. The IPSASB concluded that this would not be cost effective. It was therefore agreed that, where a first-time adopter takes advantage of the exemption which allows a three year transitional relief period to not recognize and/or measure an asset, it may determine a deemed cost for that asset at any point of time within the three year transitional relief period. Any adjustments resulting from the recognition of the asset are recognized against the opening accumulated surplus or deficit in the year in which asset is recognized and/or measured.

IPSAS 18, Segment Reporting

BC83. The IPSASB considered whether relief should be provided to a first-time adopter for the presentation of segment information. The IPSASB agreed that, despite the fact that the presentation of segment information might be useful, a first-time adopter should be provided a relief period, as the information used in presenting segment information needs to be built on existing information in the financial statements.

BC84. As the IPSASB agreed to allow a three year transitional relief period for the recognition and/or measurement of assets and liabilities, the information which is needed to present segment information may only be available when the exemptions that provided the relief have expired, or when the relevant items are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier). As a result, it was agreed that a three year exemption period should be allowed in terms of which the first-time adopter will not be required to present segment information.

BC85. The IPSASB also concluded that not requiring a first-time adopter to present a segment report for a period of three years will not affect fair presentation of financial statements and the first-time adopter's ability to assert compliance with accrual basis IPSASs as segment information provides information which is presented in addition to the information required on the elements presented in the financial statements.

IPSAS 20, Related Party Disclosures

BC86. In providing a first-time adopter some time to build up information around its related party relationships and related party transactions, the IPSASB agreed that the disclosure of related party relationships, related party transactions and information about key management personnel should be treated in the same way as the required eliminations of balances, transactions, revenue and expenses between entities in IPSASs 6 to 8.

BC87. The proposed Standard therefore provides a transitional exemption for a period of three years for the disclosure of related party relationships, related party transactions and information about key management personnel.

IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash-Generating Assets

BC88. The IPSASB concluded that a first-time adopter may have applied an accounting policy for the recognition and reversal of impairment losses that are different to the requirements in IPSAS 21 and 26, or may have not considered impairment at all. On adoption of IPSASs, it may be difficult to determine the amount of adjustments resulting from retrospective application of a change in an accounting policy, as this requires hindsight.

BC89. As a result, the IPSASB agreed that IPSAS 21 and 26 should be applied prospectively, but that the first-time adopter should be required to assess whether an indicator of impairment has been triggered for its non-cash-generating assets and cash-generating in the opening statement of financial position.

BC90. In recognizing the effect of an impairment loss on first-time adoption of IPSAS 21 or IPSAS 26, the IPSASB considered two options. The first option was to measure such assets at their recoverable amount, or recoverable service amount and use that as the deemed cost. The IPSASB noted that the effect of applying this option may means that impairment losses could not be reversed in the future. This option was therefore not seen as appropriate.

BC91. The second option, which provides more relevant information, is to measure the assets at their recoverable amount, or recoverable service amount, and report the effect in net assets/equity. The IPSASB supported this option.

Timing of Impairment Test for Assets Where an Entity Adopts the Relief Period for the Recognition of Assets

BC92. The IPSASB concluded that where a first-time adopter takes advantage of the exemption that provides relief for the recognition and/or measurement of assets, it may be difficult to retrospectively adjust the value of the asset to the date of adoption of IPSASs. A first-time adopter may find it difficult to determine the amount of adjustments that would be required based on impairment that may or may not have existed at the date of transition.

BC93. The IPSASB therefore agreed that IPSAS 21 and IPSAS 26 should be applied prospectively from the date when the transitional exemptions that provided the relief have expired, or when the relevant asset is recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier).

IPSAS 25, Employee Benefits

BC94. The IPSASB also agreed that, where a first-time adopter takes advantage of the exemptions that provide relief for the recognition and/or measurement of liabilities, it should provide information about amounts for the current and previous four annual periods of the present value of the defined benefit obligation, the fair value of the plan assets, and the surplus or deficit in the plan and adjustments as required by IPSAS 25, prospectively.

IPSAS 28, Financial Instruments: Presentation

BC95. IPSAS 28 requires an entity to split a compound financial instrument at inception of the agreement, into separate liability and equity components. It was concluded that separating these two portions would be costly and would not provide relevant information to users of financial statements if the liability component of the compound instrument is no longer outstanding at the date of adoption of IPSASs. As a result, the proposed Standard requires that, if the liability component is no longer outstanding at the date of adoption of IPSASs, the first-time adopter need not separate the cumulative interest on the liability component from the net assets/equity component.

IPSAS 29, Financial Instruments: Recognition and Measurement

BC96. The IPSASB concluded that, as it is in most instances impracticable to apply impairment principles retrospectively, the impairment of financial instruments should be applied prospectively. This exemption is consistent with the exemption provided for non-cash-generating assets and cash-generating assets in accordance with IPSAS 21 and 26.

IPSAS 30, Financial Instruments: Disclosures

BC97. The IPSASB concluded that if a first-time adopter did not disclose information relating to financial instruments, and the nature and extent of risks arising from financial instruments under its previous basis of accounting, obtaining such information may be costly, and therefore is not feasible.

BC98. The IPSASB therefore agreed that the disclosure requirements relating to financial instruments should be applied prospectively from the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemption that provides a three transitional relief period to not recognize and/or measure financial assets, when the exemptions expire, or when the relevant items are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier).

BC99. To the extent that a first-time adopter elects to present comparative information, it was agreed that a first-time adopter need not present comparative information for disclosures relating to the nature and extent of risks arising from financial instruments for the comparative period because obtaining such information may be costly, and is therefore not feasible.

IPSAS 31, Intangible Assets

BC100. On first-time adoption of IPSASs, a first-time adopter will be required to recognize all assets and liabilities for which recognition is required by IPSASs. IPSAS 31 requires that past expenditure on an intangible asset that was initially recognized as an expense shall not be recognized as part of the cost of an intangible asset at a later date.

BC101. The IPSASB concluded that, because a first-time adopter may have expensed costs incurred on intangible assets under its previous basis of accounting prior to the adoption of IPSASs, a first-time adopter should be allowed to recognize all intangible assets that meet the recognition criteria and other criteria in IPSAS 31 (i.e. identifiable control of an asset and future economic benefits or service potential), even though such costs may have been expensed prior to adoption of IPSASs. It was however confirmed that such assets should only be recognized as intangible assets if reliable cost information is available and an active market exists for that asset on the date of adoption of IPSASs.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS XX (ED 53).

IG1. The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of IPSAS XX (ED 53).

Date of Adoption of IPSASs

IG2. The date of adoption of IPSASs is the date an entity adopts accrual basis IPSASs for the first time in preparing its financial statements. This date will be the beginning of the earliest period for which the first-time adopter presents its transitional IPSAS financial statements or its first IPSAS financial statements following the adoption of accrual basis IPSASs. For example, an entity elects to adopt accrual basis IPSASs from January 1, 20X1 for its reporting period ending December 31,20X1. The date of adoption of IPSASs will be January 1, 20X1.

Transitional IPSAS Financial Statements

IG3. On the date of adoption of IPSASs, a first-time adopter may elect to adopt one of more of the exemptions included in IPSAS XX (ED 53). Some of the exemptions included in IPSAS XX (ED 53) affect the fair presentation of a first-time adopter's financial statements and its ability to assert compliance with accrual basis IPSASs. The first-time adopter is therefore not able to make an explicit and unreserved statement of compliance with other accrual basis IPSASs as required by IPSAS 1, in preparing its financial statements in the reporting period in which accrual basis IPSASs are adopted.

IG4. As a first-time adopter is not able to make an explicit and unreserved statement of compliance with accrual basis IPSASs following the adoption of the exemptions provided in IPSAS XX (ED 53), the financial statements presented for the first reporting period following the adoption of accrual basis IPSASs, will be referred to as the "transitional IPSAS financial statements".

IG5. For example, if the first-time adopter adopts the transitional exemption that provides relief for the recognition of certain items of property, plant and equipment when adopting accrual basis IPSASs on January 1, 20X1, it would not be able to make an explicit and unreserved statement of compliance with accrual basis IPSASs at the end of its first reporting period, i.e. December 31, 20X1. The financial statements prepared for the first reporting period, will be referred to as the "first transitional IPSAS financial statements".

IG6. The financial statements presented during the period of transition until the exemptions that provided the relief have expired, and/or when the relevant items are recognized and/or measured in the financial statements in accordance with the applicable IPSASs, will be referred to as the "transitional IPSAS financial statements".

First IPSAS Financial Statements

IG7. A first-time adopter's first IPSAS financial statements will be the first set of financial statements that it presents in which it makes an explicit and unreserved statement of compliance with accrual basis IPSASs.

IG8. A first-time adopter will not be able to prepare its first IPSAS financial statements until the exemptions in IPSAS XX (ED 53) that provided relief which affected fair presentation and compliance with IPSASs, have expired, or when the relevant items are recognized, measured and/or the relevant information has been presented and/or disclosed in accordance with the applicable IPSASs (whichever is earlier).

IG9. Following from the example in IG5, the transitional exemptions that provided the relief for the recognition of certain items property, plant and equipment expire after three years, i.e. December 31, 20X3. If it is assumed that the entity has not adopted any other transitional exemptions in IPSAS XX (ED 53) that affect fair presentation and compliance with IPSASs, and that it recognizes and/or measures the items of property, plant and equipment during the transitional period, a first-time adopter will present its first IPSAS financial statements for the period ending 31 December 20X3.

IG10. If a first-time adopter has not adopted any of the exemptions in IPSAS XX (ED 53) that affect fair presentation and its ability to claim compliance with accrual basis IPSASs, its first accrual financial statements will also be its first IPSAS financial statements.

To illustrate:

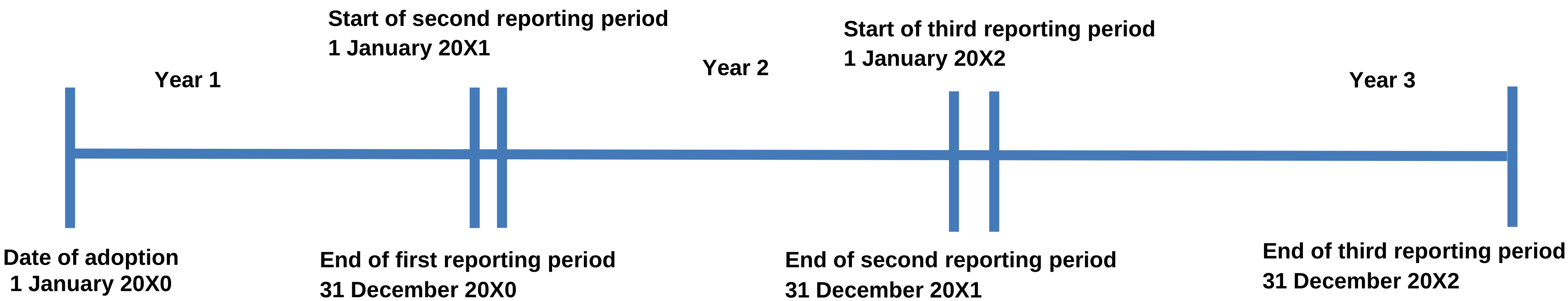
Timeline – First-Time Adoption IPSAS (assuming that entity elects to apply the three transitional relief for the recognition and/or measurement of certain assets)

An entity adopts accrual basis IPSASs on 1 January 20X0 by applying the proposed Standard on the *First-Time Adoption of Accrual Basis IPSASs*.

The first-time adopter elects to apply the three year relief period for the recognition of property, plant and equipment. Assume that it does not take advantage of any other relief periods. It also elects not to present comparative information.

The first-time adopter recognizes all property, plant and equipment by 31 December 20X2.

FIRST-TIME ADOPTION OF ACCRUAL BASIS IPSASs



<u>Year 1 (ending 31 December 20X0) – First Transitional IPSAS Financial Statements</u>
Cannot assert compliance with accrual basis IPSASs

Present the following statements:
***opening statement of financial position as at 01/01/20X0**
***statement of financial position as at 31/12/20X0**
***statement of financial performance for 31/12/20X0**
***statement of changes in net assets as at 31/12/20X0**
***cash flow statement for 31/12/20X0**
***statement of comparison of budget and actual information for 31/12/20X0**
(depending on the policy chosen for presentation of information the first-time adopter may include an additional column in the annual financial statements)

Present the following in the notes:
***reconciliation of changes from its previous basis of accounting (reflect adjustments related to the adoption of all IPSASs besides IPSAS 17)**

Note: If the first-time adopter elected to present comparative information, the following statements should have been presented:
***opening statement of financial position as at 01/01/19X0**
***statement of financial position as at 31/12/19X0 and 31/12/20X0**
***statement of financial performance for 31/12/10X0 and 31/12/20X0**
***statement of changes in net assets as at 31/12/19X0 and 31/12/20X0**
***cash flow statement for 31/12/19X0 and 31/12/20X0**
***statement of comparison of budget and actual information for 31/12/19X0 and 31/12/20X0**

<u>Year 2 (ending 31 December 20X1) – Transitional IPSAS Financial Statements</u>
Cannot assert compliance with IPSASs

Present the following statements for <u>both</u> 31/12/20X1 <u>and</u> 20X0:
***statement of financial position**
***statement of financial performance**
***statement of changes in net assets**
***cash flow statement**

Present the statement of statement of comparison of budget and actual information for 31/12/20X1 <u>only</u>
(depending on policy chosen for presentation of info information the first-time adopter may include an additional column in the annual financial statements)

<u>Year 3 (ending 31 December 20X3) – First IPSAS Financial Statements</u>
Can assert compliance with IPSASs

Present the following statements for <u>both</u> 31/12/20X2 <u>and</u> 20X1:
***statement of financial position**
***statement of financial performance**
***statement of changes in net assets**
***cash flow statement**

Present the statement of statement of comparison of budget and actual information for 31/12/20X2 <u>only</u>
(depending on policy chosen for presentation of info information the first-time adopter may include an additional column in the annual financial statements)

Present the following in the notes:
***reconciliation of adjustments made to recognize property, plant and equipment**

Estimates

IG11. IPSAS XX (ED 53) paragraph 21 requires that a first-time adopter's estimates in accordance with IPSASs at the date of adoption of IPSASs shall be consistent with estimates made at the end of its comparative period in accordance with the previous basis of accounting (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error. An entity may receive information after the date of adoption of IPSASs about estimates that it had made under the previous basis of accounting. In accordance with paragraph 22, a first-time adopter shall treat the receipt of that information in the same way as non-adjusting events after the reporting period in accordance with IPSAS 14.

IG12. For example, assume that a first-time adopter's date of adoption of IPSASs is January 1, 20X4 and new information on July 15, 20X4 requires the revision of an estimate made in accordance with the previous basis of accounting at December 31, 20X3. The first-time adopter shall not reflect that new information in its opening statement of financial position (unless the estimates require adjustment for any differences in accounting policies or there is objective evidence that the estimates were in error). Instead, the first-time adopter shall reflect that new information in surplus or deficit for the year ended December 31, 20X4.

Transitional Exemptions that Provide Three Year Relief for the Recognition and/or Measurement of Assets and/or Liabilities

IG13. IPSAS XX (ED 53) provides a first-time adopter a period of up to three years' relief in which it is allowed to not recognize and/or measure certain assets and liabilities. Where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure assets, it will have to consider and analyze title deeds, contracts and other similar arrangements in accounting for, and classifying these assets in accordance with the applicable IPSAS.

IG14. For example, assume that a first-time adopter controls a wide range of property, plant and equipment when it adopts accrual basis IPSASs on January 1, 20X1. If the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure the property, plant and equipment, it may recognize and/or measure the property, plant and equipment during the period of transition from January 1, 20X1 until December 31, 20X3. If the property, plant and equipment is recognized for example, on April 1, 20X2, the first-time adopter shall adjust the opening accumulated surplus or deficit on January 1, 20X2.

As required by paragraph 135 of IPSAS XX (ED 53), the first-time adopter shall, as part of the notes to the financial statements, provide a reconciliation to the accumulated surplus or deficit as at December 31, 20X1 (i.e. the opening balance as at January 1, 20X2) for the property, plant and equipment that was recognized on April 1, 20X2.

Accounting for Finance Leases Assets and Finance Lease Liabilities

IG15. Where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize its finance lease assets, it will also not be able to comply with the recognition requirements relating to the finance lease liabilities, until the transitional exemptions related to the finance leased assets have expired, or the finance leased assets have been recognized in accordance with IPSAS 13.

IG16. For example, assume that a first-time has a motor vehicle that is subject to a finance lease agreement on the date of adoption of accrual basis IPSASs on January 1, 20X1. The first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize the motor vehicle. The motor vehicle is recognized on December 31, 20X3 when the exemption expires.

IPSAS XX (ED 53) requires the first-time adopter to only recognize the corresponding finance lease liability for the motor vehicle on December 31, 20X3, i.e. on the date that the finance lease asset (the motor vehicle) is recognized.

Recognition of Provisions Included in the Initial Cost of an Item of Property, Plant and Equipment

IG17. IPSAS 17 recognizes that in some cases, the construction or commissioning of an item of property, plant and equipment will result in an obligation for an entity to dismantle or remove the item of property, plant and equipment and restore the site on which the asset is located. An entity is required to apply IPSAS 19 in recognising and measuring the resulting provision to be included in the initial cost of the item of property, plant and equipment.

IG18. IPSAS XX (ED 53) provides an exemption for the recognition of this liability. A first-time adopter is allowed to not recognize and/or measure the liability relating to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located, until such time as the exemption for IPSAS 17 expires and/or the relevant asset is recognized and/or measured and relevant information has been presented and/or disclosed in the financial statements in accordance with IPSAS 17 (whichever is earlier).

IG19. For example, an entity adopts accrual basis IPSASs on January 1, 20X1 and takes advantage of the exemption in IPSAS XX (ED 53) that provides a three year transitional relief period to not recognize a government owned nuclear power station. The first-time adopter determines a deemed cost for the asset on June 30, 20X3 and recognize the asset on that date at CU1 000 000. The first-time adopter determines that it has a decommissioning obligation in terms of IPSAS 19 of CU500 000 at the date of adoption of IPSASs. The obligation amounts to CU550 000 on June 30,20X3 when the asset is recognized.

IG20. IPSAS XX (ED 53) requires the first-time adopter to only recognize and/or measure its obligation relating to the dismantling and restoring of the site on June 30, 20X3, i.e. the date on which the asset is recognized. The liability will be measured at CU550 000 which reflects the first-time adopter's obligation on the date that the asset is recognized. The first-time adopter shall, as part of the notes to the financial statements, provide a reconciliation to the accumulated surplus or deficit as at December 31, 20X2 (i.e. the opening balance as at January 1, 20X3) for the recognition of the obligation and the related asset that was recognized on June 30, 20X2

Borrowing Costs Incurred on Qualifying Assets

IG21. Paragraph 87 of IPSAS XX (ED 53) requires that, where a first-time adopter elects to account for borrowing costs incurred in terms of the allowed alternative treatment, it is required to apply the requirements in IPSAS 5 retrospectively, for any borrowing costs incurred on qualifying assets before the date for adoption of IPSASs.

IG22. Paragraph 42 of IPSAS XX (ED 53) provides an exemption to this requirement by allowing a first-time adopter to commence capitalization of borrowings costs incurred on qualifying assets after the recognition of an asset where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period for the recognition of assets.

IG23. For example, a first-time adopter adopts the allowed alternative treatment in accounting for borrowing costs incurred on qualifying assets. The date of adoption of IPSASs is January 1, 20X1. The first-time adopter determines that the borrowing cost incurred prior to the adoption of IPSASs on January 1, 20X1 amounts to CU500 000 and that borrowing costs incurred at the end following two reporting periods amounted to CU20 000 and CU 30 000. In addition, the first-time adopter adopts the exemption that provides three year transitional relief from the recognition of property, plant and equipment and as a result, recognizes the item of property, plant and equipment at the end of the second reporting period at CU1 000 000.

At the end of 20X2, the item of property, plant and equipment recognized on the statement of financial position will be CU1 030 000(CU1 000 000 +30 000). Borrowing costs incurred prior to the recognition of the item of property, plant and equipment, i.e. CU500 000 and CU20 000 should not be included as part of the cost of the qualifying asset.

Presenting Comparative Information

IG24. Paragraph 76 of IPSAS XX (ED 53) encourages, but does not require an entity to present comparative information in its transitional IPSAS financial statements or its first IPSAS financial statements in accordance with this Standard. The decision to present comparative information affects not only the extent of the information presented, but also the date of adoption of IPSASs.

Date of Adoption of IPSASs

IG25. To illustrate: The end of a first-time adopter's first accrual basis reporting period is December 31, 20X5. The first-time adopter decides to present comparative information in those financial statements for one year only (see paragraph 76 of IPSAS XX (ED 53)). Therefore, its date of adoption of IPSASs is the beginning of the comparative period i.e. January 1, 20X4 (or equivalently December 31, 20X3).

Information Presented when a First-Time Adopter Elects to Prepare Comparative Information

IG26. Where the first-time adopter elects to prepare comparative information, it is required to apply the accrual basis IPSASs effective for periods ending on December 31, 20X5 in:

(a) Preparing and presenting its opening accrual basis statement of financial position at January 1, 20X4; and

(b) Preparing and presenting its:

   (i) Statement of financial position for December 31, 20X5 (including comparative amounts for 20X4);

   (ii) Statement of financial performance (including comparative amounts for 20X4);

   (iii) Statement of changes in net assets/equity for December 31, 20X5 (including comparative amounts for 20X4);

   (iv) Statement of cash flows for the year to December 31, 20X5 (including comparative amounts for 20X4);

   (v) Disclosures (including comparative information for 20X4);

(vi) A comparison of budget and actual amounts for the year to December 31, 20X5; and

(vii) Reconciliations in accordance with paragraph 130.

First-Time Adopter Elects to Not Prepare Comparative Information

IG27. Where a first-time adopter elects to not prepare comparative information, it is required to apply the accrual basis effective for periods ending on December 31, 20X5:

(a) Preparing and presenting its opening accrual basis statement of financial position at 1 January 20X5; and

(b) Preparing and presenting its:

(i) Statement of financial position for December 31, 20X5;

(ii) Statement of financial performance for December 31, 20X5;

(iii) Statement of changes in net assets/equity for December 31, 20X5;

(iv) Statement of cash flows for the year to December 31, 20X5;

(v) Disclosures;

(vi) A comparison of budget and actual amounts for the year to December 31,20X5; and

(vii) Reconciliations in accordance with paragraph 130.

Adoption of Three Year Transitional Relief Period

IG28. Where the first-time adopter takes advantage of the exemptions that provide relief from the recognition and/or measurement of assets and/or liabilities, IPSAS XX (ED 53) requires it to only adjust comparative information for reporting periods following the date of adoption of IPSASs to the extent that reliable and relevant information is available about the items that have been recognized and/or measured.

IG29. To illustrate: The end of a first-time adopter's first accrual basis reporting period is December 31, 20X2. The first-time adopter on the date of adoption of IPSASs on January 1, 20X1, adopts the transitional exemption providing it a three year relief period for the recognition of investment property. At the end of 20X3 the first-time adopter has recognized the investment property, which is included in the statement of financial position as at December 31, 20X3. Only if reliable and relevant information if available about the value of the investment property recognized during 20X3, will the first-time adopter adjust the comparative information (i.e. for the period ending December 31, 20X2) presented.

Presenting Reconciliations

IG30. Paragraph 130 of IPSAS XX (ED 53) requires a first-time adopter to present a reconciliation of its closing balances reported under its previous basis of accounting, to its net assets/equity in accordance with IPSASs for the transitional IPSAS financial statements or its first IPSAS financial statements. A reconciliation should also be presented of its surplus or deficit in accordance with its previous basis of accounting to its opening balance of surplus or deficit at the date of adoption of IPSASs.

IG31. For example, a first-time adopter, which previously applied a modified-accrual basis of accounting, adopts accrual basis IPSASs on January 1, 20X4 and elects to not present comparative information as permitted in IPSAS XX (ED 53). The first-time adopter should, in terms of paragraph 130 of IPSAS XX (ED 53), present a reconciliation in the notes to its transitional IPSAS financial statements that provides sufficient detail to enable users to understand the material adjustments to the opening statement of financial position, and where applicable, the opening statement of financial performance as on January 1, 20X4.

IG32. Paragraph 135 further requires a first-time adopter that takes advantage of the exemptions that provide a three year transitional relief period to not recognize and/or measure items, to present a reconciliation of items that have been recognized and/or measured during the reporting period which were not recognized and/or measured at the previous reported financial statements.

IG33. Following from the example in IG29, a first-time adopter adopts the exemption in IPSAS XX (ED 53) that allows it to not recognize investment property for a period of three years. The first-time adopter applies this exemption and only recognizes the investment property at the end of year three, i.e. December 31, 20X4. As an adjustment is made to the opening balance of accumulated surplus or deficit as on January 1, 20X4 in recognizing the investment property, paragraph 136 requires the first-time adopter to present a reconciliation in its notes to the financial statements for the year ending December 31, 20X4 to allow users to understand the adjustment that was made following the recognition of the investment property.

Deemed Cost

IG34. IPSAS XX (ED 53) allows a first-time adopter to determine a deemed cost as a substitute for acquisition cost or depreciated cost at the date of adoption of IPSASs, where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, the date at which the asset is recognized during the period of transition, for inventory, investment property, property, plant, intangible asset (other than internally generated intangible assets) under certain provisions, and service concession assets. A deemed cost may however only be determined if no cost information is available about the historical cost of the asset. When a first-time adopter initially measures these assets on the date of adoption of IPSASs, or when the transitional exemptions that provided the first-time adopter with a three year relief period to not recognize and/or measure certain assets have expire, it recognizes the effect:

(a) As an adjustment to the opening balance of accumulated surpluses or deficits in the opening statement of financial position in the period in which the deemed is determined; or

(b) In the revaluation surplus if the first-time adopter adopts the revaluation model in IPSAS 17 or in IPSAS 31*.*

Determining a Deemed Cost During the Period of Transition

IG35. If a first-time adopter takes advantage of the exemption in IPSAS XX (ED 53) that provides a three year transitional relief period to not recognize and/or measure an asset, the Standard requires that it may determine a deemed cost for that asset during any point of time within the three year transitional relief period.

IG36. Subsequent depreciation and amortization, if applicable, is based on that deemed cost and starts from the date of adoption of IPSASs, or when the transitional exemptions that provided the relief have expired, or when the relevant items are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier).

IG37. For example, a first-time adopter adopts IPSASs on January 1, 20X1 and adopts the exemption that provides a three year transitional relief period for the recognition of an investment property. Because the first-time adopter does not have reliable cost information about the historical cost of the investment property on the date of adoption of IPSASs it decides to determine a deemed cost for the investment property. The deemed cost for the investment property is determined during the second reporting period (i.e. 20X2) in which the first-time adopter applies the exemption. IPSAS XX (ED 53) allows the first-time adopter to use the deemed cost determined during 20X2 in recognizing the investment property by adjusting the opening accumulated surplus and deficit on January 1, 20X2. The deemed cost as determined on January 1, 20X2 will be used in determining subsequent depreciation and in assessing impairment where the first-time adopter elects to apply the cost model as its subsequent measurement basis in applying IPSAS 16.

IPSAS 5, *Borrowing Costs*

IG38. An entity adopts the accrual basis IPSASs on January 1, 20X3 and adopts the allowed alternative treatment in accounting for borrowing costs. Borrowing costs directly attributable to the acquisition of the asset amounts to CU525 000, of which CU500 000 was incurred prior to the adoption of accrual basis IPSASs, while CU25 000 was incurred in the first reporting period ending December 31, 20X3. Paragraph 87 of IPSAS XX (ED 53) requires the first-time adopter to retrospectively recognize any borrowing costs incurred prior to the adoption of accrual basis IPSASs when it adopts the allowed alternative method. Therefore, CU500 000 should be capitalized to the cost of the asset recognized in the opening statement of financial position as at January 1, 20X3.

IG39. If the entity has elected to apply the benchmark treatment, paragraph 85 of IPSAS XX (ED 53) encourages, but does not require, the first-time adopter to apply the accounting policy retrospectively. If the first-time adopter elects to apply its accounting policy prospectively, it will only expense CU25 000 in the statement of financial performance for the period ending December 31, 20X3.

IPSAS 6, Consolidated and Separate Financial Statements

IG40. If a first-time adopter did not consolidate a controlled entity in accordance with its previous basis of accounting, then, in its consolidated financial statements, the first-time adopter measures the controlled entity's assets and liabilities at the same carrying amounts as in the accrual basis financial statements of the controlled entity following its adoption of IPSASs, after adjusting for consolidation procedures and for the effects of the entity combination in which it acquired the controlled entity (paragraph 89 of IPSAS XX (ED 53). If the controlled entity has not adopted accrual basis IPSASs in its financial statements, the carrying amounts described in the previous sentence are those that IPSASs would require in those financial statements.

Controlling Entity Adopts Accrual Basis IPSASs Before the Controlled Entity

Background

IG41. Controlling entity A presents its (consolidated) first IPSAS financial statements in 20X5. Its controlled entity B, wholly owned by controlling entity A since formation, prepares information in accordance with accrual basis IPSASs for internal consolidation purposes from that date, but controlled entity B does not present its first IPSAS financial statements until 20X7.

Application of Requirements

IG42. If controlled entity B applies paragraph 88(a) of IPSAS XX (ED 53), the carrying amounts of its assets and liabilities are the same in both its opening IPSAS statement of financial position at January 1, 20X6 and controlling entity's A consolidated statement of financial position (except for adjustments for consolidation procedures) and are based on controlling entity B's date of adoption of IPSASs.

IG43. Alternatively, controlled entity B, in accordance with paragraph 88(b) of IPSAS XX (ED 53), measure all its assets or liabilities based on its own date of adoption of IPSASs (January 20X6). However, the fact that controlled entity B becomes a first-time adopter in 20X7 does not change the carrying amounts of its assets and liabilities in controlling entity A's consolidated financial statements.

Controlled Entity Adopts Accrual Basis IPSASs Before the Controlling Entity

Background

IG44. Controlling entity C presents its (consolidated) transitional IPSAS financial statements in 20X7. Its controlled entity D, wholly owned by controlling entity C since formation, presented its transitional IPSAS financial statements in 20X5. Until 20X7, controlled entity D prepared information for internal consolidation purposes in accordance with controlling entity's C previous basis of accounting.

Application of Requirements

IG45. The carrying amounts of controlled entity D's assets and liabilities at January 1, 20X6 are the same in both controlling entity's C (consolidated) opening accrual basis statement of financial position and controlled entity D's financial statements (except for adjustments for consolidation procedures) and are based on controlled entity D's date of adoption of IPSASs. The fact that controlling entity C becomes a first-time adopter in 20X7 does not change those carrying amounts (paragraph 88 of IPSAS XX (ED53)).

IG46. Paragraphs 88 and 89 of IPSAS XX (ED53) do not override the following requirements:

(a) The rest of IPSAS XX (ED53) in measuring all assets and liabilities for which paragraphs 88 and 89 of IPSAS XX (ED53) are not relevant.

(b) To give all disclosures required by the IFRS as of the first-time adopter's own date of transition to IFRSs.

IG47. Paragraph 88 of IPSAS XX (ED53) applies if a controlled entity becomes a first-time adopter later than its controlling entity, for example if the controlling entity previously prepared a reporting package in accordance with accrual basis IPSASs for consolidation purposes but did not present a full set of financial statements in accordance with IPSASs. This may be relevant not only when a controlling entity diary's reporting package complies fully with the recognition and measurement requirements of IPSASs, but also when it is adjusted centrally for matters such as review of events after the reporting date and central allocation of pension costs. For the disclosure required by paragraph 132 of IPSAS XX (ED53), adjustments made centrally to an unpublished reporting package are not corrections of errors. However, paragraph 88 of IPSAS XX (ED53) does not permit a controlled entity to ignore misstatements that are immaterial to the consolidated financial statements of its controlling entity but material to its own financial statements.

IPSAS 9, Revenue from Exchange Transactions

IG48. If a first-time adopter has received amounts that do not yet qualify for recognition as revenue in accordance with IPSAS 9 (for example, the proceeds of a sale that does not qualify for revenue recognition), the first-time adopter recognizes the amounts received as a liability in its opening statement of financial position and measures that liability at the amount received. It should derecognize the liability and recognize the revenue in its statement on financial performance when the recognition criteria in IPSAS 9 is met.

IPSAS 10, Financial Reporting in Hyperinflationary Economies

IG49. A first-time adopter complies with IPSAS 4 in determining its functional currency and presentation currency. When the first-time adopter prepares its opening statement of financial position, it applies IPSAS 10 to any periods during which the economy of the functional currency or presentation currency was hyperinflationary.

IG50. If the first-time adopter elects to use the exemptions in paragraphs 62 to 72 of IPSAS XX (ED 53), it applies IPSAS 10 to periods after the date for which the revalued amount or fair value was determined.

IPSAS 14, Events After the Reporting Date

IG51. Except as described in paragraph IG52, a first-time adopter applies IPSAS 14 in determining whether:

(a) its opening statement of financial position reflects an event that occurred after the date of transition; and

(b) comparative amounts in its transitional IPSAS financial statements or its first IPSAS financial statements, where applicable, reflect an event that occurred after the end of that comparative period (see IPSAS XX (ED 53) paragraph 71).

IG52. Paragraphs 21–24 of IPSAS XX (ED 53) require some modifications to the principles in IPSAS 14 when a first-time adopter determines whether changes in estimates are adjusting or non-adjusting events at the date of adoption of IPSASs (or, when applicable, the end of the comparative period). Cases 1 and 2 below illustrate those modifications. In case 3 below, paragraphs 21–24 of IPSAS XX (ED 53) do not require modifications to the principles in IPSAS 14.

(a) Case 1— if a first-time adopter's previous basis of accounting required estimates of similar items for the date of adoption of IPSASs, using an accounting policy that is consistent with IPSASs. In this case, the estimates in accordance with IPSASs need to be consistent with estimates made for that date in accordance with previous basis of accounting, unless there is objective evidence that those estimates were in error (see IPSAS 3). The first-time adopter reports later revisions to those estimates as events of the period in which it makes the revisions, rather than as adjusting events resulting from the receipt of further evidence about conditions that existed at the date of adoption of IPSASs.

(b) Case 2—Previous basis of accounting required estimates of similar items for the date of adoption of IPSASs, but the first-time adopter made those estimates using accounting policies that are not consistent with its accounting policies in accordance with IPSASs. In this case, the estimates in accordance with IPSASs need to be consistent with the estimates required in accordance with the previous basis of accounting for that date (unless there is objective evidence that those estimates were in error), after adjusting for the difference in accounting policies. The opening statement of financial position reflects those adjustments for the difference in accounting policies. As in case 1, the first-time adopter reports later revisions to those estimates as events of the period in which it makes the revisions.

For example, the previous basis of accounting may have required a first-time adopter to recognize and measure provisions on a basis consistent with IPSAS 19 except that the previous basis of accounting's measurement was on an undiscounted basis. In this example, the first-time adopter uses the estimates in accordance with its previous basis of accounting as inputs in making the discounted measurement required by IPSAS 19.

(c) Case 3— Previous basis of accounting did not require estimates of similar items for the date of adoption of IPSASs. Estimates in accordance with IPSASs for that date reflect conditions existing at that date. In particular, estimates of market prices, interest rates or foreign exchange rates at the date of adoption of IPSASs reflect market conditions at that date. This is consistent with the distinction in IPSAS 14 between adjusting events after the reporting period and non-adjusting events after the reporting period.

IG53. To illustrate: Entity A's first transitional IPSAS financial statements are for the period ending December 31, 20X5 with the first-time adopter electing to present comparative information. In terms of its previous basis of accounting the following transactions and events are noted in entity A's financial statements for December 31, 20X3 and 20X4:

(a) Estimates of accrued expenses and provisions were made at those dates;

(b) The entity accounted on a cash basis for a defined benefit pension plan; and

(c) No provision was recognized for a court case arising from events that occurred in September 20X4. When the court case was concluded on June 30, 20X5, entity A was required to pay CU1 000 and paid this on July 10, 20X5.

In preparing its transitional IPSAS financial statements, entity A concludes that its estimates in accordance with its previous basis of accounting of accrued expenses and provisions at December 31, 20X3 and 20X4 were made on a basis consistent with its accounting policies in accordance with IPSASs. Although some of the accruals and provisions turned out to be overestimates and others to be underestimates, entity A concludes that its estimates were reasonable and that, therefore, no error had occurred. As a result, accounting for those overestimates and underestimates involves the routine adjustment of estimates in accordance with IPSAS 3.

Application of Requirements

In preparing its opening statement of financial position at January 1, 20X4 and in its comparative statement of financial position at December 31, 20X4, entity A:

(a) Does not adjust the previous estimates for accrued expenses and provisions; and

(b) Makes estimates (in the form of actuarial assumptions) necessary to account for the pension plan in accordance with IPSAS 25, *Employee Benefits*. Entity A's actuarial assumptions at January 1, 20X4 and December 31, 20X4 do not reflect conditions that arose after those dates. For example, entity A's:

(i) Discount rates at January 1, 20X4 and December 31, 20X4 for the pension plan and for provisions reflect market conditions at those dates; and

(ii) Actuarial assumptions at January 1, 20X4 and December 31, 20X4 about future employee turnover rates do not reflect conditions that arose after those dates—such as a significant increase in estimated employee turnover rates as a result of a curtailment of the pension plan in 20X5.

The treatment of the court case at December 31, 20X4 depends on the reason why entity A did not recognize a provision in accordance with its previous basis of accounting at that date.

Assumption 1 – The previous basis of accounting was consistent with IPSAS 19. Entity A concluded that the recognition criteria were not met. In this case, entity A's assumptions in accordance with IPSASs are consistent with its assumptions in accordance with its previous basis of accounting. Therefore, entity A does not recognize a provision at December 31, 20X4.

Assumption 2 – Entity A's previous basis of accounting was not consistent with IPSAS 19. Therefore, entity A develops estimates in accordance with IPSAS 19. Under IPSAS 19, an entity determines whether an obligation exists at the end of the reporting period by taking account of all available evidence, including any additional evidence provided by events after the reporting period. Similarly, in accordance with IPSAS 14 the resolution of a court case after the reporting period is an adjusting event after the reporting period if it confirms that the entity had a present obligation at that date. In this instance, the resolution of the court case confirms that entity A had a liability in September 20X4 (when the events occurred that gave rise to the court case). Therefore, entity A recognizes a provision at December 31, 20X4. Entity A measures that provision by discounting the CU1 000 paid on July 10, 20X5 to its present value, using a discount rate that complies with IPSAS 19 and reflects market conditions at December 31, 20X4.

IG54. Paragraphs 21–24 of the IPSAS XX (ED 53) do not override requirements in other IPSASs that base classifications or measurements on circumstances existing at a particular date. Examples include:

(a) The distinction between finance leases and operating leases (see IPSAS 13); and

(b) The distinction between financial liabilities and equity instruments (see IPSAS 28).

IPSAS 13, *Leases*

IG55. In accordance with paragraph 94 of IPSAS XX (ED 53) and paragraph 18 of IPSAS 13, a lessee or lessor classifies leases as operating leases or finance leases on the basis of circumstances existing at the inception of the lease, on the date of adoption of accrual basis IPSASs. In some cases, the lessee and the lessor may 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 in accordance with IPSAS 13 had the changed terms been in effect at the inception of the lease. If so, the revised agreement is considered as a new agreement over its term from the date of adoption of accrual basis IPSASs. However, changes in estimates (for example, changes in estimates of the economic life or of the residual value of the leased property) or changes in circumstances (for example, default by the lessee) do not give rise to a new classification of a lease.

IPSAS 17, Property, Plant and Equipment

IG56. If a first-time adopter's depreciation methods and rates in accordance with its previous basis of accounting are acceptable in accordance with IPSASs, it accounts for any change in estimated useful life or depreciation pattern prospectively from when it makes that change in estimate (paragraphs 23 and 24 of IPSAS XX (ED 53) and paragraph 76 of IPSAS 17. However, in some cases, a first-time adopter's depreciation methods and rates in accordance with its previous basis of accounting may differ from those that would be acceptable in accordance with IPSASs (for example, if they do not reflect a reasonable estimate of the asset's useful life). If those differences have a material effect on the financial statements, the entity adjusts accumulated depreciation in its opening statement of financial position retrospectively so that it complies with IPSASs.

IG57. A first-time adopter may elect to use one of the following amounts as the deemed cost of property, plant and equipment:

(a) Fair value at the date of adoption of IPSASs (paragraph 67 of IPSAS XX (ED53)), in which case the first-time adopter provides the disclosures required by paragraph 137 of IPSAS XX (ED 53); or

(b) A revaluation in accordance with its previous basis of accounting that meets the criteria in paragraph 67 of IPSAS XX (ED 53).

IG58. Subsequent depreciation is based on that deemed cost and starts from the date for which the first-time adopter established the deemed cost, or where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize certain assets, when the exemptions providing the relief have expired, or the asset has been recognized in accordance with IPSAS 17 (whichever is earlier).

IG59. If a first-time adopter chooses as its accounting policy the revaluation model in IPSAS 17 for some or all classes of property, plant and equipment, it presents the cumulative revaluation surplus as a separate component of net assets/equity. The revaluation surplus at the date of adoption of IPSASs is based on a comparison of the carrying amount of the asset at that date with its cost or deemed cost. If the deemed cost is the fair value at the date of adoption of IPSASs or where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, when the exemptions providing the relief have expired, or the asset has been recognized and/or measured in accordance with IPSAS 17 (whichever is earlier), the first-time adopter gives the disclosures required by paragraph 137 of IPSAS XX (ED 53).

IG60. If revaluations in accordance with the first-time adopter's previous basis of accounting did not satisfy the criteria in paragraph 67 or 70 of IPSAS XX (ED 53), the first-time adopter measures the revalued assets in its opening statement of financial position on one of the following bases:

(a) Cost (or deemed cost) less any accumulated depreciation and any accumulated impairment losses under the cost model in IPSAS 17;

(b) Deemed cost, being the fair value or an alternative when market-based evidence of fair value is not available, at the date of adoption of IPSASs, or where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, the date at which the asset is recognized and/or measured during the period of transition, or when the transitional exemptions expire (whichever is earlier); or

(c) A revalued amount, if the entity adopts the revaluation model in IPSAS 17 as its accounting policy in accordance with IPSASs for all items of property, plant and equipment in the same class.

IG61. IPSAS 17 requires 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 to be depreciated separately. However, IPSAS 17 does not prescribe the unit of measure for recognition of an asset, i.e. what constitutes an item of property, plant and equipment. Thus, judgment is required in applying the recognition criteria to an entity's specific circumstances (see IPSAS 17 paragraphs 18 and 59).

IPSAS 25, Employee Benefits

IG62. At the date of adoption of IPSASs, a first-time adopter applies IPSAS 25 in measuring defined benefits plans and other long-term employee benefits, and should recognize all cumulative actuarial gains or losses from the inception of the plan until the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 25 (whichever is earlier), even if its accounting policy in accordance with IPSAS 25 will involve leaving some later actuarial gains and losses unrecognized (paragraph 103 of IPSAS XX (ED 53)).

IG63. A first-time adopter's actuarial assumptions at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 25 (whichever is earlier), are consistent with actuarial assumptions made at the end of its comparative period (if the first-time adopter elects to present comparative information in accordance with paragraph 76 of IPSAS XX (ED53)) in accordance with its previous basis of accounting (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those assumptions were in error (paragraph 21 of the IPSAS XX (ED 53)). The impact of any later revisions to those assumptions is an actuarial gain or loss of the period in which the first-time adopter makes the revisions.

IG64. A first-time adopter may need to make actuarial assumptions at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 25 (whichever is earlier), that were not necessary in accordance with its basis of accounting. Such actuarial assumptions do not reflect conditions that arose after the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 25 (whichever is earlier). In particular, discount rates and the fair value of plan assets at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the liabilities are recognized and/or measured in accordance with IPSAS 25 (whichever is earlier), reflect market conditions at that date. Similarly, the first-time adopter's actuarial assumptions at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 25 (whichever is earlier), about future employee turnover rates do not reflect a significant increase in estimated employee turnover rates as a result of a curtailment of the pension plan that occurred after the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 25 (whichever is earlier) (paragraph 21 of IPSAS XX (ED 53)).

IG65. In many cases, a first-time adopter's transitional IPSAS financial statements or its first IPSAS financial statements will reflect measurements of employee benefit obligations at three dates (where a first-time adopter elects to present comparative information in terms of paragraph 76 of IPSAS XX (ED 53)): the end of the first reporting period, the date of the comparative statement of financial position (where the first-time adopter elects to present comparative information) and the date of adoption of IPSASs, or where the first-time adopter takes advantages of the exemptions that provide relief from the recognition of defined benefit plans and other long-term employee benefits, the date on which the exemptions expire or when the defined benefits plans and other long-term employee benefits are recognized and/or measured in accordance with IPSAS 25 (whichever is earlier). IPSAS 25 encourages the first-time adopter to involve a qualified actuary in the measurement of all material post-employment benefit obligations. To minimise costs, a first-time adopter may request a qualified actuary to carry out a detailed actuarial valuation at one or two of these dates and roll the valuation(s) forward or back to the other date(s). Any such roll forward or roll back reflects any material transactions and other material events (including changes in market prices and interest rates) between those dates (IPSAS 25 paragraph 68).

IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash-Generating Assets

IG66. Paragraph 96 and 106 of IPSAS XX (ED 53) requires a first-time adopter to apply the requirements in IPSAS 21 and IPSAS 26 prospectively from the date of adoption of accrual basis IPSASs, or where a first-time adopter takes advantage of the exemptions that provide a three year transitional relief period to not recognize and/or measure an asset, the date when the exemptions that provided the relief expire and/or the asset is recognized and/or measured. For example, if an entity adopts accrual basis IPSASs on January 1, 20X1 and takes advantage of the three year transitional relief period to not recognize and/or measure an item or property, plant and equipment, if would not be required to assess the item of property, plant and equipment for impairment until (a) December 31, 20X3 (i.e. the date on which the transitional exemption expire) or (b) the date following the recognition of the item of property, plant and equipment if it was recognized and/or measured during the period of transition (whichever is earlier).

IG67. The estimates used to determine whether a first-time adopter recognizes an impairment loss (and to measure any such impairment loss) at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition of assets, the date on which the exemptions expire or when the assets are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier) are consistent with estimates made for at the end of its comparative period (if the first-time adopter elects to present comparative information in accordance with paragraph 76 of IPSAS XX (ED53)) the first-time adopter's previous basis of accounting (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error (paragraphs 21 and 22 of IPSAS XX (ED 53)). The first-time adopter reports the impact of any later revisions to those estimates as an event of the period in which it makes the revisions.

IG68. In assessing whether it needs to recognize an impairment loss (and in measuring any such impairment loss) at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition of assets, the date on which the exemptions expire or when the assets are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier), the first-time adopter may need to make estimates for that date that were not necessary in accordance with its previous basis of accounting. Such estimates and assumptions do not reflect conditions that arose after the date of transition, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition of assets, the date on which the exemptions expire or when the assets are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier) (paragraph 23 of IPSAS XX (ED 53)).

IPSAS 28, Financial Instruments: Presentation

IG69. In its opening statement of financial position, a first-time adopter applies the criteria in IPSAS 28 to classify financial instruments issued (or components of compound instruments issued) as either financial liabilities or net asset/equity instruments in accordance with the substance of the contractual arrangement when the instrument first satisfied the recognition criteria in IPSAS 28 (paragraphs 13 and 35), without considering events after that date (other than changes to the terms of the instruments).

IPSAS 29, Financial Instruments: Recognition and Measurement

Recognition

IG70. A first-time adopter recognizes all financial assets and financial liabilities (including all derivatives) that qualify for recognition in accordance with IPSAS 29 and have not yet qualified for derecognition in accordance with IPSAS 29, except non-derivative financial assets and non-derivative financial liabilities derecognized in accordance with its previous basis of accounting before the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition of financial instruments, the date on which the exemptions expire or when the financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier). , to which the first-time adopter does not choose to apply paragraph 114 of IPSAS XX (ED 53) (see paragraphs 113 and 114 of IPSAS XX (ED53)).

IG71. For example, a first-time adopter that does not apply paragraph 114 of IPSAS XX (ED 53) does not recognize assets transferred in a securitisation, transfer or other derecognition transaction that occurred before the date of adoption of IPSASs if those transactions qualified for derecognition in accordance with its previous basis of accounting. However, if the first-time adopter uses the same securitisation arrangement or other derecognition arrangement for further transfers after the date of transition to IPSASs, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition and/or measurement of financial instruments, the date on which the exemptions expire or when the financial instruments are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier), those further transfers qualify for derecognition only if they meet the derecognition criteria of IPSAS 29.

Embedded Derivatives

IG72. When IPSAS 29 requires a first-time adopter to separate an embedded derivative from a host contract, the initial carrying amounts of the components at the date when the instrument first satisfies the recognition criteria in IPSAS 29 reflect circumstances at that date (IPSAS 29 paragraph 12). If the first-time adopter cannot determine the initial carrying amounts of the embedded derivative and host contract reliably, it measures the entire combined contract as at fair value through surplus or deficit (IPSAS 29 paragraph 14).

Measurement

IG73. In preparing its opening statement of financial position, a first-time adopter applies the criteria in IPSAS 29 to identify those financial assets and financial liabilities that are measured at fair value and those that are measured at amortised cost.

Adjusting the Carrying Amount of Financial Instruments on the Date of Adoption of Accrual Basis IPSASs or During the Period of Transition

IG74. A first-time adopter shall treat an adjustment to the carrying amount of a financial asset or financial liability as an adjustment to be recognized in the opening balance of accumulated surplus or deficit at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition and/or measurement of financial instruments, the date on which the exemptions expire or when the financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier), only to the extent that it results from adopting IPSAS 29. Because all derivatives, other than those that are financial guarantee contracts or are designated and effective hedging instruments, are classified as held for trading, the differences between the previous carrying amount (which may have been zero) and the fair value of the derivatives are recognized as an adjustment of the balance of accumulated surplus or deficit at the beginning of the financial year in which IPSAS 29 is initially applied, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition and/or measurement of financial instruments, the date on which the exemptions expire or when the financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).

Hedge Accounting

IG75. Paragraphs 115 and 116 of IPSAS XX (ED 53) deal with hedge accounting. The designation and documentation of a hedge relationship must be completed on or before the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition and/or measurement of financial instruments, the date on which the exemptions expire or when the financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier) if the hedge relationship is to qualify for hedge accounting from that date. Hedge accounting can be applied prospectively only from the date that the hedge relationship is fully designated and documented.

IG76. A first-time adopter may, in accordance with its previous basis of accounting, have deferred or not recognized gains and losses on a fair value hedge of a hedged item that is not measured at fair value. For such a fair value hedge, a first-time adopter adjusts the carrying amount of the hedged item at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition of financial instruments, the date on which the exemptions expire or when the financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier). The adjustment is the lower of:

(a) that portion of the cumulative change in the fair value of the hedged item that reflects the designated hedged risk and was not recognized in accordance with its previous basis of accounting; and

(b) that portion of the cumulative change in the fair value of the hedging instrument that reflects the designated hedged risk and, in accordance with its previous basis of accounting, was either (i) not recognized or (ii) deferred in the statement of financial position as an asset or liability.

IG77. A first-time adopter may, in accordance with its previous basis of accounting, have deferred gains and losses on a cash flow hedge of a forecast transaction. If, at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition and/or measurement of financial instruments, the date on which the exemptions expire or when the financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier), the hedged forecast transaction is not highly probable, but is expected to occur, the entire deferred gain or loss is recognized in net assets/equity. Any net cumulative gain or loss that has been reclassified to net assets/equity on initial application of IPSAS 29 or where the first-time adopter takes advantage of the exemption that provides relief from the recognition and/or measurement of financial instruments, the date on which the exemptions expire or when the financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier) remains in net assets/equity until (a) the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, (b) the forecast transaction affects surplus or deficit or (c) subsequently circumstances change and the forecast transaction is no longer expected to occur, in which case any related net cumulative gain or loss is reclassified from net assets/equity to surplus or deficit. If the hedging instrument is still held, but the hedge does not qualify as a cash flow hedge in accordance with IPSAS 29, hedge accounting is no longer appropriate starting from the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition and/or measurement of financial instruments, the date on which the exemptions expire or when the financial instruments are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier).

IPSAS 31, Intangible Assets

IG78. A first-time adopter's opening statement of financial position excludes all intangible assets and other intangible items that do not meet the criteria for recognition in accordance with IPSAS 31 at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition of intangible assets, the date on which the exemptions expire and/or when the intangible assets are recognized and/or measured in accordance with the applicable IPSAS (whichever is earlier) and includes all intangible assets that meet the recognition criteria in IPSAS 31 at that date.

IG79. The criteria in IPSAS 31 require an entity to recognize an intangible asset if, and only if:

(a) It is probable that the future economic benefits that are attributable to the asset will flow to the entity; and

(b) The cost of the asset can be measured reliably.

IPSAS 31 supplements these two criteria with further, more specific, criteria for internally generated intangible assets.

IG80. In accordance with paragraphs 63 and 66 of IPSAS 31, an entity capitalizes the costs of internally generated intangible assets prospectively from the date when the recognition criteria are met. IPSAS XX (ED 53) allows an entity to recognize previously expensed intangible assets to the extent that the item meets the definition of an intangible asset, and the recognition criteria in IPSAS 31. Thus, if an internally generated intangible asset qualifies for recognition at the date of adoption of IPSASs, or where the first-time adopter takes advantage of the exemption that provides relief from the recognition of intangible assets, the date on which the exemptions expire and/or when the intangible assets are recognized and/or measured in accordance with IPSAS 31 (whichever is earlier) the first-time adopter recognizes and/or measures the asset in its opening statement of financial position even if it had recognized the related expenditure as an expense in accordance with its pervious basis of accounting.

IG81. If the asset does not qualify for recognition in accordance with IPSAS 31 until a later date, its cost is the sum of the expenditure incurred from that later date.

IG82. The criteria discussed in paragraph IG 83 also apply to intangible assets acquired separately. In many cases, contemporaneous documentation prepared to support the decision to acquire the asset will contain an assessment of the future economic benefits or service potential. Furthermore, as explained in paragraph 33 of IPSAS 31, the cost of a separately acquired intangible asset can usually be measured reliably.

IG83. A first-time adopter may elect to use one of the following amounts as the deemed cost of intangible assets (except for internally generated intangible assets):

(a) Fair value at the date of transition at the date of adoption of IPSASs, or where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, the date at which the asset is recognized and/or measured during the period of transition, or the date on which the exemptions expire (whichever is earlier) (paragraph 64 of IPSAS XX (ED53)), in which case the entity gives the disclosures required by paragraph 137 of IPSAS XX (ED53); or

(b) A revaluation in accordance with its previous basis of accounting that meets the criteria in paragraph 67 of IPSAS XX (ED 53).

IG84. If a first-time adopter's amortization methods and rates in accordance with its previous basis of accounting are acceptable in accordance with IPSASs, it accounts for any change in estimated useful life or amortization pattern prospectively from when it makes that change in estimate (paragraphs 21 and 22 of IPSAS XX (ED53) and paragraph 103 of IPSAS 31). However, in some cases, the first-time adopter's amortization methods and rates in accordance with its previous basis of accounting may differ from those that would be acceptable in accordance with IPSASs (for example, if they do not reflect a reasonable estimate of the asset's useful life). If those differences have a material effect on the financial statements, the first-time adopter adjusts accumulated amortization on in its opening statement of financial position retrospectively so that it complies with IPSASs.

Summary of Transitional Exemptions Included in IPSAS XX (ED 53) First-Time Adoption of Accrual Basis IPSASs

IG85 The diagram below summarizes the transitional exemptions included in other accrual basis IPSASs

IPSAS	**Transitional exemption provided**							
	NO	**YES**						
		Deemed cost	**3 year transitional relief for recognition**	**3 year transitional relief for measurement**	**3 year transitional relief for recognition and/or measurement**	**3 year transitional relief for disclosure**	**Elimination of transactions, balances, revenue and expenses**	**Other**
IPSAS 1, *Presentation of Financial Statements*						√ To extent that 3 year relief period was adopted		• Presenting comparative info encouraged
IPSAS 2, *Cash Flow Statements*	√							
IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*	√							
IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*								• Exemption to comply with requirements for cumulative translation
IPSAS 5, *Borrowing Costs*			√ When allowed alternative is elected as accounting policy					• Encouraged to apply benchmark treatment retrospectively • Allowed alternative must be applied retrospectively

IPSAS	**Transitional exemption provided**							
	NO	**YES**						
		Deemed cost	**3 year transitional relief for recognition**	**3 year transitional relief for measurement**	**3 year transitional relief for recognition and/or measurement**	**3 year transitional relief for disclosure**	**Elimination of transactions, balances, revenue and expenses**	**Other**
IPSAS 6, *Consolidated and Separate Financial Statements*		√					√	• Provisions when controlling and/or controlled entity adopts IPSAS at different time
IPSAS 7, *Investments in Associates*		√					√	• Provisions when controlling entity and associate adopts IPSAS at different time
IPSAS 8, *Interests in Joint Venture*		√					√	• Provisions when controlling entity and associate adopts IPSAS at different time
IPSAS 9, *Revenue from Exchange Transactions*	√							
IPSAS 10, *Financial Reporting In Hyperinflationary Economies*								• Provisions around severe hyperinflation
IPSAS 11, *Construction Contracts*	√							
IPSAS 12, *Inventories*		√						

IPSAS	**Transitional exemption provided**							
	NO	**YES**						
		Deemed cost	**3 year transitional relief for recognition**	**3 year transitional relief for measurement**	**3 year transitional relief for recognition and/or measurement**	**3 year transitional relief for disclosure**	**Elimination of transactions, balances, revenue and expenses**	**Other**
IPSAS 13, *Leases*			√ Leased assets and/or liabilities not recognized under previous basis of accounting	√ Leased assets and/or liabilities recognized under previous basis of				
IPSAS 14, *Events After the Reporting Date*	√							
IPSAS, 16 *Investment Property*		√	√ Investment property not recognized under previous basis of accounting	√ Investment property recognized under previous basis of accounting				
IPSAS 17, *Property, Plant and Equipment*		√	√ Property, plant and equipment not recognized under previous basis of accounting	√ Property, plant and equipment recognized under previous basis of accounting				
IPSAS 18, *Segment Reporting*	√ No segment report to the extent that 3 year relief period was adopted							

IPSAS	**Transitional exemption provided**							
	NO	**YES**						
		Deemed cost	**3 year transitional relief for recognition**	**3 year transitional relief for measurement**	**3 year transitional relief for recognition and/or measurement**	**3 year transitional relief for disclosure**	**Elimination of transactions, balances, revenue and expenses**	**Other**
IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*			√ Only liabilities related to assets not recognized under previous basis of accounting to be included initial estimate of cost of dismantling/ removing item/ restoring site	√ Only liabilities related to assets recognized under previous basis of accounting to be included initial estimate of cost of dismantling/ removing item/ restoring site				
IPSAS 20, *Related Party Disclosures*						√		
IPSAS 21, *Impairment of Non-Cash-Generating Assets*								• Prospective application
IPSAS 22, *Disclosure of Information About the General Government Sector*	√							
IPSAS 23, *Revenue from Non-Exchange Transactions*			√ All non-exchange revenue not recognized under previous basis of accounting	√ All non-exchange revenue recognized under previous basis of accounting				

IPSAS	Transitional exemption provided							
	NO	YES						
		Deemed cost	**3 year transitional relief for recognition**	**3 year transitional relief for measurement**	**3 year transitional relief for recognition and/or measurement**	**3 year transitional relief for disclosure**	**Elimination of transactions, balances, revenue and expenses**	**Other**
IPSAS 24, *Presentation of Budget Information in Financial Statements*	√							•
IPSAS 25, *Employee Benefits*			√ defined benefit plans and other long-term employee benefits not recognized under previous basis of accounting	√ for defined benefit and other long-term employee benefits recognized under previous basis of accounting				• Provisions on how to determine initial liability • Provision to not separate cumulative actuarial gains and losses • Prospective disclosure on experience adjustments
IPSAS 26, *Impairment of Cash-Generating Assets*			√					• Prospective application
IPSAS 27, *Agriculture*			√ Biological and agricultural activities not recognized under previous basis of accounting	√ Biological and agricultural activities recognized under previous basis of accounting				

IPSAS	**Transitional exemption provided**							
	NO	**YES**						
		Deemed cost	**3 year transitional relief for recognition**	**3 year transitional relief for measurement**	**3 year transitional relief for recognition and/or measurement**	**3 year transitional relief for disclosure**	**Elimination of transactions, balances, revenue and expenses**	**Other**
IPSAS 28, *Financial Instruments: Presentation*								• Provisions not to separate liability and net asset/equity component under specific circumstances
IPSAS 29, *Financial Instruments: Recognition and Measurement*		√	√ For financial instruments not recognized under previous basis of accounting	√ For financial instruments recognized under previous basis of accounting				• Provisions around designation/ derecognition/ hedge accounting • Apply impairment principles prospectively
IPSAS 30, *Financial Instruments: Disclosure*								• No comparative info about nature and extent of risks
IPSAS 31, *Intangible Assets*		√ Intangible assets other than internally generated I/A	√ Intangible assets not recognized under previous basis of accounting	√ Intangible assets recognized under previous basis of accounting				• Provision to recognise previously expensed internally generated intangible assets
IPSAS 32, *Service Concession Arrangements: Grantor*		√ Service concession asset	√ Service concession asset and related liability not recognized under previous basis of accounting	√ Service concession asset and related liability recognized under previous basis of accounting				• Provision on how to recognize related liability

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529 Fifth Avenue, 6th Floor, New York, NY 10017
T + 1 (212) 286-9344 **F** +1 (212) 286-9570
www.ipsasb.org