INTERNATIONAL FEDERATION OF ACCOUNTANTS

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DATE: 1 JUNE 2004
MEMO TO: MEMBERS OF THE IFAC PUBLIC SECTOR COMMITTEE
FROM: HONGXIA LI AND LI LI LIAN
SUBJECT: **IPSAS GENERAL IMPROVEMENTS PROJECT**

ACTION REQUIRED

The Committee is asked to:

- **agree** the changes made to IPSAS 1, IPSAS 3, IPSAS 17 and IPSAS 16.

AGENDA MATERIAL:

		Pages
12.5	Overview of Changes	12.56-12.60
12.6	Marked-up IPSASs	12.61-12.298

BACKGROUND

At its meeting in Buenos Aires, the PSC agreed that at the next meeting it would continue to review the marked-up IPSASs under the IPSASs General Improvements project.

Staff propose that the PSC review and agree on the changes made in the following 4 IPSASs at this meeting:

- IPSAS 1 *Presentation of Financial Statements*
- IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*
- IPSAS 17 *Property, Plant and Equipment*; and
- IPSAS 16 *Investment Property*

Agenda item 12.5 provides a brief overview of the major changes to these 4 IPSASs. It also identifies the PSC's views on the issues raised in the IASs Improvements ED submitted to the IASB in 2002.

Staff have updated these 4 IPSASs to reflect the decisions made by the PSC at the Buenos Aires meeting. In addition, the recent amendments to their equivalent IASs made by the IASB as a consequence of the issuance of new IFRSs, such as IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, have also been incorporated into the marked-up IPSASs. For ease of review, summarized below are the main changes to these 4 IPSASs since the PSC Buenos Aires meeting.

Unnecessary Definitions

As agreed at the PSC Buenos Aires Meeting, Staff have deleted unnecessary definitions in IPSAS 1 *Presentation of Financial Statements* and IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*. No deletions were identified as necessary for IPSAS 17 *Property, Plant and Equipment* and IPSAS 16 *Investment Property*.

Amendments to Other Pronouncements

Consistent with the strategy on harmonization with IFRSs/IASs (see Agenda Item 12.2), Staff have included an authoritative appendix of Amendments to Other Pronouncements in IPSAS 1, IPSAS 3 and IPSAS 17 respectively. (Note that consequential changes to other IPSASs that are in the IPSASs Improvements project group were not identified as they will be issued as a package.) The improvements to IPSAS 16 *Investment Property* do not impact other existing IPSASs. As such, there is no such an appendix added to IPSAS 16.

Interpretations of IFRSs/IASs

Consistent with the strategy on harmonization with IFRSs/IASs (see Agenda Item 12.2), Staff have included an authoritative appendix of Interpretations of IFRSs/IASs in IPSAS 1 and IPSAS 17 respectively to clarify the authority of the IFRIC/SIC interpretations.

Consequential Changes Resulting From New IFRSs

The agenda papers on the IPSASs General Improvements project for the PSC Buenos Aires meeting were based on December 2003 version of the improved IASs. Since then, the IASB has issued the following new IFRSs:

- IFRS 2 *Share-based Payment*
- IFRS 3 *Business Combinations*
- IFRS 4 *Insurance Contracts*
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

As a consequence of these new IFRSs, the improved IASs, which were issued in December 2003, have been further amended. As such, the equivalent IPSASs under the IPSASs General Improvements project have also been impacted. Staff have incorporated the amendments made to the improved IASs into their equivalent IPSASs. (It is proposed that these new IFRSs be adopted as IPSASs as part of the IASB Harmonization Strategy.) The amendments are noted below.

(i) The scope in IPSAS 17 *Property, Plant and Equipment* (paragraph 5) has been updated to exclude "property, plant and equipment classified as held for sale" as a consequence of the issuance of IFRS 5.

(ii) The definition of **cost** in IPSAS 17 *Property, Plant and Equipment* (paragraph 14) and IPSAS 16 *Investment Property* (paragraph 8) has been updated as a consequence of the issuance of IFRS 2.

(iii) The timing of cessation of depreciation in IPSAS 17 *Property, Plant and Equipment* (paragraph 72) has been amended as a consequence of the issuance of IFRS 5.

(iv) A subsection on the subsequent measurement of investment property linked to liabilities has been incorporated into IPSAS 16 *Investment Property* (paragraphs 40-43) as a result of the issuance of IFRS 4. Moreover, as a result of the issue of IFRS 5, the subsequent measurement of investment property under the cost model in IPSAS 16 (paragraph 69) has been amended to reflect that investment property classified as held for sale would be measured at the lower of carrying amount and fair value less costs to sell, rather than at cost less accumulated depreciation and accumulated impairments.

(v) The presentation and disclosure requirements in IPSAS 1 *Presentation of Financial Statements* (paragraphs 86, 87, 101), IPSAS 17 *Property, Plant and Equipment* (paragraphs 89, 95) and IPSAS 16 *Investment Property* (paragraphs 90, 91, 94) have been updated to reflect the additional requirements as a result of the release of IFRS 4 and IFRS 5.

Scope Exclusion regarding Agriculture

As agreed at the PSC Buenos Aires meeting, Staff have retained the current version in respect of scope exclusion regarding agriculture in IPSAS 17 *Property, Plant and Equipment* (paragraph 5) and IPSAS 16 *Investment Property* (paragraph 5). However, consistent with the positive endorsement approach to IAS 41 *Agriculture* proposed in the IASB Harmonization Strategy paper (see Agenda Item 12.2), the scope paragraph in IPSAS 16 and IPSAS 17 would reflect those in equivalent IASs. Therefore, Staff have also included a version of that approach in the marked-up IPSAS 17 and IPSAS 16.

References

Consistent with the proposed endorsement approach in the IASB Harmonization Strategy paper (see Agenda Item 12.2), for IFRSs/IASs that are identified as high priority for adoption (Group 1 IFRSs/IASs), where IASB refers to these Standards in improved IASs, Staff have referred to IPSAS XX under the same title. (Note that the endorsed IAS 36 is entitled IPSAS XX *Impairment of Cash-generating Assets*.) These high priority IFRSs/IASs are those such as IAS 19 *Employee Benefit*s, IAS 36 *Impairment of Assets*, IAS 39 *Financial Instruments: Recognition and Measurement*, IAS 41 *Agriculture*, IFRS 3 *Business Combinations* and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*,

For IFRSs/IASs that are identified as lower priority (Group 2 IFRSs/IASs) in the IASB Harmonization Strategy paper (such as IAS 12 *Income Taxes*, IAS 33 *Earnings Per Share*, IFRS 2 *Share-based Payment* and IFRS 4 *Insurance Contracts*), Staff did not include the corresponding references in the marked-up IPSASs. This reflects current practice in developing these IPSASs. If it appears that these lower priority IFRSs/IASs will be included as part of the next generation of IPSASs, cross-references and resultant changes can be identified in the Appendix “Amendments to Other Pronouncements” to these endorsed IPSASs.

Statement of Changes in Net Assets/Equity – Appendix 3 of IPSAS 1

Staff retained the existing version of statement of changes in net assets/equity unchanged in IPSAS 1 *Presentation of Financial Statements* (see IPSAS 1 Appendix 3). This is because the main changes made to this statement by the IASB relate primarily to financial instruments. Given its complexities, Staff propose to review the updated version of the statement of changes in net assets/equity concurrently with the review of IAS 39 *Financial Instruments: Recognition and Measurement*.

Li Li Lian
TECHNICAL MANAGER

Hongxia Li
TECHNICAL MANAGER

Overview of Changes in IPSASs affected by the IASB's General Improvements Project

The table below summarizes major changes in 4 IPSASs[1] affected by the IASB's General Improvements project that will be discussed in this meeting. It identifies whether the changes are new requirements, changes in existing requirements or further clarification of matters already dealt with (or implied) in the existing IPSASs. In some cases, determining how to classify the change is a matter of judgment.

The table identifies the PSC's views in the submission it made on proposals in the IASB's Improvements ED – that submission generally focused on the specific questions raised by the IASB in the ED. The table also identifies changes that were not proposed in the Improvements ED but were introduced by the IASB when finalizing the improved IASs.

IPSASs/ Changes made in revised IPSASs to harmonize with improved IASs	**Consistent with IASB Improvement ED/Submission by the PSC on IASB Improvement ED/Not in IASB Improvement ED but added by the IASB when finalizing**
IPSAS 1, *Presentation of Financial Statements*	
1) Define two new terms "Impracticable" and "Notes". (Nature of change: New definitions/further clarification)	• Not in IASB Improvement ED but added by the IASB when finalizing IAS 1
2) Emphasize that fair presentation means to represent faithfully the effects of transactions and other events in accordance with the definitions and recognition criteria for assets, liabilities, revenues and expenses set out in IPSASs. (Nature of change: Further clarification)	• Consistent with IASB Improvement ED
3) Tighten the existing requirements regarding departure from a requirement of an IPSAS to achieve fair presentation and to distinguish the departure into whether or not the relevant regulatory framework permits this departure. (Nature of change: New requirement/further clarification)	• Consistent with IASB Improvement ED • PSC submission on the IASB Improvement ED: Majority Agreed with the proposal.
4) Require the use of the order of liquidity to present assets and liabilities only when a liquidity presentation provides information that is reliable and more relevant than a current/non-current presentation. (Nature of change: New requirement)	• Consistent with IASB Improvement ED

[1] Overview of changes for IPSAS 4, IPSAS 12, IPSAS 13 and IPSAS 14 were provided in the agenda Item 12.5 for PSC Buenos Aires March 2004 meeting.

5) Require a liability held primarily for the purpose of being traded to be classified as current. (Nature of change: New requirement)	• Not in IASB Improvement ED but added by the IASB when finalizing IAS 1
6) Reclassify long-term financial liability due to be settled within 12 months of the reporting date, or for which the entity does not have an unconditional right to defer its settlement for at least 12 months after the reporting date as current liability, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorized for issue. (Nature of change: Change in requirement)	• Consistent with IASB Improvement ED • PSC submission on the IASB Improvement ED: ❑ Majority Disagreed. ❑ Noted that irrespective of which approach IASB prefers, full disclosures are necessary.
7) Reclassify long-term financial liability that is payable on demand because the entity breached a condition of its loan agreement – it should be classified as current at the reporting date, even if the lender has agreed after the reporting date, and before the financial statements are authorized for issue, not to demand payment as a consequence of the breach. (Nature of change: Change in requirement)	• Consistent with IASB Improvement ED • PSC submission on the IASB Improvement ED: Majority Disagreed.
8) Clarify the liability described in 7) to be classified as non-current if the lender agreed by the reporting date to provide a period of grace ending at least 12 months after the reporting date, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment. (Nature of change: Further clarification).	• Consistent with IASB Improvement ED • PSC submission on the IASB Improvement ED: Agreed.
9) Prohibit presentation of items of revenues and expense as ‘extraordinary items’ on the face of the statement of financial performance or in the notes. (Nature of change: Change in requirement)	• Consistent with IASB Improvement ED • PSC submission on the IASB Improvement ED: ❑ Majority agreed but believed some emphasis to extraordinary items provides useful information to users. Suggested that IAS 1 should require more disclosure regarding items that are ‘extraordinary’ and that the definition of extraordinary items be tightened as done in IPSASs.
10) Require separate presentation, on the face of the statement of financial performance, of the entity’s surplus or deficit for the period allocated between “surplus or deficit attributable to minority interest” and “surplus or deficit attributable to owners of the controlling entity”. (Nature of change: New requirement)	• Not in IASB Improvement ED but added by the IASB when finalizing IAS 1
11) Require presentation, on the face of the statement of changes in net assets/equity, of total revenues and expenses for the period, showing separately the amounts attributable to owners of the controlling entity and to minority interest. (Nature of change: New requirement)	• Not in IASB Improvement ED but added by the IASB when finalizing IAS 1

12) Disclose the judgments made by management in applying accounting policies that have the most significant effect on the amounts of items recognized in the financial statements. (Nature of change: New requirement)	• Consistent with IASB Improvement ED. • PSC submission on the IASB Improvement ED: Majority Agreed
13) Disclose key assumptions concerning the future and other sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. (Nature of change: New requirement)	• Consistent with IASB Improvement ED • PSC submission on the IASB Improvement ED: Agreed.
14) Transfer the section titled "accounting policies" to IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*".	• Consistent with IASB Improvement ED
15) Introduce from IPSAS 3 the section titled "net surplus or deficit for the period" to IPSAS 1. (Nature of change: Further clarification)	• Consistent with IASB Improvement ED
IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*	
1) Eliminate the allowed alternative treatment for voluntary changes in accounting policies and correction of errors. (Nature of change: Change in requirement)	• Consistent with IASB Improvement ED • PSC submission on the IASB Improvement ED: Agreed
2) Eliminate distinction between fundamental and material errors and to replace them with 'prior period errors'. (Nature of change: Change in requirement)	• Consistent with IASB Improvement ED • PSC submission on the IASB Improvement ED: Agreed
3) Define the term 'impracticable' and provide additional guidance on how to apply 'impracticable'. (Nature of change: New definition/further clarification)	• Not in IASB Improvement ED but added by the IASB when finalizing IAS 8
4) Change from commentary to black letter the hierarchy of PSC's pronouncements, authorities and non-mandatory guidance to be considered when selecting accounting policies. (Nature of change: Further clarification)	• Details of hierarchy changed by the IASB from Improvement ED when finalizing IAS 8
5) On issue of a new IPSAS, an entity is required to disclose: • the impending change in accounting policy; and • if known or reasonably estimable, information relevant to assessing the possible impact that application of the new IPSAS will have on the entity's financial statements in the period of initial application.	• Changed by the IASB from Improvement ED when finalizing IAS 8 to respond to concerns that the proposed requirements were sometimes impracticable • PSC submission on the IASB Improvement ED: Do not agree with requirements proposed (NB: This issue was not specifically raised by the IASB as a 'specific matters for comment'.) *[The changed requirements may address the PSC's concerns.]*
6) Require more detailed disclosure of the amounts of adjustments as a consequence of changing accounting policies or correcting prior period errors. (Nature of change: New requirement)	• Not in IASB Improvement ED but added by the IASB when finalizing IAS 8

IPSAS 16, *Investment Property*	
1) Allow property interest held by a lessee under an operating lease to be classified as investment property provided that: a. the definition of investment property is met; b. the operating lease is accounted for as if it were a finance lease in accordance with IPSAS 13; and c. the lessee uses the fair value model set out in IPSAS 16. (Nature of change: New requirement)	• Consistent with IASB Improvement ED • PSC submission on the IASB Improvement ED: Agreed.
2) Allow an entity to choose (a) either the fair value model or the cost model for all investment property backing liabilities that pay a return linked directly to the fair value of, or returns from, specified assets including that investment property; and (b) either the fair value model or the cost model for all other investment property, regardless of the choice made in (a). (Nature of change: New requirement)	• Not in IASB Improvement ED but added by the IASB when issuing IFRS 4 *Insurance Contracts.*
3) Require an entity to apply the general asset recognition principle to all investment property costs at the time when they are incurred, including initial costs and subsequent expenditures. (Nature of change: Change in requirement.)	• Not in IASB Improvement ED but added by the IASB when finalizing IAS 40 per changes in IAS 16
4) Require an entity to recognize all asset exchange transactions at fair value unless the transactions lack commercial substances or unless the fair value of neither the asset given up nor the asset received can be reliably measured. (Nature of change: New requirement)	• Not in IASB Improvement ED but added by the IASB when finalizing IAS 40 per changes in IAS 16
5) Require an entity to derecognize the carrying amount of a part of an investment property if that part has been replaced and to include the cost of replacement in the carrying amount of the asset. (Nature of change: New requirement)	• Not in IASB Improvement ED but added by the IASB when finalizing IAS 40 per changes in IAS 16
6) Require an entity to include compensation from third parties for an investment property that was impaired, lost or given up in surplus or deficit when the compensation becomes "receivable". (Nature of change: New requirement)	• Not in IASB Improvement ED but added by the IASB when finalizing 40 per changes in IAS IAS 16
IPSAS 17, *Property, Plant and Equipment* (PPE)	
1) Define the term "entity-specific value" and used to determine if asset exchange transaction has commercial substance. (Nature of change: New definition/new requirement)	• Not in IASB Improvement ED but added by the IASB when finalizing IAS 16
2) Require an entity to apply the general asset recognition principle to all property, plant and equipment costs at the time they are incurred, including initial costs and subsequent costs. (Nature of change: Change in requirement)	• Not in IASB Improvement ED but added by the IASB when finalizing IAS 16.
3) Require an entity to include asset dismantlement, removal and restoration costs as an element of cost of an item of PPE whether incur as a consequence of installing or using the item. (Nature of change: Further clarification)	• Consistent with IASB Improvement ED.
4) Require an entity to measure an item of PPE acquired in an exchange transaction at fair value unless the exchange transaction lacks commercial substance or unless fair value of neither of the assets exchanged can be determined reliably. (Nature of change: Change in requirement)	• Consistent with IASB Improvement ED • PSC submission on the IASB Improvement ED: Majority Agreed.

	• Guidance on commercial substance not in IASB Improvement ED but added by the IASB when finalizing IAS 16.
5) Require an entity to determine the depreciation charge separately for each significant part of an item of property, plant and equipment. (Nature of change: New requirement/further clarification)	• Not in Improvement ED but added by the IASB when finalizing IAS 16.
6) Require an entity to begin depreciating an item of property, plant and equipment when it is available for use and to continue depreciating it until the earlier of the date that the asset is classified as held for sale (or included in a disposal group classified as held for sale) and the date that it is derecognized, even if during that period the item is idle. (Nature of change: Change in requirement/further clarification)	• Consistent with IASB Improvement ED • PSC submission on the IASB Improvement ED: ❑ Concerned that the proposal may not be consistent with the depreciation requirements of the ED, especially where the temporary idle period was intended and built into the estimate of the useful life; ❑ Agreed that such PPE should be tested for impairment annually. • Guidance on when to start depreciating not included in the ED but added by the IASB when finalizing IAS 16.
7) Require an entity to include in surplus or deficit compensation from third parties for items of property, plant and equipment that were impaired, lost or given up when the compensation becomes "receivable". (Nature of change: New requirement)	• Consistent with IASB Improvement ED
8) Require an entity to derecognize the carrying amount of an item of property, plant and equipment that it disposes of on the date the criteria for the sale of goods in IPSAS 9 *Revenue from Exchange Transactions* are met. (Nature of change: New requirement/further clarification)	• Consistent with IASB Improvement ED
9) Require an entity to derecognize the carrying amount of a part of an item of property, plant and equipment if that part has been replaced and the entity has included the cost of replacement in the carrying amount of the item. (Nature of change: New requirement)	• Not in IASB Improvement ED but added by the IASB when finalizing IAS 16

Summary of Main Changes
IPSAS 1 *Presentation of Financial Statements*

The main changes proposed are:

Scope

- to transfer from IPSAS 1 to IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* requirements relating to the selection and application of accounting policies.
- to transfer to IPSAS 1 from IPSAS 3 the section that sets out the presentation requirements for surplus or deficit for the period.

Definitions

- in paragraph 8:
  - to define two new terms: "impracticable" and "notes".
  - to change the name of term "materiality" to "material" and amend the definition.
  - to remove the following unnecessary terms per Buenos Aires meeting's discussion: "associates", "borrowing costs", "cash", "cash equivalents", "cash flows", "consolidated financial statements", "control", "controlled entity", "controlling entity", "economic entity", "equity method", "exchange difference", "fair value", "financial assets", "foreign currency", "foreign operation", "minority interest", and "qualifying assets".
  - to remove the following terms, which no longer exist: "extraordinary items", "fundamental errors", "net surplus/deficit", "ordinary activities", "reporting currency" and "surplus/deficit from ordinary activities". These definitions have also been eliminated in relevant IPSASs, eg IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* or IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*.
- to include in paragraph 11 the interpretation of the term "materiality" and the notion of characteristics of users. Previously, IPSAS 1 did not contain this commentary.

Fair Presentation and Departure from IPSASs

- to clarify in paragraph 25 that fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenues and expenses set out in IPSASs. Previously, IPSAS 1 did not contain the guidance on the meaning of "fair presentation".
- to require that in the extremely rare circumstances in which management concludes that compliance with a requirement in an IPSAS would be so misleading that it would conflict with the objective of financial statements set out in IPSAS 1, to depart from the requirement, unless departure is prohibited by the relevant regulatory framework. In either case, the entity is required to make specified disclosures. Previously, IPSAS 1 did not set up the criterion for departure from IPSASs and did not distinguish two circumstances in which the regulatory framework permits or prohibits the departure from IPSASs (see paragraphs 29-35).
- to transfer previous paragraphs 37-42 in IPSAS 1, which relate to the selection and application of accounting policies, to IPSAS 3.

Classification of Asset and Liabilities

- to require in paragraph 68 that an entity uses the order of liquidity to present assets and liabilities only when a liquidity presentation provides information that is reliable and more relevant than a current/non-current presentation. Previously, IPSAS 1 did not contain such limitation.
- to require in paragraph 78 that a liability held primarily for the purpose of being traded to be classified as current. Previously, IPSAS 1 did not specify this criterion for liabilities classifying as current.
- to require in paragraph 81 that a financial liability that is due within twelve months after the repoting date, or for which the entity does not have an unconditional right to defer its settlement for at least twelve months after the reporting date, is classified as a current liability. This classification is required even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorized for issue. Previously, IPSAS 1 required such liabilities to be classified as non-current.
- to clarify in paragraph 82 that a liability is classified as non-current when the entity has, under the terms of an existing loan facility, the discretion to refinance or roll over its obligations for at least twelve months after the reporting date. Previously, IPSAS 1 did not make this clear.
- to require in paragraph 83 that when a long-term financial liability is payable on demand because the entity has breached a condition of its loan agreement on or before the reporting date, the liability is classified as current at the reporting date even if, after the reporting date, and before the financial statements are authorized for issue, the lender has agreed not to demand payment as a consequence of the breach. Previously, IPSAS 1 required such liabilities to be classified as non-current.
- to clarify in paragraph 84 that the liability is classified as non-current if the lender agreed by the reporting date to provide a period of grace ending at least twelve months after the reporting date, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment. Previously, IPSAS 1 did not make this clear.

Presentation and Disclosure

<u>Statement of Financial Performance</u>

- to transfer from IPSAS 3 the section that sets out the presentation requirements for surplus or deficit for the period (IPSAS 3 previous paragraphs 10-12) to IPSAS 1 (see paragraphs 98-100).
- to remove the presentation of the following line items from the face of the statement of financial performance in paragraph 101:
  - surplus or deficit from operating activities
  - surplus or deficit from ordinary activities
  - extraordinary items.

  Paragraph 105 states that the entity shall not present any items of revenue and expense as “extraordinary items” either on the face of financial statements or in the notes.
- to require in paragraph 102 the separate presentation, on the face of statement of financial performance, of the allocation of the entity’s surplus or deficit for the period between

"surplus or deficit attributable to minority interest" and "surplus or deficit attributable to owners of the controlling entity". Previously, IPSAS 1 did not contain these presentation requirements.

<u>Statement of Changes in Net Assets/Equity</u>

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

<u>Notes</u>

- to require in paragraphs 137-139 that an entity shall disclose the judgments, apart from those involving estimations, management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognized in the financial statements (eg management's judgment in determining whether assets are investment properties). Previously, IPSAS 1 did not contain these disclosure requirements.
- to require in paragraphs 140-147 that an entity shall disclose the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Previously, IPSAS 1 did not contain these disclosure requirements.

Interpretations of of IFRSs/IASs

- to include an authoritative appendix of interpretations of IAS 1 *Presentation of Financial Statements* – IPSAS 1 is based on IAS 1.

Amendments to Other Pronouncements

- to include an authoritative appendix of amendments to other IPSASs that are not part of the IPSASs Improvements project but will be impacted as a result of the proposals in this IPSAS.

IFAC
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Committee

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IPSAS 1

Presentation of Financial Statements

International Public Sector
Accounting Standard

Issued by
the International
Federation of
Accountants

This Standard was approved by the Public Sector Committee of the International Federation of Accountants.

Acknowledgment

This International Public Sector Accounting Standard is drawn primarily from International Accounting Standard IAS 1, *Presentation of Financial Statements* (revised 2003) published by the International Accounting Standards ~~Committee~~ Board (~~IASC~~IASB). Extracts from IAS 1 are reproduced in this publication of the Public Sector Committee of the International Federation of Accountants with the permission of ~~IASC~~the IASB.

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INTRODUCTION

Accounting Standards for the Public Sector

The International Federation of Accountants — Public Sector Committee (the Committee) is developing ~~a set of~~ recommended accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The Committee recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs ~~will~~ play a key role in enabling these benefits to be realized.

The revision to the Introduction was consistent with the latest version in ED 23.

The IPSASs are based on the International Financial Reporting Standards, formerly known as International Accounting Standards (IASs), issued by the International Accounting Standards Board (IASB), where the requirements of those Standards are applicable to the public sector. The Committee is also developing IPSASs that deal with accounting issues in the public sector that are not addressed in the IFRSs or IASs.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The Committee strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in these Exposure Drafts. The Committee recognizes the right of governments and national standard-~~-~~setters to establish accounting standards and guidelines ~~and accounting standards~~ for financial reporting ~~by the public sector~~ in their jurisdictions. The Committee encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS~~International Public Sector Accounting Standard~~.

~~The objective of the current phase of the Committee's workplan is to develop IPSASs based on the International Accounting Standards (IASs) issued by the International Accounting Standards Committee and extant at 31 August 1997, or their subsequently revised versions. Some accounting issues in the public sector are not fully addressed in the IASs. Similarly, accounting for a number of complex issues will be addressed in IASs currently under development. Although these issues are not included in the brief of the current phase of the Committee's workplan, it is cognizant of the importance of these issues and expects to address them once it has issued its initial set of Standards.~~

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International Public Sector Accounting Standard IPSAS 1

Presentation of Financial Statements

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS 1

As part of PSC's due process, Staff did not change this para per IASB's changes regarding equal authority.

Presentation of Financial Statements

The standards, which have been set in bold italic type, should be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the "Preface to International Public Sector Accounting Standards". International Public Sector Accounting Standards are not intended to apply to immaterial items.

Objective

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

Scope

~~1~~2. ***This Standard ~~should~~ shall be applied ~~in the presentation of~~ to all general purpose financial statements prepared and presented under the accrual basis of accounting in accordance with International Public Sector Accounting Standards.***

~~2~~3. General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their ~~specific~~ particular information needs. Users of general purpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees. General purpose financial statements include those that are presented separately or within another public document such as an annual report. This Standard does not apply to condensed interim financial information.

Please note that the name of IPSAS 6 was changed.

~~3~~4. This Standard applies equally to ~~the financial statements of an individual~~ all entit~~y~~ies and ~~to~~ whether or not they need to prepare consolidated financial statements or separate financial statements, as defined in IPSAS 6 *Consolidated and Separate Financial Statements*~~for an economic entity, such as whole-of-government financial statements~~.

~~4~~5. This Standard applies to all public sector entities other than Government Business Enterprises.

The revision to para 6 and addition of para 7 were to keep consistent with its latest version in ED 23.

~~5~~6. The *Preface to International Financial Reporting Standards* issued by the International Accounting Standards Board (IASB) explains that International Financial Reporting Standards (IFRSs) are designed to apply to the general purpose financial statements of all profit-oriented entities. Government Business Enterprises (GBEs) are defined in paragraph 8 below. They are profit-oriented entities. According, they are required to comply with IFRSs ~~International Accounting Standards (IASs) issued by the International Accounting Standards Committee. The Public Sector Committee's Guideline No. 1 *Financial Reporting by Government Business Enterprises* notes that IASs are relevant to all business enterprises, regardless of whether they are in the private or public sector. Accordingly, Guideline No. 1 recommends that GBEs should present financial statements that conform, in all material respects, to IASs~~.

7. The International Accounting Standards Board (IASB) was established in 2001 to replace the International Accounting Standards Committee (IASC). The IASs issued by the IASC remain in force until they are amended or withdrawn by the IASB.

Definitions

Pls note Staff have removed unnecessary defns in IPSAS 1per BA meeting's discussion, while retained some important terms such as "asset", "liabilities" due to the lack of framework in IPSASs.

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

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

Accrual basis means a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the

accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.

Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

Unnecessary defns removed per BA meeting's discussion.

~~***Associate is an entity in which the investor has significant influence and which is neither a controlled entity nor a joint venture of the investor.***~~

~~***Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.***~~

~~***Cash comprises cash on hand and demand deposits.***~~

~~***Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.***~~

~~***Cash flows are inflows and outflows of cash and cash equivalents.***~~

~~***Consolidated financial statements are the financial statements of an economic entity presented as those of a single entity.***~~

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

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

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

Unnecessary defns removed per BA meeting's discussion.

~~***Control is the power to govern the financial and operating policies of another entity so as to benefit from its activities.***~~

~~***Controlled entity*** **is an entity that is under the control of another entity (known as the controlling entity).**~~

~~***Controlling entity*** **is an entity that has one or more controlled entities.**~~

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

Unnecessary definitions removed per BA meeting's discussion.

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

~~***Equity method*** **is a method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets/equity of the investee. The statement of financial performance reflects the investor's share of the results of operations of the investee.**~~

***Expenses* are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.**

"Exchange difference "is an unnecessary defn in IPSAS 1and has been removed per BA meeting's discussion.

~~***Exchange difference*** **is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency at different exchange rates.**~~

Extraordinary items are no longer allowed to be presented on the face of financial statements and thus the defn has been removed. The same change was also made in IPSAS 3.

~~***Extraordinary items*** **are revenue or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the entity, are not expected to recur frequently or regularly and are outside the control or influence of the entity.**~~

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

Unnecessary defn removed per BA meeting's discussion.

~~***A financial asset is any asset that is:***~~

~~***(a) cash;***~~

~~***(b) a contractual right to receive cash or another financial asset from another entity;***~~

~~***(c) a contractual right to exchange financial instruments with another entity under conditions that are potentially favorable; or***~~

~~***(d) an equity instrument of another entity***~~

~~***Foreign currency is a currency other than the reporting currency of an entity.***~~

"Foreign operation" is an unnecessary defn in IPSAS 1 and has been removed per BA meeting's discussion.

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

"Fundamental error defn" was deleted because it no longer exists per the change in IPSAS 3.

~~***Fundamental errors are errors discovered in the current period that are of such significance that the financial statements of one or more prior periods can no longer be considered to have been reliable at the date of their issue.***~~

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

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

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

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

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

(e) is controlled by a public sector entity.

"Impracticable" is a new term defined by IASB in improved IAS 1.

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

~~***Joint venture is a binding arrangement whereby two or more parties are committed to undertake an activity which is subject to joint control.***~~

Unnecessary defn removed per BA meeting's discussion..

Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

Pls note this defn is slightly different from IASB's to maintain the consistency with Appendix 4.

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

"Minority interest" is an unnecessary defn. in IPSAS 1.

~~Minority interest is that part of the net surplus (deficit) and of net assets/equity of a controlled entity attributable to interests which are not owned, directly or indirectly through controlled entities, by the controlling entity.~~

"net surplus/deficit"was deleted due to the elimination of ordinary activity and extroadinary item.

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

~~Net surplus/deficit comprises the following components:~~

~~(a) surplus or deficit from ordinary activities; and~~

~~(b) extraordinary items.~~

"Notes" is a new term defined by IASB.

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

"Ordinary activity" was deleted due to the change in IPSAS 3.

~~Ordinary activities are any activities which are undertaken by an entity as part of its service delivery or trading activities. Ordinary activities include such related activities in which the entity engages in furtherance of, incidental to, or arising from these activities.~~

"Qualifying asset" is an unnecessary defn in IPSAS 1.

~~Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.~~

Reporting currency was deleted due to the change in IPSAS 4. Also, it is an unnecessary defn in IPSAS 1.

~~Reporting currency is the currency used in presenting the financial statements.~~

Reporting date means the date of the last day of the reporting period to which the financial statements relate.

***Revenue* is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.**

This term was deleted due to the proposed elimination of this item from the statement of financial performance.

~~***Surplus/deficit from ordinary activities* is the residual amount that remains after expenses arising from ordinary activities have been deducted from revenue arising from ordinary activities.**~~

~~Economic Entity~~

~~7. The term "economic entity" is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.~~

Paras 7-9 were deleted because of the elimination of the defn "economic entity".

~~8. Other terms sometimes used to refer to an economic entity include "administrative entity, "financial entity", "consolidated entity" and "group".~~

~~9. An economic entity may include entities with both social policy and commercial objectives. For example, a government housing department may be an economic entity which includes entities that provide housing for a nominal charge, as well as entities that provide accommodation on a commercial basis.~~

Future Economic Benefits or Service Potential

~~10~~9. Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives but which do not directly generate net cash inflows are often described as embodying "service potential". Assets that are used to generate net cash inflows are often described as embodying "future economic benefits". To encompass all the purposes to which assets may be put, this Standard uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.

Government Business Enterprises

~~11~~10. Government Business Enterprises (GBEs) include both trading enterprises, such as utilities, and financial enterprises, such as financial institutions. GBEs are, in substance, no different from entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in the community with goods and services at either no charge or a significantly reduced charge. International Public Sector Accounting Standard IPSAS 6 *Consolidated and Separate Financial Statements ~~and Accounting for Controlled Entities~~* provides guidance on determining whether control exists for financial reporting purposes, and should be referred to in determining whether a GBE is controlled by another public sector entity.

Pls note the characteristics of users in para 11 were introduced by IASB in final standard, not in ED. The wording is slightly different from IASB's.

Materiality

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

Net Assets/Equity

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

Purpose of Financial Statements

Please note: this section is located before the definition section in improved IAS 1.

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

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

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

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

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

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

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

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

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

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

(a) assets;

(b) liabilities;

(c) net assets/equity;

(d) revenue;

(e) expenses; ~~and~~

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

(~~f~~g) cash flows.

16. Whilst the information contained in financial statements can be relevant for the purpose of meeting the objectives in paragraph 13, it is unlikely to enable all these objectives to be met. This is likely to be particularly so in respect of entities

whose primary objective may not be to make a profit, as managers are likely to be accountable for the achievement of service delivery as well as financial objectives. Supplementary information, including non-financial statements, may be reported alongside the financial statements in order to provide a more comprehensive picture of the entity's activities during the period.

Pls note this section has been removed by IASB in improved IAS 1, but staff proposed to retain it due to its usefulness.

Responsibility for Financial Statements

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

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

Components of Financial Statements

19. ***A complete set of financial statements ~~includes the following components~~ comprises:***

Please note: this section is located before the definition section in improved IAS 1.

- ***(a)*** ***a statement of financial position;***
- ***(b)*** ***a statement of financial performance;***
- ***(c)*** ***a statement of changes in net assets/equity;***
- ***(d)*** ***a cash flow statement; and***
- ***(e)*** ***~~accounting policies and~~ notes ~~to the financial statements~~, comprising a summary of significant accounting policies and other explanatory notes.***

20. The components listed in paragraph 19 are referred to by a variety of names both within and across jurisdictions. The statement of financial position may also be referred to as a balance sheet or statement of assets and liabilities. The statement of financial performance may also be referred to as a statement of revenues and expenses, an income statement, an operating statement, or a profit and loss statement. The notes ~~to the financial statements~~ may include items referred to as "schedules" in some jurisdictions.

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

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

(a) the use of a columnar format for the financial statements, with separate columns for budgeted amounts and actual amounts. A column showing any variances from the budget or appropriation may also be presented, for completeness; and

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

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

24. Entities are also encouraged to disclose information about compliance with legislative, regulatory or other externally-imposed regulations. When information about compliance is not included in the financial statements, it may be useful for a note to refer to any documents that include that information. Knowledge of non-compliance is likely to be relevant for accountability purposes and may affect a user's assessment of the entity's performance and direction of future operations. It may also influence decisions about resources to be allocated to the entity in the future.

Overall Considerations

Fair Presentation and Compliance with International Public Sector Accounting Standards

Where IASB used "definitions and recognition criteria set out in the Framework". Staff used different description due to lack of Framework.

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

Current para 27 was relocated from original para 32 with minor changes.

26. ***An entity whose financial statements comply with International Public Sector Accounting Standards ~~should~~ shall ~~disclose that fact~~ make an explicit and unreserved statement of such compliance in the notes. Financial statements ~~should~~ shall not be described as complying with***

International Public Sector Accounting Standards unless they comply with all the requirements of ~~each applicable~~ all International Public Sector Accounting Standards.

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

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

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

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

~~27~~28. Inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material.

~~28~~29. In the extremely rare circumstances when management concludes that compliance with a requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this IPSAS, ~~and therefore that~~ the entity shall departure from ~~a~~ that requirement in the manner set out in paragraph 30 if the regulatory framework requires, or otherwise does not prohibit, such a departure. ~~is necessary to achieve a fair presentation, an entity should disclose:~~

30. When an entity departs from a requirement of a Standard in accordance with paragraph 29, it shall disclose:

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

(b) ***that it has complied ~~in all material respects~~ with applicable International Public Sector Accounting Standards, except that it has departed from a particular requirement ~~Standard in order~~ to achieve a fair presentation;***

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

Pls note where IASB uses "the objective of financial statements set out in the Framework", Staff have used "the objective of financial statements set out in this IPSAS" due to the lack of the Framework.

(d) ***for each period presented, the financial impact of the departure on each item in the financial statements that would have been reported in complying with the requirement ~~the entity's net surplus or deficit, assets, liabilities, net assets/equity, and cash flows for each period presented~~.***

31. When an entity has departed from a requirement of a Standard in a prior period, and that departure affects the amounts recognized in the financial statements for the current period, it shall make the disclosures set out in paragraph 30 (c) and (d).

Paras 31-32 were added by IASB to clarify how to treat prior period departures in the current period.

32. Paragraph 31 applies, for example, when an entity departed in a prior period from a requirement in a Standard for the measurement of assets or liabilities and that departure affects the measurement of changes in assets and liabilities recognized in the current period's financial statements.

33. In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this IPSAS, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:

Para 33 was added to solve the possible problems existing in the circumstance where the regulatory framework prohibits departure.

(a) ***the title of the Standard in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the***

objective of financial statements set out in this IPSAS; and

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

Current para 34 was relocated from original para 34.

34. For the purpose of paragraphs 29-33, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence decisions made by users of financial statements. When assessing whether complying with a specific requirement in an International Public Sector Accounting Standard would be so misleading that it would conflict with the objective of financial statements set out in this IPSAS, management considers:

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

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

~~29. Financial statements may be described as being "based on" or "complying with the significant requirements of", or "in compliance with the accounting requirements of" International Public Sector Accounting Standards. There may be no further information, although it is clear that significant disclosure requirements, if not accounting requirements, are not met. Such statements are misleading because they detract from the reliability and understandability of the financial statements.~~

~~30. In order to ensure that financial statements that claim compliance with International Public Sector Accounting Standards will meet the standards required by users internationally, this Standard includes an overall requirement that financial statements should give a fair presentation, guidance on how the fair presentation requirement is met, and further guidance for determining the extremely rare~~

~~circumstances when a departure is necessary. It also requires prominent disclosure of the circumstances surrounding a departure. However, where an entity adopts International Public Sector Accounting Standards, the existence of conflicting national requirements (for example, where financial reporting requirements set by the government conflict with these Standards) is not, in itself, sufficient to justify a departure in financial statements that claim compliance with International Public Sector Accounting Standards.~~

~~31~~35. Departures from the requirements of an International Public Sector Accounting Standard in order to comply with statutory/legislative financial reporting requirements in a particular jurisdiction do not constitute departures ~~necessary to achieve fair presentation~~ that conflict with the objective of financial statements set out in this IPSAS as outlined in paragraph ~~28~~29. If such departures are material an entity cannot claim to be complying with International Public Sector Accounting Standards.

Original para 32 was relocated to current para 27 with minor changes.

~~32. In virtually all circumstances, a fair presentation is achieved by compliance in all material respects with applicable International Public Sector Accounting Standards. A fair presentation requires:~~

~~(a) selecting and applying accounting policies in accordance with paragraph 37;~~

~~(b) presenting information, including accounting policies, in a manner which provides relevant, reliable, comparable and understandable information; and~~

~~(c) providing additional disclosures when the requirements in International Public Sector Accounting Standards are insufficient to enable users to understand the impact of particular transactions or events on the entity's financial position and financial performance.~~

~~33. In extremely rare circumstances, application of a specific requirement in an International Public Sector Accounting Standard might result in misleading financial statements. This will be the case only when the treatment required by the Standard is clearly inappropriate and thus a fair presentation cannot be achieved either by applying the Standard or through additional disclosure alone. Departure is not appropriate simply because another treatment would also give a fair presentation.~~

~~34. When assessing whether a departure from a specific requirement in International Public Sector Accounting Standards is necessary, consideration is given to:~~

Original para 34 was relocated to current para 34.

~~(a) the objective of the requirement and why that objective is not achieved or is not relevant in the particular circumstances; and~~

~~(b) the way in which the entity's circumstances differ from those of other entities which follow the requirement.~~

~~35. Because the circumstances requiring a departure are expected to be extremely rare and the need for a departure will be a matter for considerable debate and subjective judgment, it is important that users are aware that the entity has not complied in all material respects with International Public Sector Accounting Standards. It is also important that they are given sufficient information to enable them to make an informed judgment on whether the departure is necessary and to calculate the adjustments that would be required to comply with the Standard.~~

~~***36. When, in accordance with specific provisions in that Standard, an International Public Sector Accounting Standard is applied before its effective date, that fact should be disclosed.***~~

Please note: the accounting policy section (ie pars 37-42) was relocated to IPSAS 3.

~~Accounting Policies~~

~~***37. Management should select and apply an entity's accounting policies so that the financial statements comply with all the requirements of each applicable International Public Sector Accounting Standard. Where there is no specific requirement, management should develop policies to ensure that the financial statements provide information that is:***~~

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

~~***(b) reliable in that they:***~~

~~***(i) represent faithfully the financial performance and financial position of the entity;***~~

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

~~***(iii) are neutral, that is, free from bias;***~~

~~***(iv) are prudent; and***~~

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

~~***38. If one or more alternative accounting policies (benchmark or allowed alternative) are available under an International Public Sector Accounting Standard, an entity should choose and apply consistently one of those policies unless the Standard specifically requires or permits categorization of items (transactions, events, balances, amounts, etc.) for which policies are to be chosen. If a Standard requires or permits separate categorization of items, a single accounting policy should be selected and applied consistently to each category.***~~

~~***39. Once an initial policy has been selected, a change in accounting policy should only be made in accordance with International Public Sector Accounting Standard IPSAS 3 Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies and applied to all items or categories of items in the manner specified in paragraph 38.***~~

~~40. Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.~~

~~41. The quality of information provided in financial statements determines the usefulness of the financial statements to users. Paragraph 37 requires the development of accounting policies to ensure that the financial statements provide information that meets a number of qualitative characteristics. Appendix 2 to this Standard summarizes the qualitative characteristics of financial reporting.~~

~~42. In the absence of a specific International Public Sector Accounting Standard, management uses its judgment in developing an accounting policy that provides the most useful information to users of the entity's financial statements. In making this judgment, management considers:~~

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

~~(b) the definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described in other publications of the International Federation of Accountants – Public Sector Committee; and~~

~~(c) pronouncements of other standard setting bodies and accepted public or private sector practices to the extent, but only to the extent, that these are consistent with (a) of this paragraph. For example, pronouncements of the International Accounting Standards Committee (IASC), including the *Framework for the Preparation and Presentation of Financial Statements*, International Accounting Standards and interpretations issued by the IASC's Standing Interpretations Committee.~~

Going Concern

~~43~~36. When preparing financial statements an assessment of an entity's ability to continue as a going concern ~~should~~ shall be made. This assessment should be made by those responsible for the preparation of the financial statements. Financial statements ~~should~~ shall be prepared on a going concern basis unless there is an intention to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so. When those responsible for the preparation of the financial statements are aware, in making their assessment, of material uncertainties related to events or conditions ~~which~~ that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties ~~should~~ shall be disclosed. When the financial statements are not prepared on a going concern basis, that fact ~~should~~ shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not ~~considered~~ regarded ~~to be~~ as a going concern.

~~44~~37. Financial statements are normally prepared on the assumption that the entity is a going concern and will continue in operation and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate, those responsible for the preparation of the financial statements take into account all available information ~~for~~ about the ~~foreseeable~~ future, which ~~should be~~ is at least, but is not limited to, twelve months from the approval of the financial statements.

~~45~~38. The degree of consideration depends on the facts in each case, and assessments of the going concern assumption are not predicated on the solvency test usually applied to business enterprises. There may be circumstances where the usual going concern tests of liquidity and solvency appear unfavorable, but other factors suggest that the entity is nonetheless a going concern. For example:

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

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

~~46~~39. The determination of whether the going concern assumption is appropriate is primarily relevant for individual entities rather than for a government as a whole. For individual entities, in assessing whether the going concern basis is appropriate, those responsible for the preparation of the financial statements may need to consider a wide range of factors surrounding current and expected performance, potential and announced restructurings of organizational units, estimates of revenue or the likelihood of continued government funding, and potential sources of replacement financing before it is appropriate to conclude that the going concern assumption is appropriate.

Consistency of Presentation

~~47~~40. The presentation and classification of items in the financial statements ~~should~~ shall be retained from one period to the next unless:

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

(b) ~~a change in presentation is required by~~ an International Public Sector Accounting Standard requires a change in presentation.

~~48~~41. A significant acquisition or disposal, or a review of the presentation of the financial statements ~~presentation~~, might suggest that the financial statements ~~should~~ need to be presented differently. For example, an entity may dispose of a savings bank that represents one of its most significant controlled entities and the remaining economic entity conducts mainly administrative and policy advice services. In this case, the presentation of the financial statements based on the principal activities of the economic entity as a financial institution is unlikely to be relevant for the new economic entity.

~~49~~42. An entity changes the presentation of its financial statements ~~O~~only if the changed presentation provides information that is reliable and is more relevant to users of the financial statements and the revised structure is likely to continue, so that comparability is not impaired ~~or if the benefit of an alternative presentation is clear, should an entity change the presentation of its financial statements~~. When making such changes in presentation ~~are made~~, an entity reclassifies its comparative information in accordance with paragraph ~~62~~53 and 54. ~~Where an entity has adopted International Public Sector Accounting Standards, a change in presentation to comply with national requirements is permitted as long as the revised presentation is consistent with the requirements of this Standard.~~

Materiality and Aggregation

~~50~~43. Each material class of similar ~~I~~items ~~that are material by virtue of their nature should~~ shall be presented separately in the financial statements. ~~Items that are material by virtue of their size but which have the same nature may be aggregated. Immaterial amounts should be aggregated with amounts of a similar nature or function and need not~~ Items of a dissimilar nature or function shall be presented separately unless they are immaterial.

~~51~~44. Financial statements result from processing large ~~quantities~~ numbers of transactions or other events that are ~~structured by being~~ aggregated into ~~groups~~ classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, ~~that~~ which form line items ~~either~~ on the face of the ~~financial statements~~ statement of financial position, statement of financial performance, statement of changes in net assets/equity and cash flow statement, or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of ~~the financial~~ those statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of ~~the financial~~ those statements may nevertheless be sufficiently material ~~that~~ for it ~~should~~ to be presented separately in the notes.

This para was deleted due to the additional interpretation of “materiality” in current para 11.

~~52. In this context, information is material if its non-disclosure could influence the decision-making and evaluations of users about the allocation and stewardship of resources, and the performance of the entity, made on the basis of the financial statements. Materiality depends on the size and nature of the item judged in the particular circumstances of its omission. In deciding whether an item or an aggregate of items is material, the size and nature of the item are evaluated together. Depending on the circumstances, either the size or the nature of the item could be the determining factor. For example, individual revenues or receipts with the same nature and function are aggregated even if the individual amounts are large. However, large items which differ in nature or function are presented separately.~~

~~53~~45. Applying ~~T~~the ~~principle~~ concept of materiality ~~provides~~ means that ~~the~~ a specific disclosure requirement~~s~~ ~~of~~ in an International Public Sector Accounting Standards need not be ~~met~~ satisfied if the ~~resulting~~ information is not material.

Offsetting

~~54~~46. Assets and liabilities, revenue and expenses, ~~should~~ shall not be offset ~~except when offsetting is~~ unless required or permitted by ~~another~~ an International Public Sector Accounting Standard.

~~55. Items of revenue and expense should not be offset except when, and only when:~~

~~(a) an International Public Sector Accounting Standard requires or permits it; or~~

~~(b) gains, losses and related expenses arising from the same or similar transactions and other events are not material. Such amounts should be aggregated in accordance with paragraph 50.~~

~~56~~47. It is important that ~~both~~ assets and liabilities, and revenue and expenses, ~~when material,~~ are reported separately. Offsetting in

~~either~~ the statement of financial performance or the statement of financial position, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions ~~undertaken~~, other events and conditions that have occurred and to assess the entity's future cash flows ~~of the entity~~. ~~The reporting of~~ Measuring assets net of valuation allowances~~,~~ - for example~~,~~ obsolescence allowances on inventories and doubtful debts allowances on receivables~~,~~ - is not offsetting.

~~57~~48. Revenue relating to exchange transactions is measured at the fair value of consideration received or receivable, taking into account the amount of any trade discounts and volume rebates allowed by the entity. An entity undertakes, in the course of its ordinary activities, other transactions ~~which~~ that do not generate revenue but ~~which~~ are incidental to the main revenue-~~-~~generating activities. The results of such transactions are presented, when this presentation reflects the substance of the transaction or other event, by netting any revenue with related expenses arising on the same transaction. For example:

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

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

~~(c) extraordinary items may be presented net of related taxation and minority interest, where appropriate, with the gross amounts shown in the notes.~~

~~58~~49. In addition, gains and losses arising from a group of similar transactions are reported on a net basis, for example, foreign exchange gains and losses and gains and losses arising on financial instruments held for trading ~~purposes~~. Such gains and losses are, however, reported separately if they are material ~~their size, nature or incidence is such that separate disclosure is required by IPSAS 3~~.

~~59~~50. The offsetting of cash flows is dealt with in International Public Sector Accounting Standard IPSAS 2 *Cash Flow Statements*.

Comparative Information

Per discussion at Berlin meeting, Staff have relocated first-application issue in this para to "transitional provision" section.

~~60~~51. ~~Unless~~Except when an International Public Sector Accounting Standard permits or requires otherwise, comparative information ~~should~~ shall be disclosed in respect of the previous period for all ~~numerical information~~ amounts reported in the financial statements~~, except in respect of the financial statements for the reporting period to which this Standard is first applied~~. Comparative information ~~should~~ shall be included ~~in~~ for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

. In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, details of a legal dispute, the outcome of which was uncertain at the last reporting date and is yet to be resolved, are disclosed in the current period. Users benefit from ~~knowing~~ information that the uncertainty existed at the last reporting date, and about the steps that have been taken during the period to resolve the uncertainty.

~~62~~53. When the presentation or classification of items in the financial statements is amended, comparative amounts ~~should~~ shall be reclassified~~,~~ unless ~~it~~ the reclassification is impracticable~~ to do so, to ensure comparability with the current period, and the nature, amount of, and reason for any reclassification should be disclosed~~. When ~~it is impracticable to reclassify~~ comparative amounts are reclassified, an entity ~~should~~ shall disclose:~~ the reason for not reclassifying and the nature of the changes that would have been made if amounts were reclassified.~~

(a) the nature of the reclassification;

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

(c) the reason for the reclassification.

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

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

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

~~63~~55. Enhancing the inter-period comparability of information assists users in making and evaluating decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some ~~C~~circumstances~~ may exist, when~~ it is impracticable to reclassify comparative information for a particular prior period to achieve comparability with the current period. For example, data may not have been collected in the previous period(s) in a way ~~which~~ that allows reclassification, and it may not be practicable to recreate the information. ~~In such circumstances, the nature of the adjustments to comparative amounts that would have been made are disclosed.~~

56. IPSAS 3 ~~contains guidance on~~ deals with the adjustments ~~required~~ to comparative information required ~~following a~~ when an entity changes ~~in~~ an accounting policy or corrects an error ~~that is applied retrospectively~~.

Structure and Content

Introduction

~~64~~57. This Standard requires ~~certain~~ particular disclosures on the face of the ~~financial statements~~ statement of financial position, statement of financial performance and statement of changes in net assets/equity~~,~~ and requires disclosure of other line items ~~to be disclosed~~ either on the face of ~~the financial~~ those statements or in the notes~~,~~. ~~and~~ IPSAS 2 sets out requirements for the presentation of a cash flow statement ~~recommended formats as an appendix to the Standard which an entity may follow as appropriate in its own circumstances~~.

~~65~~58. This Standard sometimes uses the term 'disclosure' in a broad sense, encompassing items presented on the face of ~~each financial~~ the statement of financial position, statement of financial performance and cash flow statement as well as in the notes ~~to the financial statements~~. Disclosures are also required by other International Public Sector Accounting Standards ~~are made in accordance with the requirements of those Standards~~. Unless specified to the contrary elsewhere in this ~~or another~~ Standard ~~specifies to the contrary~~, such disclosures are made either on the face of the ~~relevant financial~~ statement of financial position, statement of financial performance and cash flow statement (whichever is relevant), or in the notes.

Identification of Financial Statements

~~66~~59. ***The ~~F~~financial statements ~~should~~ shall be ~~clearly~~ identified clearly and distinguished from other information in the same published document.***

~~67~~60. International Public Sector Accounting Standards apply only to ~~the~~ financial statements, and not to other information presented in an annual report or other document. Therefore, it is important that users are able to distinguish information that is prepared using International Public Sector Accounting Standards from other information ~~which~~ that may be useful to users but is not the subject of those requirements ~~Standards~~.

~~68~~61. ***Each component of the financial statements ~~should~~ shall be ~~clearly~~ identified clearly. In addition, the following information ~~should~~ shall be ~~prominently~~ displayed prominently, and repeated when it is necessary for a proper understanding of the information presented:***

(a) the name of the reporting entity or other means of identification and any change in that information from the preceding reporting date;

(b) whether the financial statements cover the individual entity or the economic entity;

(c) the reporting date or the period covered by the financial statements, whichever is appropriate to the ~~related~~ component of the financial statements;

Presentation currency is a new term defined in proposed IPSAS 4.

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

(e) the level of ~~precision~~ rounding used in ~~the~~ present~~ation~~ing ~~of figures~~ amounts in the financial statements.

~~69~~62. The requirements in paragraph ~~68~~61 are normally met by presenting page headings and abbreviated column headings on each page of the financial statements. Judgment is required in determining the best way of presenting such information. For example, when the financial statements are ~~read~~ presented electronically, separate pages ~~may~~ are not ~~be~~ always used; the above items are then presented frequently enough to ensure a proper understanding of the information ~~given~~ included in the financial statements.

~~70~~63. Financial statements are often made more understandable by presenting information in thousands or millions of units of the ~~reporting~~ presentation currency. This is acceptable as long as the level of ~~precision~~ rounding in presentation is disclosed and ~~relevant~~ material information is not ~~lost~~ omitted.

Reporting Period

~~71~~64. Financial statements ~~should~~ shall be presented at least annually. When~~, in exceptional circumstances,~~ an entity's reporting date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity ~~should~~ shall disclose, in addition to the period covered by the financial statements:

(a) the reason for using a longer or shorter period ~~other than one year being used~~; and

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

~~72~~65. In exceptional circumstances an entity may be required to, or decide to, change its reporting date, for example in order to align the reporting cycle more closely with the budgeting cycle. When this is the case, it is important that users are aware that the amounts shown for the current period and comparative amounts are not comparable and that the reason for the change in reporting date is disclosed. A further example is where, in making the transition from cash to accrual accounting, an entity changes the reporting date for entities within the economic entity to enable the preparation of consolidated financial statements.

~~73~~66. Normally, financial statements are consistently prepared covering a one-year period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period ~~for practical reasons~~. This Standard does not preclude this practice, ~~as~~ because the resulting financial statements are unlikely to be materially different to those that would be presented for one year.

Timeliness

~~74~~67. The usefulness of financial statements is impaired if they are not made available to users within a reasonable period after the reporting date. An entity should be in a position to issue its financial statements within six months of the reporting date. Ongoing factors such as the complexity of an entity's operations are not sufficient reason for failing to report on a timely basis. More specific deadlines are dealt with by legislation and regulations in many jurisdictions.

The equivalent para in IAS 1 was deleted. Staff still retained it due to the lack of framework in IPSASs.

Statement of Financial Position

~~The~~ Current/Non-current Distinction

~~75~~68. Each entity ~~should~~ shall ~~determine, based on the nature of its operations, whether or not to~~ present current and non-current assets, and current and non-current liabilities as separate classifications on the face of the statement of its financial position~~.~~ in accordance with ~~P~~paragraphs ~~79~~74 to ~~88~~85 ~~of this Standard apply~~ except when a presentation based on liquidity provides information that is reliable and is more relevant.~~this distinction is made.~~ When that exception applies ~~an entity chooses not to make this classification~~, all assets and liabilities ~~should~~shall be presented broadly in order of their liquidity.

~~76~~69. Whichever method of presentation is adopted, ~~an entity should disclose~~ for each asset and liability line item that combines amounts expected to be recovered or settled ~~both before~~ (a) no more than twelve months after the reporting date; and (b) more than ~~after~~ twelve months ~~from~~ after the reporting date, an entity shall disclose the amount expected to be recovered or settled after more than twelve months.

~~77~~70. When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realized within the current operating cycle, and liabilities that are due for settlement within the same period.

71. For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of

liquidity provides information that is reliable and is more relevant than a current/non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.

72. In applying paragraph 68, an entity is permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that is reliable and is more relevant. The need for a mixed basis of presentation might arise when an entity has diverse operations.

~~78~~73. Information about ~~the maturity~~ expected dates of realization of assets and liabilities is useful in assessing the liquidity and solvency of an entity. ~~Guidance on the~~ IPSAS 15 *Financial Instruments: Disclosure and Presentation* requires disclosure of the maturity dates of financial assets and financial liabilities ~~can be found in International Accounting Standard IAS 32, *Financial Instruments: Disclosure and Presentation*~~. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery and settlement of non-monetary assets and liabilities such as inventories and provisions is also useful whether or not assets and liabilities are classified ~~between~~ as current and non-current.

Current Assets

~~79~~74. An asset ~~should~~ shall be classified as ~~a~~ current ~~asset~~ when it satisfies any of the following criteria:

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

(b) it is held primarily for ~~trading~~ the purposes of being traded; ~~or for the short-term and~~

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

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

All other assets ~~should~~ shall be classified as non-current ~~assets~~.

~~80~~75. This Standard uses the term "non-current assets" to include tangible, intangible~~, operating~~ and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as ~~their~~ the meaning is clear.

~~81~~76. The operating cycle of an entity is the time taken to convert inputs or resources into outputs. For instance, governments transfer resources to public sector entities so that they can convert those resources into goods and services, or outputs, to meet the government's desired social, political and economic outcomes. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

~~82~~77. Current assets include assets (such as taxes receivable, user charges receivable, fines and regulatory fees receivable, inventories and accrued investment revenue) that are either realized, consumed or sold, as part of the normal operating cycle even when they are not expected to be realized within twelve months of the reporting date. Current assets also include assets held primarily for the purpose of being traded (financial assets within this category are classified as held for trading in accordance with IPSAS XX *Financial Instruments: Recognition and Measurement*)~~Marketable securities are classified as current assets if they are expected to be realized within twelve months of the reporting date; otherwise they are classified as~~ and the current portion of non-current financial assets.

Consistent with proposed endorsement approach to IAS 39, Staff have updated this para.

Current Liabilities

~~83~~78. A liability ~~should~~ shall be classified as ~~a~~ current ~~liability~~ when it satisfies any of the following criteria:

(a) it is expected to be settled in the entity's normal ~~course of the entity's~~ operating cycle; ~~or~~

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

(~~b~~c) it is due to be settled within twelve months ~~of~~ after the reporting date~~.~~; or

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

All other liabilities ~~should~~ shall be classified as non-current ~~liabilities~~.

~~84~~79. ~~Current liabilities can be categorized in a similar way to current assets.~~ Some current liabilities, such as government transfers payable and accruals for employee and other operating costs, ~~form~~ are part of the working capital used in the normal operating cycle of the entity. Such operating items are classified as current liabilities even if they are due to be settled ~~after~~ more than twelve months ~~from~~ after the reporting date. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

Consistent with proposed endorsement approach to IAS 39, Staff have updated this para.

~~85~~80. Other current liabilities are not settled as part of the ~~current~~ normal operating cycle, but are due for settlement within twelve months ~~of~~ after the reporting date or held primarily for the purpose of being traded. Examples are financial liabilities classified as held for trading in accordance with IPSAS XX *Financial Instruments: Recognition and Measurement*~~the current portion of interest-bearing liabilities~~, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. ~~Interest-bearing~~Financial liabilities that provide ~~the~~ financing ~~for working capital~~ on a long-term basis (ie are not part of the working capital used in the entity's normal operating cycle)~~,~~ and are not due for settlement within twelve months after the reporting date~~,~~ are non-current liabilities, subject to paragraphs 83 and 84.

Previous para 86 was in black letters and amended to reflect the notion that classification of liabilities should be considered only by the condition existing on the reporting date.

~~86~~81. An entity ~~should continue to~~ classifi~~y~~es its ~~long-term interest-bearing~~ financial liabilities as ~~non-~~current~~, even~~ when they are due to be settled within twelve months ~~of~~ after the reporting date, even if:

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

~~(b) the entity intends to refinance the obligation on a long-term basis; and~~

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

~~***The amount of any liability that has been excluded from current liabilities in accordance with this paragraph, together with information in support of this presentation, should be disclosed in the notes to the statement of financial position.***~~

~~87~~82. ~~Some obligations that are due to be repaid within the next operating cycle may be expected to be refinanced or "rolled-over" at~~ If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting date under an existing loan facility, ~~of the entity and, therefore, are not expected to use current working capital of the entity. Such obligations are considered to form part of the entity's long-term financing and should be~~ it classifies~~d~~ the obligation as non-current, even if it would otherwise be due within a shorter period. However, ~~in situations in which~~ when refinancing or rolling over the obligation is not at the discretion of the entity (~~as would be the case if~~ for example, there ~~were~~ is no agreement to refinance), the potential to refinance~~ing~~ ~~cannot be~~ is not considered ~~automatic~~ and the obligation is classified as current ~~unless the completion of a refinancing agreement before approval of the financial statements provides evidence that the substance of the liability at the reporting date was long term~~.

~~88~~83. ~~Some borrowing agreements incorporate~~When an entity breaches an undertaking~~s~~ under a long-term loan agreement ~~(covenants) by the borrower which have~~ on or before the reporting date with the effect that the liability becomes payable on demand, ~~if certain conditions related to the borrower's financial position are breached. In these circumstances, if the conditions have been breached,~~ the liability is classified as ~~non-~~current, ~~only when:~~even if

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

~~(b) it is not probable that further breaches will occur within twelve months of the reporting date~~.

84. However, the liability is classified as non-current if the lender agreed by the reporting date to provide a period of grace ending at least twelve months after the reporting date, within which the

Original para 88 was amended to reflect the notion that if the entity does not have an unconditional right to defer the settlement of liabilities within 12m after the reporting date, it shall classify it as current.

entity can rectify the breach and during which the lender cannot demand immediate repayment.

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

(a) refinancing on a long-term basis;

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

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

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

~~89~~86. As a minimum, the face of the statement of financial position ~~should~~ shall include line items ~~which~~ that present the following amounts to the extent that they are not presented in accordance with paragraph 87:

(a) property, plant and equipment;

(b) investment property;

(~~b~~c) intangible assets;

(~~c~~d) financial assets (excluding amounts shown under (~~d~~e), (~~f~~h), (i) and (~~h~~j));

(~~d~~e) investments accounted for using the equity method;

(f) biological assets;

(~~e~~g) inventories;

(~~f~~h) recoverables from non-exchange transactions, including taxes and transfers;

(~~g~~i) receivables from exchange transactions;

(~~h~~j) cash and cash equivalents;

(~~i~~k) taxes and transfers payable;

(~~j~~l) payables under exchange transactions;

(~~k~~m) provisions;

Consistent with the proposed endorsement approach to IAS 41, Staff have added subpara (f) as a line item as per the change in IAS 1.

(~~l~~n) ~~non-curren~~financial liabilities (excluding amounts shown under (k), (l) and (m));

(m~~o~~) minority interest, presented within net assets/equity; and

(~~n~~p) net assets/equity attributable to owners of the controlling entity.

Pls note Staff have added para 87 given the issue of IFRS 5 and the proposed endorsement approach to IFRS 5.

87. The face of the statement of financial position shall also include line items that present the following amounts:

(a) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with IPSAS XX Non-current Assets Held for Sale and Discontinued Operations; and

(b) liabilities included in disposal groups classified as held for sale in accordance with this IPSAS XX.

~~90~~88. Additional line items, headings and sub-totals ~~should~~ shall be presented on the face of the statement of financial position ~~when an International Public Sector Accounting Standard requires it, or~~ when such presentation is ~~necessary~~ relevant to ~~present fairly~~ an understanding of the entity's financial position.

~~91~~89. This Standard does not prescribe the order or format in which items are to be presented. Paragraph ~~89~~86 simply provides a list of items that are ~~so~~ sufficiently different in nature or function ~~that they deserve~~ to warrant separate presentation on the face of the statement of financial position. Illustrative formats are set out in Appendix ~~1~~3 to this Standard. ~~Adjustments to the line items above include the following~~ In addition:

The original Appendix in IAS 1 was renamed as "Implementation Guidance" by IASB. Staff retain it as an appendix per BA meeting's discussion.

(a) line items are ~~added~~ included ~~when another International Public Sector Accounting Standard requires separate presentation on the face of the statement of financial position, or~~ when the size, nature or function of an item or aggregation of similar items is such that separate presentation ~~would assist in presenting fairly~~ is relevant to an understanding of the entity's financial position; and

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

This para was also deleted by IASB.

~~92. The line items listed in paragraph 89 are broad in nature and need not be limited to items falling within the scope of other Standards. For example, the line item intangible assets includes goodwill and assets arising from development costs.~~

~~93~~90. The judgment on whether additional items are separately presented is based on an assessment of:

(a) the nature and liquidity of assets~~ and their materiality, leading, in most cases, to the separate presentation of goodwill and assets arising from development costs, monetary and non-monetary assets and current and non-current assets~~;

(b) ~~their~~ the function of assets within the entity~~, leading, for example, to the separate presentation of operating and financial assets, inventories, receivables and cash and cash equivalent assets~~; and

(c) the amounts, nature and timing of liabilities~~, leading, for example, to the separate presentation of interest-bearing and non-interest-bearing liabilities and provisions, classified as current or non-current as appropriate~~.

~~94~~91. ~~Assets and liabilities that differ in nature or function are sometimes subject to different measurement bases. For example certain classes of property, plant and equipment may be carried at cost, or at revalued amounts.~~ The use of different measurement bases for different classes of assets suggests that their nature or function differs, and therefore, that they should be presented as separate line items. For example, different classes of property, plant and equipment can be carried at cost or revalued amounts in accordance with IPSAS 17 *Property, Plant and Equipment*.

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

~~95~~92. An entity ~~should~~ shall disclose, either on the face of the statement of financial position or in the notes ~~to the statement of financial position~~, further sub-classifications of the line items presented, classified in a manner appropriate to the entity's operations. ~~Each item should be sub-classified, when appropriate, by its nature, and amounts payable to and receivable from the controlling entity, fellow controlled entities~~

~~***and associates and other related parties should be disclosed separately.***~~

~~96~~93. The detail provided in sub-classifications~~, either on the face of the statement of financial position or in the notes~~ depends on the requirements of International Public Sector Accounting Standards and on the size, nature and function of the amounts involved. The factors set out in paragraph ~~93~~90 ~~are~~ also are used to decide the basis of sub-classification. The disclosures ~~will~~ vary for each item, for example:

(a) ~~tangible assets~~items of property, plant and equipment ~~should be classified by~~ are disaggregated into classes in accordance with ~~any appropriate standards that address accounting for~~ IPSAS 17*~~property, plant and equipment~~*;

(b) receivables are~~ analyzed between~~ disaggregated into amounts receivable from user charges, taxes and other non-reciprocal revenues, other members of the economic entity, receivables from related parties, prepayments, and other amounts;

(c) inventories are sub-classified in accordance with ~~appropriate standards that address accounting for~~ IPSAS 12 ~~i~~I*nventories*, into classifications such as merchandise, production supplies, materials, work in progress and finished goods;

Pls note this para was a public sector specific para. Staff have made consequential change per the change in IPSAS 14 that dividends declared after the reporting date are no longer allowed to be recognized as liabilities. They can only be disclosed in the notes. See para 148.

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

(e) provisions are ~~analyzed showing separately~~ disaggregated into provisions for employee benefit~~ costs~~ and~~ any~~ other items~~ classified in a manner appropriate to the entity's operations~~; and

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

~~97~~94. When an entity has no share capital, it ~~should~~ shall separately disclose~~ the following~~, either on the face of the statement of financial position or in the notes,~~:~~

~~(a)~~net assets/equity, showing separately:

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

(~~ii~~b) accumulated surpluses or deficits;

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

(~~iv~~d) minority interests~~; and~~

~~(b) the amount of a distribution (other than the return of capital) proposed or declared after the reporting date but before the financial statements were authorized for issue~~.

~~98~~95. Many public sector entities will not have share capital but the entity will be controlled exclusively by another public sector entity. The nature of the government's interest in the net assets/equity of the entity is likely to be a combination of contributed capital and the aggregate of the entity's accumulated surpluses or deficits and reserves — ~~which~~ that reflect the net assets/equity attributable to the entity's operations.

~~99~~96. In some cases, there may be a minority interest in the net assets/equity of the entity. For example, at whole-of-government level, the economic entity may include a Government Business Enterprise that has been partly privatized. Accordingly, there may be private shareholders who have a financial interest in the net assets/equity of the entity.

~~100~~97. When an entity has share capital, in addition to the disclosures in paragraph ~~97~~94, it ~~should~~ shall disclose the following, either on the face of the statement of financial position or in the notes:

(a) for each class of share capital:

(i) the number of shares authorized;

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

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

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

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

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

(vii) ***shares reserved for issue~~ance~~ under options and ~~sales~~ contracts for the sale of shares, including the terms and amounts; and***

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

Subparas (c) and (d) were relocated to current para 148.

~~***(c) the amount of dividends that were proposed or declared after the reporting date but before the financial statements were authorized for issue; and***~~

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

Statement of Financial Performance

Please note the "Surplus or Deficit for the period" section was relocated from paras 10-12 in existing IPSAS 3.

Surplus or Deficit for the Period

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

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

100. Other Standards deal with items that may meet definitions of revenue or expense set out in IPSASs but are usually excluded from surplus or deficit. Examples include revaluation surpluses (see IPSAS 17), particular gains and losses arising on translating the financial statements of a foreign operation (see IPSAS 4) and gains or losses on remeasuring available-for-sale financial assets (see IPSAS XX *Financial Instruments: Recognition and Measurement*).

Consistent with the proposed endorsement approach to IAS 39, Staff have changed the description in this para.

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

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

(a) revenue ~~from operating activities~~;

(b) ~~surplus or deficit from operating activities;~~

~~(c)~~ finance costs;

(~~d~~c) share of ~~net~~ the surpluses or deficits of associates and joint ventures accounted for using the equity method;

(e) ~~surplus or deficit from ordinary activities~~;

~~(f) extraordinary items;~~

~~(g) minority interest share of net surplus or deficit; and~~

(d) a single amount comprising the total of (i) the post-tax surplus or deficit of discontinued operations and (ii) the post-tax gain or loss recognized on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and

(~~h~~e) ~~net~~surplus or deficit ~~for the period~~.

Consistent with the proposed endorsement approach to IFRS 5, Staff have incorporated the changes made by the IASB upon the issue of IFRS 5.

Please note, based on improved IAS 1, references to "net surplus or deficit" are amended to "surplus or deficit".

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

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

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

103. ***Additional line items, headings and sub-totals ~~should~~ shall be presented on the face of the statement of financial performance ~~when required by an International Public Sector Accounting Standard, or~~ when such presentation is ~~necessary~~ relevant to ~~present fairly~~ an understanding of the entity's financial performance.***

~~102. In the context of the statement of financial performance, operating activities refers to those activities which an entity carries out in order to achieve its primary objectives. Revenues and expenses arising from operating activities are distinguished~~

This para was deleted because there is no longer "operating activities" notion in IPSAS 1.

~~from those arising from holding assets or financing an entity's operations. For example, a local government's operations may include the generation of revenue from property taxes and the incurrence of expenses such as wages, depreciation and consumables. Other items such as finance costs and gains and losses on the sale of property, plant and equipment are generally incidental to the local government's primary objectives and therefore outside its operating activities.~~

~~103~~104. Because ~~T~~the effects of an entity's various activities, transactions and other events differ in terms of their impact on its ability to meet its service delivery obligations, and ~~the~~ disclosing~~ure of~~ the ~~elements~~ components of financial performance assists in an understanding of the financial performance achieved and in making~~predicting~~ projections of future results. Additional line items are included on the face of the statement of financial performance, and the descriptions used and the ordering of items are amended when this is necessary to explain the elements of performance. Factors to be ~~taken into~~ considered~~ation~~ include materiality and the nature and function of the ~~various~~ components of revenue and expenses. Revenue and expense items are not offset ~~only when~~ unless the criteria in paragraph ~~55~~46 are met.

The elimination of extraordinary items is a major change to this IPSAS.

105. An entity shall not present any items of revenue and expense as extraordinary items, either on the face of the statement of financial performance or in the notes.

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

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

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

Paras 106 and 107 were relocated from paras 26 and 28 of existing IPSAS 3.

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

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

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

(d) disposals of investments;

(e) discontinued operations;

(f) litigation settlements; and

(g) other reversals of provisions.

In equivalent para 109 in IAS 1, IASB removed the description of "either on the face of the statement or in the notes", Staff retained it because it made no difference.

~~104~~108. An entity ~~should~~ shall present, either on the face of the statement of financial performance or in the notes ~~to the statement of financial performance~~, a sub-classification of total revenue, classified in a manner appropriate to the entity's operations.

~~105~~109. An entity ~~should~~ shall present, either on the face of the statement of financial performance or in the notes ~~to the statement of financial performance~~, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, ~~as appropriate~~ whichever provides information that is reliable and more relevant.

~~106~~110. Entities are encouraged to present the analysis in paragraph ~~105~~ 109 on the face of the statement of financial performance.

~~107~~111. Expense items are ~~further~~ sub-classified ~~in order~~ to highlight the costs and cost recoveries of particular programs, activities or other relevant segments of the reporting entity. This information may be provided in one of two ways.

~~108~~112. The first form of analysis is ~~referred to as~~ the nature of expense method. Expenses are aggregated in the statement of financial performance according to their nature~~,~~ (for example depreciation, purchases of materials, transport costs, ~~wages~~employee benefits and ~~salaries~~ advertising costs), and are not reallocated among~~st~~ various functions within the entity. This method ~~is~~ may be simple to apply ~~in many smaller entities~~ because no allocations of ~~operating~~ expenses between functional classifications are necessary. An example of a classification using the nature of expense method is as follows:

Revenue ~~from operating activities~~		X
~~Salaries and e~~Employee benefits costs	X	
Depreciation and amortization expense	X	
Other ~~operating~~ expenses	X	
Total expenses		(X)
Surplus ~~from operating activities~~		X

~~109~~113. The second form of analysis~~, referred to as~~ is the functional~~al~~ of expense method ~~of expense classification,~~ and classifies expenses according to the program or purpose for which they were made. This presentation often provides more relevant information to users than the classification of expenses by nature~~, although the~~ but allocating~~on of expenses~~ costs to functions~~ can be~~ may require arbitrary allocations and involves considerable judgment. An example of a classification using the functional~~al~~ of expense method~~ of expense classification~~ is as follows:

~~Total r~~Revenue	X
Expenses:	
Health expenses	(X)
Education expenses	(X)
Other expenses	(X)
Surplus~~/(deficit)~~	X

~~110~~114. The expenses associated with the main functions undertaken by the entity are shown separately. In this example, the entity has functions relating to the provision of health and education services. The entity would present expense line items for each of these functions.

~~111~~115. Entities classifying expenses by function ~~should~~ shall disclose additional information on the nature of expenses, including depreciation and amortization expense,~~ salaries and~~ employee benefits expense, and finance costs.

Consistent with the endorsement approach, Staff have referred the IPSAS on employment benefits.

~~112~~116. The choice ~~of analysis~~ between the functional~~al~~ of expense method and the nature of expense method depends on ~~both the~~ historical and regulatory factors and the nature of the organization. Both methods provide an indication of ~~the~~ those costs~~ which~~ that might ~~be expected to~~ vary, directly and indirectly, with the outputs of the entity. Because each method of presentation has its merits for different types of entities, this Standard~~ provides a choice~~ requires management to select the most relevant and reliable presentation~~ between classifications based on what fairly presents the elements of an entity's~~

~~performance~~. In paragraph 115, "employee benefits" has the same meaning as in IPSAS XX *Employee Benefits*[1].

Pls note IAS 1 uses "distributions to equity holders". Staff still retained "distribution to owners" because it is a PSC term.

~~113~~117. ***When an entity provides a dividend to its owners and has share capital, it ~~should~~ shall disclose, either on the face of the statement of financial performance or the statement of changes in net assets/equity, or in the notes, the amount of dividends ~~per share, declared or proposed,~~recognized as distributions to owners ~~for~~ during the period~~, covered by the financial statements~~ and the related amount per share.***

Statement of Changes in Net Assets/Equity

~~114~~118. ***An entity ~~should~~ shall present~~, as a separate component of its financial statements,~~ a statement of changes in net assets/equity showing on the face of the statement:***

(a) ~~the net~~ surplus or deficit for the period;

(b) each item of revenue and expense for the period~~, which~~ that, as required by other Standards, is recognized directly in net assets/equity, and the total of these items; ~~and~~

Pls note: to reflect the requirements in para 119 (c), Staff added "separately disclosed" in para 118 (d).

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

(d) for each component of net assets/equity separately disclosed, the ~~cumulative~~ effects of changes in accounting policiesy and ~~the~~ corrections of ~~fundamental~~ errors ~~dealt with under the benchmark treatments~~ recognized in accordance with IPSAS 3.

~~115~~119. ***~~In addition, a~~An entity ~~should~~ shall also present, either ~~within this~~ on the face of the statement of changes in net assets/equity or in the notes:***

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

[1] Staff have proposed that IAS 19 be endorsed by the PSC as IPSAS XX *Employee Benefits* – see the IASB Harmonization Strategy paper. It is proposed that IAS 19 be considered in detail in PSC November 2004 meeting.

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

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

~~116~~120. Changes in an entity's net assets/equity between two reporting dates reflect the increase or decrease in its ~~wealth~~ net assets during the period~~, under the particular measurement principles adopted and disclosed in the financial statements~~.

~~117~~121. The overall change in net assets/equity represents the total ~~net~~ surplus~~/~~ or deficit for the period, other revenues and expenses recognized directly as changes in net assets/equity, together with any contributions by, and distributions to, owners in their capacity as owners.

~~118~~122. Contributions by, and distributions to, owners include transfers between two entities within an economic entity (for example, a transfer from a government, acting in its capacity as owner, to a government department). Contributions by owners, in their capacity as owners, to controlled entities are recognized as a direct adjustment to net assets/equity only where they explicitly give rise to residual interests in the entity in the form of rights to net assets/equity.

~~119~~123. ~~IPSAS 3~~This Standard requires all items of revenue and expense recognized in a period to be included in ~~the determination of net~~ surplus or deficit for the period unless another International Public Sector Accounting Standard requires ~~or permits~~ otherwise. Other Standards require ~~certain~~ some items~~,~~ (such as revaluation surpluses and deficits~~, and certain~~ particular foreign exchange differences, and gains or losses on remeasuring available-for-sale financial assets) to be recognized directly as changes in net assets/equity~~ along with capital transactions with and distributions to the entity's owners~~. ~~Since in assessing the changes in an entity's financial position between two reporting dates~~ Because it is important to ~~take into~~ consider~~ation~~ all items of revenue and expense ~~which contribute to the~~ in assessing changes in an entity's financial position between two reporting dates, this Standard requires a ~~separate component of the~~

~~financial~~ statements~~s~~ of changes in net assets/equity ~~which~~ that highlights ~~both~~ an entity's ~~net surplus/deficit for the period and~~ total revenue and expenses, including those ~~items~~ that ~~have been~~ are recognized directly in net assets/equity ~~during the period~~.

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

This para was added by the IASB when revising IAS 1. Also, Staff added "separately disclosed" to be consistent with para 118 (d).

~~120~~125. The requirements in paragraphs ~~114~~118 and ~~115~~119 may be met by using a columnar format ~~which~~ that reconciles the opening and closing balances of each element within net assets/equity~~, including all items listed in paragraphs 114 and 115. Paragraph 114 also requires a sub-total of all items of revenue and expense, which, as required by other Standards, have been recognized directly in net assets/equity~~. An alternative is to present only the items set out in paragraph 118 in the statement of changes in net assets/equity. Under this approach, the items described in paragraph 119 are shown in the notes.

Cash Flow Statement

~~121~~126. IPSAS 2 *Cash Flow Statements* sets out requirements for the presentation of the cash flow statement and related disclosures. It states that cash flow information is useful in providing users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents, and the needs of the entity to utilize those cash flows.

Please note, based on improved IAS 1, references to "notes to the financial statements" were amended to "notes".

Notes ~~to the Financial Statements~~

Structure

~~122~~127. The notes ~~to the financial statements of an entity shobld~~ shall:

(a) present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 132-139~~selected and applied for significant transactions and other events~~;

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

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

~~123~~128. Notes ~~to the financial statements should~~ shall be presented in a systematic manner. Each item on the face of the statement of financial ~~performance~~ position, statement of financial ~~position~~ performance, statement of changes in net assets/equity and cash flow statement ~~should~~ shall be cross-referenced to any related information in the notes.

Previous para 124 was deleted as the content is reflected in the definition of "notes".

~~124. Notes to the financial statements include narrative descriptions or more detailed schedules or analyses of amounts shown on the face of the statement of financial performance, statement of financial position, cash flow statement and statement of changes in net assets/equity, as well as additional information such as contingent liabilities and commitments. They include information required and encouraged to be disclosed by International Public Sector Accounting Standards, and other disclosures necessary to achieve a fair presentation.~~

~~125~~129. Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them with financial statements of those ~~of other~~ entities:

(a) a statement of compliance with International Public Sector Accounting Standards (see paragraph 26);

(b) ~~a statement of the measurement basis (bases) and~~ summary of significant accounting policies applied (see paragraph 132);

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

(d) other disclosures, including:

(i) ~~contingencies~~contingent liabilities (see IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*), and unrecognized contractual commitments ~~and other financial disclosures~~; and

(ii) non-financial disclosures, eg the entity's financial risk management objectives and policies (see IPSAS 15 *Financial Instruments: Disclosure and Presentation*).

~~126~~130. In some circumstances, it may be necessary or desirable to vary the ordering of specific items within the notes. For example, information on ~~interest rates and~~ changes in fair value ~~adjustments~~ recognized in surplus or deficit may be combined with information on maturities of financial instruments, although the former ~~are statement of financial performance~~ disclosures relate to the statement of financial performance and the latter relate to the statement of financial position. Nevertheless, a systematic structure for the notes is retained as far as practicable.

~~127~~131. Notes provide ~~I~~information about the basis of preparation of the financial statements and specific accounting policies may be presented as a separate component of the financial statements.

~~Presentation~~ Disclosure of Accounting Policies

~~128~~132. An entity shall disclose in the summary of significant~~The~~ accounting policies ~~section of the notes to the financial statements should describe the following~~:

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

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

(c) ***~~each specific~~the other accounting policiesy that ~~is~~ are ~~necessary for a proper~~ relevant to an understanding of the financial statements.***

~~129~~133. ~~In addition to the specific accounting policies used in the financial statements, i~~It is important for users to be ~~aware~~ informed of the measurement basis ~~(~~ or bases~~)~~ used in the financial statements (for example, historical cost, current cost, realizable value, fair value or ~~present value~~ recoverable amount) because ~~they form~~ the basis on which the ~~whole of the~~ financial statements are prepared significantly affects their analysis. When more than one measurement basis is used in the financial statements, for example when ~~certain items~~ particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

~~130~~134. In deciding whether a ~~specific~~ particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding ~~the way in which~~ how transactions, other events and ~~events~~ conditions are reflected in the reported financial performance and financial position. ~~The~~ Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in IPSASs. An example is disclosure of whether a venturer recognizes its interest in a jointly controlled entity using proportionate consolidation or the equity method (see IPSAS 8 *Interests in Joint Ventures*). Some Standards specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, IPSAS 17 *Property, Plant and Equipment* requires disclosure of the measurement bases used for classes of property, plant and equipment. IPSAS 5 *Borrowing Costs* requires disclosure of whether borrowing costs are recognized immediately as an expense or capitalized as part of the cost of qualifying assets. ~~that an entity might consider presenting include, but are not restricted to, the following:~~

~~(a) Revenue recognition~~

~~(b) Consolidation principles, including controlled entities~~

~~(c) Investments~~

~~(d) Recognition and depreciation/amortization of tangible and intangible assets~~

~~(e) Capitalization of borrowing costs and other expenditure:~~
~~– inventories held for sale~~
~~– other qualifying assets~~

~~(f) Construction contracts~~

~~(g) Investment properties~~

~~(h) Financial instruments and investments~~

~~(i) Leases~~

~~(j) Research and development costs~~

~~(k) Inventories:~~
~~– held for resale~~
~~– for consumption~~

~~(l) Provisions~~

~~(m) Employee benefit costs~~

~~(n) Foreign currency translation and hedging~~

~~(o) Definition of segments and the basis for allocation of costs between segments~~

~~(p) Inflation accounting~~

~~(q) Government grants.~~

~~131~~135. Each entity considers the nature of its operations and the policies ~~which~~ that the users of its financial statements would expect to be disclosed for that type of entity. For example, public sector entities would be expected to disclose an accounting policy for recognition of taxes, donations and other forms of non-reciprocal revenue. When an entity has significant foreign operations or transactions in foreign currencies, disclosure of accounting policies for the recognition of foreign exchange gains and losses ~~and the hedging of such gains and losses~~ would be expected. ~~In consolidated financial statements~~ When entity combinations have occurred, the policiesy used for ~~determining~~ measuring goodwill and minority interest ~~is~~ are disclosed.

~~132~~136. An accounting policy may be significant because of the nature of the entity's operation even if amounts ~~shown~~ for current and prior periods are not material. It is also appropriate to disclose ~~an~~ each significant accounting policy ~~for each policy~~ that is not ~~covered~~ specifically required by ~~existing~~ International Public

Sector Accounting Standards, but is selected and applied in accordance with ~~paragraph 37~~ IPSAS 3.

Para 137 is a new disclosure requirement added to IPSAS 1. The disclosure regarding estimation is dealt with in next subsection.

Paras 137-139 were added by the IASB.

137. An entity shall disclose, in the summary of significant accounting policies or other notes, the judgments, apart from those involving estimations (see paragraph 140), management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognized in the financial statements.

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

Staff have incorporated different examples from those in IAS 1 to reflect a public sector context.

(a) whether assets are investments properties;

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

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

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

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

Pls note this is a new section and also new disclosure requirements added by the IASB.

Key Sources of Estimation Uncertainty

140. An entity shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a

significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

(a) their nature; and

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

141. Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the reporting date. For example, in the absence of recently observed market prices used to measure the following assets and liabilities, future-oriented estimates are necessary to measure the recoverable amount of certain classes of property, plant and equipment, the effect of technological obsolescence on inventories, provisions subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs.

The wording of para 141 is slightly different from IASB's.

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

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

144. The disclosures in paragraph 140 are presented in a manner that helps users of financial statements to understand the judgments management makes about the future and about other key sources of estimation uncertainty. The nature and extent of the

information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures made are:

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

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

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

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

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

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

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

Other Disclosures

Current para 148 was relocated from previous para 100 (c) and (d).

148. An entity shall disclose in the notes:

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

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

~~133~~149. An entity ~~should~~ shall disclose the following, if not disclosed elsewhere in information published with the financial statements:

(a) the domicile and legal form of the entity, and the jurisdiction within which it operates;

(b) a description of the nature of the entity's operations and principal activities;

(c) a reference to the relevant legislation governing the entity's operations; and

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

Transitional Provisions

~~134~~150. All provisions of this Standard should be applied from the date of first adoption of this Standard, except in relation to items which have not been recognized as a result of transitional provisions under another International Public Sector Accounting Standard. The disclosure provisions of this Standard would not be required to apply to such items until the transitional provision in the other International Public Sector Accounting Standard expires. Comparative information are not required in respect of the financial statements to which this Standard is first applied.

Per Berlin meeting's discussion, Staff have relocated to this para the transitional provision in previous para 60.

~~135~~151. Notwithstanding the existence of transitional provisions under another International Public Sector Accounting Standard, entities that are in the process of adopting the accrual basis of accounting for financial reporting purposes are encouraged to comply in full with the provisions of that other Standard as soon as possible.

Effective Date

~~136~~152. ***An entity shall apply ~~T~~this International Public Sector Accounting Standard ~~becomes effective~~ for annual financial statements covering periods beginning on or after 1 ~~July~~January ~~2001~~2009. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2009, it shall disclose that fact.***

~~137~~153. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Pls note this Appendix is a new section. See also the IASB Harmonization Strategy paper for the proposed approach to SIC/IFRIC interpretations.

Appendix 1– Interpretations of International Financial Reporting Standards

This appendix is an integral part of the Standard.

1. Interpretation SIC-29 *Disclosure – Service Concession Arrangements* issued by the Standing Interpretations Committee of International Accounting Standards Committee (IASC), which was replaced by International Accounting Standards Board (IASB), provides guidance on interpreting the requirements of this International Public Sector Accounting Standard.

Pls note "Amendments to Other Pronouncements" is a new section. Only the relevant paragraphs in other IPSASs that are not part of the IPSASs Improvements project but will be impacted as a result of proposals in this IPSAS are included and shown in marked-up.

Appendix 2 – Amendments to Other Pronouncements

The amendments in this appendix shall be applied for annual financial statements covering periods beginning on or after 1 January 2009. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

A1 In International Public Sector Accounting Standards applicable on 1 January 2009:

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

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

Pls note the similar appendix in improved IAS was renamed as “Implementation Guidance”. Staff retained it as an appendix per BA meeting’s discussion.

Appendix ~~1~~3 – Illustrative Financial Statement Structure

This appendix is illustrative only and does not form part of the standards. The purpose of the appendix is to illustrate the application of the standards and to assist in clarifying their meaning.

The Standard sets out the components of financial statements and minimum requirements for disclosure on the face of the statement of financial position and the statement of financial performance as well as for the presentation of changes in net assets/equity. It also ~~establishes~~ describes further items that may be presented either on the face of the relevant financial statement or in the notes.

~~The purpose of t~~This appendix ~~is to~~ provides simple examples of the ways in which the requirements for the presentation of the statement of financial performance, statement of financial position and changes in net assets/equity might be met ~~presented in the primary financial statements~~. The order of presentation and the descriptions used for line items should be changed ~~where~~ when necessary in order to achieve a fair presentation in each entity’s particular circumstances. For example, line items of a public sector entity such as a defense department are likely to be significantly different from those for a central bank.

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

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

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

PUBLIC SECTOR ENTITY – STATEMENT OF ACCOUNTING POLICIES *(EXTRACT)*

Reporting entity

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

- central government ministries; and
- Government Business Enterprises.

Basis of preparation

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

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

PUBLIC SECTOR ENTITY – STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 20X2

(in thousands of currency units)

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

PUBLIC SECTOR ENTITY – STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 DECEMBER 20X2
(ILLUSTRATING THE CLASSIFICATION OF EXPENSES BY FUNCTION)

(in thousands of currency units)

	20X2	**20X1**
~~Operating r~~Revenue		
Taxes	X	X
Fees, fines, penalties and licenses	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
Other ~~operating~~ revenue	X	X
Gains on sale of property, plant and equipment	X	X
Total ~~operating~~ revenue	X	X
~~Operating e~~Expenses		
General public services	X	X
Defense	X	X
Public order and safety	X	X
Education	X	X
Health	X	X
Social protection	X	X
Housing and community amenities	X	X
Recreational, cultural and religion	X	X
Economic Affairs	X	X
Environmental protection	X	X
Other Expenses	X	X
Finance costs	X	X
Share of surplus of associates*	X	X
Total ~~operating~~ expenses	X	X
~~**Surplus/(deficit) from operating activities**~~	~~X~~	~~X~~
~~Finance costs~~	~~(X)~~	~~(X)~~
~~Gains on sale of property, plant and equipment~~	~~X~~	~~X~~
~~**Total non-operating revenue (expenses)**~~	~~(X)~~	~~(X)~~
~~**Surplus/(deficit) from ordinary activities**~~	~~X~~	~~X~~
~~Minority interest share of surplus/(deficit)~~[2]	~~(X)~~	~~(X)~~
~~**Net surplus/(deficit) before extraordinary items**~~	~~X~~	~~X~~
~~Extraordinary items~~	~~(X)~~	~~(X)~~

The IPSASs do not have the notion of income as do IASs. IPSAS 17 specifies that gain or loss shall be displayed as revenue or expense.

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

[2] ~~The minority interest share of the surplus/(deficit) from ordinary activities includes the minority interest share of extraordinary items. The presentation of extraordinary items net of minority interest is permitted by paragraph 57(c) of International Public Sector Accounting Standard IPSAS 1 *Presentation of Financial Statements*. Disclosure of the minority interest share of extraordinary items is shown in the notes to the financial statements.~~

~~Net~~ surplus/(deficit) for the period	X	X
Attributable to:		
Owners of the controlling entity	X	X
Minority interests	X	X
	X	X

PUBLIC SECTOR ENTITY – STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 DECEMBER 20X2
(ILLUSTRATING THE CLASSIFICATION OF EXPENSES BY NATURE)

(in thousands of currency units)

	20X2	20X1
~~Operating r~~Revenue		
Taxes	X	X
Fees, fines, penalties and licenses	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
Other ~~operating~~ revenue	X	X
Gains on sale of property, plant and equipment	X	X
Total ~~Operating~~ Revenue	X	X
~~Operating e~~Expenses		
Wages, salaries and employee benefits	X	X
Grants and other transfer payments	X	X
Supplies and consumables used	X	X
Depreciation and amortization expense	X	X
Impairment of property, plant and equipment*	X	X
Other ~~operating~~ expenses	X	X
Finance costs	X	X
Share of surplus of associates	X	X
Total ~~Operating~~ Expenses	X	X
~~Surplus/(deficit) from operating activities~~	~~X~~	~~X~~
~~Finance costs~~	~~(X)~~	~~(X)~~
~~Gains on sale of property, plant and equipment~~	~~X~~	~~X~~
~~Total non-operating revenue (expenses)~~	~~(X)~~	~~(X)~~
~~Surplus/(deficit) from ordinary activities~~	~~X~~	~~X~~
~~Minority interest share of surplus/(deficit)[3]~~	~~(X)~~	~~(X)~~
~~Net surplus/(deficit) before extraordinary items~~	~~X~~	~~X~~
~~Extraordinary items~~	~~(X)~~	~~(X)~~

The IPSASs do not have the notion of "income" as do IASs. IPSAS 17 specifies that gain or loss shall be displayed as revenue or expense.

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

~~[3] The minority interest share of the surplus/(deficit) from ordinary activities includes the minority interest share of extraordinary items. The presentation of extraordinary items net of minority interest is permitted by paragraph 57(c) of International Public Sector Accounting Standard IPSAS 1 *Presentation of Financial Statements*. Disclosure of the minority interest share of extraordinary items is shown in the notes to the financial statements.~~

~~Net s~~Surplus/(deficit) for the period	X	X
Attributable to:		
Owners of the controlling entity	X	X
Minority interest	X	X
	X	X

<u>Pls note the statement of changes in net assets/equity is not updated. It is proposed that the updated version be reviewed concurrently with the review of IAS 39.</u>

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

(in thousands of currency units)

	Contributed Capital	**Revaluation Reserve**	**Translation Reserve**	**Accumulated Surpluses/ (Deficits)**	**Total**
Balance at 31 December 20X0	X	X	(X)	X	X
Changes in accounting policy	(X)			(X)	(X)
Restated balance	X	X	X	X	X
Surplus on revaluation of property		X			X
Deficit on revaluation of investments		(X)			(X)
Currency translation differences			(X)		(X)
Net gains and losses not recognized in the statement of financial performance		X	(X)		X
Net surplus for the period				X	X
Balance at 31 December 20X1	X	X	(X)	X	X
Deficit on revaluation of property		(X)			(X)
Surplus on revaluation of investments		X			X
Currency translation differences			(X)		X
Net gains and losses not recognized in the statement of financial performance		(X)	(X)		(X)
Net deficit for the period				(X)	(X)
Balance at 31 December 20X2	X	X	(X)	X	X

Appendix ~~2~~4 – Qualitative Characteristics of Financial Reporting

Paragraph ~~37~~27 of this Standard requires ~~the development of accounting policies~~ an entity to ~~ensure that the financial statements~~ present information, including accounting policies, in a manner ~~provide information~~ that meets a number of qualitative characteristics. This appendix summarizes the qualitative characteristics of financial reporting.

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

Understandability

Information is understandable when users might reasonably be expected to comprehend its meaning. For this purpose, users are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, and to be willing to study the information.

Information about complex matters should not be excluded from the financial statements merely on the grounds that it may be too difficult for certain users to understand.

Relevance

Information is relevant to users if it can be used to assist in evaluating past, present or future events or in confirming, or correcting, past evaluations. In order to be relevant, information must also be timely.

Materiality

The relevance of information is affected by its nature and materiality.

Information is material if its omission or misstatement could influence the decisions of users or assessments made on the basis of the financial statements. Materiality depends on the nature or size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

Reliability

Reliable information is free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent.

Faithful Representation

For information to represent faithfully transactions and other events, it should be presented in accordance with the substance of the transactions and other events, and not merely their legal form.

Substance Over Form

If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. The substance of transactions or other events is not always consistent with their legal form.

Neutrality

Information is neutral if it is free from bias. Financial statements are not neutral if the information they contain has been selected or presented in a manner designed to influence the making of a decision or judgment in order to achieve a predetermined result or outcome.

Prudence

Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated.

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

Completeness

The information in financial statements should be complete within the bounds of materiality and cost.

Comparability

Information in financial statements is comparable when users are able to identify similarities and differences between that information and information in other reports.

Comparability applies to the:

- comparison of financial statements of different entities; and
- comparison of the financial statements of the same entity over periods of time.

An important implication of the characteristic of comparability is that users need to be informed of the policies employed in the preparation of financial statements, changes to those policies and the effects of those changes.

Because users wish to compare the performance of an entity over time, it is important that financial statements show corresponding information for preceding periods.

Constraints on Relevant and Reliable Information

Timeliness

If there is an undue delay in the reporting of information it may lose its relevance. To provide information on a timely basis it may often be necessary to report before all aspects of a transaction are known, thus impairing reliability. Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the decision-making needs of users.

Balance between Benefit and Cost

The balance between benefit and cost is a pervasive constraint. The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is, however, substantially a matter of judgment. Furthermore, the costs do not always fall on those users who enjoy the benefits. Benefits may also be enjoyed by users other than those for whom the information was prepared. For these reasons, it is difficult to apply a benefit-cost test in any particular case. Nevertheless, standard-setters, as well as those responsible for the preparation of financial statements and users of financial statements, should be aware of this constraint.

Balance between Qualitative Characteristics

In practice a balancing, or trade-off, between qualitative characteristics is often necessary. Generally the aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgment.

Comparison with IAS 1

International Public Sector Accounting Standard IPSAS 1 *Presentation of Financial Statements* is drawn primarily from International Accounting Standard IAS 1, *Presentation of Financial Statements* (revised 2003). The main differences between IPSAS 1 and IAS 1 are as follows:

- Commentary additional to that in IAS 1 has been included in IPSAS 1 to clarify the applicability of the standards to accounting by public sector entities e.g., discussion on the application of the going concern concept has been expanded.
- IAS 1 allows the presentation of either a statement showing all changes in net assets/equity, or a statement showing changes in net assets/equity other than those arising from capital transactions with owners and distributions to owners in their capacity as owners. IPSAS 1 requires the presentation of a statement showing all changes in net assets/equity.
- IPSAS 1 uses different terminology, in certain instances, from IAS 1. The most significant examples are the use of the terms ~~"entity",~~ "revenue", "statement of financial performance", "statement of financial position" and "net assets/equity" in IPSAS 1. The equivalent terms in IAS 1 are ~~"enterprise",~~ "income", "income statement", "balance sheet" and "equity".
- ~~The definition of the term "extraordinary item" differs from that used in International Accounting Standards IAS 8, *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*. The definition includes an additional criterion, namely that the items be "outside the control or influence of the entity" (paragraph 6).~~
- IAS 1 defines "International Financial Reporting Standards (IFRS) to include IFRSs, IASs and SIC/IFRIC Interpretations. IPSAS 1 does not define "International Public Sector Accounting Standards".
- IPSAS 1 contains a different set of definitions of technical terms from IAS 1 (paragraph ~~6~~8).
- IPSAS 1 contains commentary on the responsibility for the preparation of financial statements. IAS 1 does not include the same commentary (paragraphs 17-18).

- IPSAS 1 uses the phrase "the objective of financial statements set out in this IPSAS" to replace the equivalent phrase "the objective of financial statement set out in Framework" in IAS 1. This is because an equivalent Framework in IPSASs does not exist.
- IPSAS 1 contains commentary on timeliness of financial statements because of the lack of an equivalent Framework in IPSASs (paragraph 67).
- IPSAS 1 contains a transitional provision allowing the non-disclosure of items which have been excluded from the financial statements due to the application of a transitional provision in another IPSAS (paragraph ~~134~~150).
- IPSAS 1 contains a summary of qualitative characteristics (based on the IASC framework) in Appendix ~~2~~4.

Summary of Main Changes
IPSAS 3 *Accounting Policies, Changes in Estimates and Errors*

The main changes proposed are:

Name of Standard

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

Scope

- to transfer into this Standard the criteria for the selection of accounting policies from the old IPSAS 1 *Presentation of Financial Statements*; and
- to transfer from this Standard to IPSAS 1 the requirements on the presentation of items in the statement of financial performance.

Definitions

- to define in paragraph 8 new terms: "change in accounting estimate", "prior period errors", "prospective application", "retrospective application" and "retrospective restatement", "impracticable", "material" and "notes".
- to delete in paragraph 8 the terms: "extraordinary items", "ordinary activities", "net surplus/deficit", and "surplus/deficit from ordinary activities".

Materiality

- to stipulate in paragraph 14 that:
  - the accounting policies in IPSASs need not be applied when the effect of applying them is immaterial; and
  - financial statements do not comply with IPSASs if they contain material errors.

Net Surplus or Deficit for the Period

- to transfer this section (paragraphs 10 – 28 of the old IPSAS 3) to IPSAS 1.

Accounting Policies

- to specify the hierarchy of PSC's pronouncements, and authoritative and non-mandatory guidance, to be considered when selecting accounting policies to apply in the preparation of financial statements. The new hierarchy is now in bold italic type (paragraphs 19-20).
- to remove allowed alternative treatments for changes in accounting policies (including voluntary changes). An entity is now required (where practicable) to account for changes in accounting policies retrospectively (paragraph 29).

Errors

- to remove the distinction between fundamental errors and other material errors.

- to remove allowed alternative treatments for the correction of errors. An entity is now required to correct (where practicable) material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery (paragraph 52).

Criteria for exemptions from requirements (Impracticability)

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

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

  the entity changes the comparative information as if the new accounting policy had always been applied (paragraphs 33-37); or the error had been corrected (paragraphs 53-55), prospectively from the earliest date practicable.

- to include guidance on the interpretation of “impracticable” in paragraphs 60-63.

Disclosures

- to require more detailed and addiitonal disclosure of the amounts of adjustments as a consequence of changing accounting policies or correcting prior period errors (paragraphs 39 and 40).

- to require, rather than encourage the disclosure of:

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

Amendments to Other Pronouncements

- to include an authoritative appendix of amendments to other IPSASs that are not part of the IPSASs Improvements project and will be impacted as a result of the proposals in this IPSAS.

IFAC

Public

Sector

Committee

Issued MM YYYY~~May 2000~~

IPSAS 3

~~Net Surplus or Deficit for the Period, Fundamental Errors and Changes in~~ Accounting Policies, Changes in Accounting Estimates and Errors

International Public Sector

Accounting Standard

Issued by

the International

Federation of

Accountants

~~This Standard was approved by the Public Sector Committee of the International Federation of Accountants.~~

Acknowledgment

This International Public Sector Accounting Standard is drawn primarily from International Accounting Standard IAS 8, ~~Net Profit or Loss for the period, Fundamental Errors and Changes in~~ *Accounting Policies, Changes in Accounting Estimates and Errors* published by the International Accounting Standards ~~Committee~~ Board (IASB~~C~~). Extracts from IAS 8 are reproduced in this publication of the Public Sector Committee of the International Federation of Accountants with the permission of IASCF.

The approved text of the International Accounting Standards (IASs) is that published by IASB~~C~~ in the English language, and copies may be obtained directly from IASC, ~~166 Fleet~~30 Cannon Street, London EC4M~~A~~ ~~2DY~~6XH, United Kingdom.
E-mail: publications@iasc.org.uk

Information about the International Federation of Accountants and copies of this Standard can be found at its internet site, http://www.ifac.org.

The approved text of this Standard is that published in the English language.

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United States of America

INTRODUCTION

Accounting Standards for the Public Sector

The International Federation of Accountants — Public Sector Committee (the Committee) is developing ~~a set of~~ recommended accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The Committee recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs ~~will~~ play a key role in enabling these benefits to be realized.

The Introd has been updated to reflect the latest introdn agreed by the PSC in the ED issued on Impairment of assets

The IPSASs are based on the International Financial Reporting Standards (IFRSs), formerly known as International Accounting Standards (IASs), issued by the International Accounting Standards Board (IASB), where the requirements of those Standards are applicable to the public sector. The Committee is also developing IPSASs that deal with accounting issues in the public sector that are not addressed in the IFRSs or IASs.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The Committee strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in these Exposure Drafts. The Committee recognizes the right of governments and national standard setters to establish guidelines and accounting standards for financial reporting by the public sector in their jurisdictions. The Committee encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable ~~International Public Sector Accounting Standard~~IPSAS.

~~The objective of the current phase of the Committee's workplan is to develop IPSASs based on the International Accounting Standards (IASs) issued by the International Accounting Standards Committee and extant at 31 August 1997, or their subsequently revised versions. Some accounting issues in the public sector are not fully addressed in the IASs. Similarly, accounting for a number of complex issues will be addressed in IASs currently under development. Although these issues are not included in the brief of the current phase of the Committee's workplan, it~~

~~is cognizant of the importance of these issues and expects to address them once it has issued its initial set of Standards.~~

Contents

International Public Sector Accounting Standard IPSAS 3

~~Net Surplus or Deficit for the Period, Fundamental Errors and Changes in~~ Accounting Policies, Changes in Accounting Estimates and Errors

OBJECTIVE

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS 3

~~Net Surplus or Deficit for the Period, Fundamental Errors and Changes in~~ Accounting Policies, Changes in Accounting Estimates and Errors

This has been retained, but the IASB has a different introdn.

The standards, which have been set in bold italic type, should be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the "Preface to International Public Sector Accounting Standards". International Public Sector Accounting Standards are not intended to apply to immaterial items.

Objective

1. The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the ~~classification, disclosure and~~ accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and the correction of errors. This Standard is intended to ~~of certain items in the financial statements so that all entities prepare and present these items on a consistent basis. This~~ enhance~~s~~ the relevance and reliability of an entity's financial statements, and the comparability of those ~~both with the entity's~~ financial statements over time~~of previous periods~~ and with the financial statements of other entities.

Para 2 has bee moved from the scope section to the objective section in this IPSAS

2. ~~2. This Standard deals with, among other things, the disclosure of certain items of net surplus or deficit for the period. These d~~Disclosures requirements for accounting policies, except for those changes in accounting policies, are set out in ~~are made in addition to any other disclosures required by other~~ International Public Sector Accounting Standards, including IPSAS 1 *Presentation of Financial Statements*.

~~Accordingly, this Standard requires the classification and disclosure of extraordinary items and the separate disclosure of certain items in the financial statements. It also specifies the accounting treatment for~~

~~changes in accounting estimates, changes in accounting policies and the correction of fundamental errors.~~

~~The disclosure of extraordinary items in the cash flow statement is required by International Public Sector Accounting Standard IPSAS 2 *Cash Flow Statements*.~~

Scope

3. ~~1.~~ ***~~An entity which prepares and presents financial statements under the accrual basis of accounting should apply t~~This Standard shall be applied in selecting and applying ~~in presenting surplus or deficit from ordinary activities and extraordinary items in the statement of financial performance and~~ accounting policies, and accounting for changes in accounting policies, ~~in accounting for~~ changes in accounting estimates, ~~fundamental~~ and corrections of prior period errors ~~and changes in accounting policies~~.***

4. ~~3.~~ The tax effects of ~~extraordinary items, fundamental~~the correction of prior period errors and of retrospective adjustments made to apply changes in accounting policies are not considered in this Standard as they are not relevant for many public sector entities. International Accounting Standard IAS 12, *Income Taxes* contains guidance on the treatment of tax effects. ~~Where IAS 12 refers to unusual items, this should be read as extraordinary items as defined in this Standard.~~

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

Standard change following PSC decisions

6. ~~5.~~ The *Preface to International Financial Reporting Standards* issued by the International Accounting Standards Board (IASB) explains that International Financial Reporting Standards (IFRSs) are designed to apply to general purpose financial statements of all profit-oriented entities. Government Business Enterprises (GBEs) are defined in paragraph 8 below. They are profit-oriented entities. Accordingly, they are required to comply with IFRSs and International Accounting Standards (IASs) ~~issued by the International Accounting Standards Committee. The Public Sector Committee's Guideline No. 1 *Financial Reporting by Government Business Enterprises* notes~~

~~that IASs are relevant to all business enterprises, regardless of whether they are in the private or public sector. Accordingly, Guideline No. 1 recommends that GBEs should present financial statements that conform, in all material respects, to IASs.~~

7. The International Accounting Standards Board (IASB) was established in 2001 to replace the International Accounting Standards Committee (IASC). The IASs issued by the IASC remain in force until they are amended or withdrawn by the IASB.

Definitions

8. ~~*6.*~~ ***The following terms are used in this Standard with the meanings specified:***

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

Accrual basis means a basis of accounting under which transactions, ~~and~~ other events and conditions are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions, ~~and~~other events and conditions are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.

As directed in Buenos Aires, unnecessary definitions are deleted. They are: assets, borrowing costs, cash equivalents, cash flows

~~Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.~~

~~Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.~~

~~Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.~~

the IASB has defined 'change in accounting estimate'

~~***Cash flows** are inflows and outflows of cash and cash equivalents.*~~

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

Delete unnecessary definitions: Contributions from owners, control, discontinued operations, distributions to owners, expenese

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

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

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

~~***Control** is the power to govern the financial and operating policies of another entity so as to benefit from its activities.*~~

~~*A **discontinued operation** [1] results from the sale or abandonment of an operation that represents a separate, major line of business of an entity and of which the assets, net surplus or deficit and activities can be distinguished physically, operationally and for financial reporting purposes.*~~

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[1] ~~IFAC PSC has not yet addressed the issue of discontinuing operations, which was previously included within International Accounting Standard IAS 8 (Revised 1993), *Net Profit/Loss for the Period, Fundamental Errors and Changes in Accounting Policies* and which is now the subject of a separate Standard, International Accounting Standard IAS 35, *Discontinuing Operations.*~~

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

~~***Expenses** are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.*~~

The notion of extraordinary items was deleted

~~***Extraordinary items** are revenue or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the entity, are not expected to recur frequently or regularly and are outside the control or influence of the entity.*~~

Delete unnecessary definition: financing activities, foreign entity, foreign operation, government business enterprise

~~***Financing activities** are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.*~~

~~***Foreign entity** is a foreign operation, the activities of which are not an integral part of those of the reporting entity.*~~

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

Fundamental errors have been deleted – replaced with 'errors'. The IASB did not define 'errors'

~~***Fundamental errors** are errors discovered in the current period that are of such significance that the financial statements of one or more prior periods can no longer be considered to have been reliable at the date of their issue.*~~

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

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

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

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

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

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

IASB has defined the term 'impracticable

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

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

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

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

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

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

from other information.

Unnecessary definition: liabilities

~~***Liabilities** are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.*~~

This defn is slightly different from IASB's to maintain consistency with Appendix 4 of IPSAS 1.

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

Consequence of eliminating extraordinary items, dfns such as net surplus/deficit and ordinary activities have been deleted

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

~~***Net surplus/deficit** comprises the following components:*~~

~~*(a) surplus or deficit from ordinary activities; and*~~

~~*(b) extraordinary items.*~~

Unnecessary defn: operating activities, net assets/equity

~~***Operating activities** are the activities of the entity that are not investing or financing activities.*~~

~~***Ordinary activities** are any activities which are undertaken by an entity as part of its service delivery or trading activities. Ordinary activities include such related activities in which the entity engages in furtherance of, incidental to, or arising from these activities.*~~

'Prior period errors' is a new term introduced and defined by the IASB

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

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

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

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

'Prospective application' is a new term introduced and defined by the IASB

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

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

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

The terms 'retrospective application' and 'retrospective restatement' have now been defined by the IASB.

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

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

Unnecessary defn: revenue

~~***Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.***~~

~~***Surplus/deficit from ordinary activities is the residual amount that remains after expenses arising from ordinary activities have been deducted from revenue arising from ordinary activities.***~~

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

~~**Future Economic Benefits or Service Potential**~~

~~7. Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives but which do not directly generate net cash inflows are often described as embodying "service potential". Assets that are used to generate net cash inflows are~~

Delete unnecessary definition guidance. They are: future economic benefits or service potential, GBE and net assets/equity

~~often described as embodying "future economic benefits". To encompass all the purposes to which assets may be put, this Standard uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.~~

~~**Government Business Enterprises**~~

~~8. Government Business Enterprises (GBEs) include both trading enterprises, such as utilities, and financial enterprises, such as financial institutions. GBEs are, in substance, no different from entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in the community with goods and services at either no charge or a significantly reduced charge. International Public Sector Accounting Standard IPSAS 6 *Consolidated Financial Statements and Accounting for Controlled Entities* provides guidance on determining whether control exists for financial reporting purposes, and should be referred to in determining whether a GBE is controlled by another public sector entity.~~

Materiality

The characteristics of users were introduced by IASB in final Standards, but no in the ED. The wording is slightly different from IASB's.

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

~~**Net Assets/Equity**~~

~~9. "Net assets/equity" is the term used in this Standard to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.~~

~~Net Surplus or Deficit for the Period~~

This section has been moved to IPSAS 1

~~***10. All items of revenue and expense recognized in a period should be included in the determination of the net surplus or deficit for the period unless an International Public Sector Accounting Standard requires or permits otherwise.***~~

~~11. Normally, all items of revenue and expense recognized in a period are included in the determination of the net surplus or deficit for the period. This includes extraordinary items and the effects of changes in accounting estimates. However, circumstances may exist when certain items may be excluded from net surplus or deficit for the current period. This Standard deals with two such circumstances: the correction of fundamental errors and the effect of changes in accounting policies.~~

~~12. Other International Public Sector Accounting Standards deal with items which may meet definitions of revenue or expense but which are usually excluded from the determination of net surplus or deficit. Examples include a revaluation surplus on physical assets (which are accounted for in accordance with appropriate standards on property, plant and equipment) and gains and losses arising on the translation of the financial statements of a foreign entity (see International Public Sector Accounting Standard IPSAS 4 The Effects of Changes in Foreign Exchange Rates).~~

~~***13. The net surplus or deficit for the period comprises the following components, each of which should be disclosed on the face of the statement of financial performance:***~~

~~***(a) surplus or deficit from ordinary activities; and***~~

~~***(b) extraordinary items.***~~

~~Extraordinary Items~~

This section was deleted to reflect the decision made by the IASB in IAS 1 (IPSAS 1)

~~***14. The nature and the amount of each extraordinary item should be separately disclosed.***~~

~~15. Extraordinary items should be separately disclosed in the statement of financial performance.~~

~~16. Extraordinary items should be rare, unusual and material. The disclosure of cash flows associated with extraordinary items within a cash flow statement is required by IPSAS 2. IPSAS 2 outlines the requirements for the disclosure of extraordinary items within a cash flow statement. It requires that the cash flows associated with extraordinary items be classified as arising from operating, investing or financing activities as appropriate, and separately disclosed.~~

~~Distinct from Ordinary Activities~~

~~17. Virtually all items of revenue and expense included in the determination of net surplus or deficit for the period arise in the course of the ordinary activities of the entity.~~

~~18. Whether an event or transaction is clearly distinct from the ordinary activities of the entity is determined by the nature of the event or transaction in relation to the activities ordinarily carried on by the entity rather than by the frequency with which such events are expected to occur. An event or transaction may be extraordinary for one entity or level of government, but not extraordinary for another entity or level of government because of the differences between their respective ordinary activities. In the context of whole-of-government reporting, extraordinary items will be extremely rare.~~

~~Not Expected to Recur in Foreseeable Future~~

~~19. The event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates. The nature of extraordinary items is such that they would not normally be anticipated at the beginning of a reporting period and therefore would not be included in a budget. Inclusion of an item in a budget suggests that the occurrence of the item is foreseen and therefore not extraordinary.~~

~~Outside the Control or Influence of the Entity~~

~~20. The event or transaction should be outside the control or influence of the entity. An event or transaction is presumed to be outside the control or influence of an entity if the decisions or determinations of the entity do not normally influence the occurrence of that transaction or event. However, a gain or loss arising because of a decision to sell an asset rather than hold the asset is not to be considered extraordinary~~

~~because the event originated within the entity and was therefore within the control or influence of management.~~

~~Examples of Extraordinary Items~~

~~21. Examples of extraordinary items should be considered in the context of the entity's operating environment and the level of government within which it operates. Judgment should be exercised in each case. Although an event may meet the definition of an extraordinary item for a particular level of government, for example, local or provincial government, it is unlikely that many events will be extraordinary in the context of a national government.~~

~~22. Examples of the costs associated with events or transactions that may, although not necessarily, give rise to extraordinary items for some public sector entities or levels of government are:~~

~~(a) short-term costs associated with the provision of services to refugees where the need for such services was unforeseen at the beginning of the period, outside the ordinary scope of activities for the entity and outside the control of the entity. If such services were provided for more than one reporting period they would not generally be classified as extraordinary; and~~

~~(b)the costs associated with the provision of services following a natural or man-made disaster, for example, the provision of shelter to homeless people following an earthquake. In order for a such an event to qualify as an extraordinary event it would need to be of a magnitude that would not normally be expected in either the geographic area in which it occurred or the geographic area associated with the entity, and the provision of emergency services or the restoration of essential services would need to be outside the scope of ordinary activities of the entity concerned. Where an entity has responsibility for providing assistance to those affected by natural disasters then costs associated with this activity would not generally meet the definition of an extraordinary item.~~

~~23. By contrast, the following activities, or the prevention of such activities, are generally within the control of an entity and would rarely, if ever, be extraordinary for an entity:~~

~~(a) gains or losses from exchange of foreign currencies;~~

~~(b) the gain or loss on disposal of an activity of the entity; and~~

~~(c) restructuring costs.~~

~~24. The restructuring of activities is an example of an event which would not normally be extraordinary for either an individual public sector entity or the whole-of-government entity which incorporates that government body. All three criteria within the definition of an extraordinary item must be satisfied before an item can be classified as extraordinary. A restructuring may clearly be distinct from the ordinary activities of the entity. However, at the whole-of-government level, restructuring may occur frequently. More importantly, restructuring is usually within the control or influence of a whole-of-government entity.~~

~~Disclosure of Extraordinary Items~~

~~25. The disclosure of the nature and amount of each extraordinary item may be made on the face of the statement of financial performance, or in the notes to the financial statements. If disclosure is made in the notes to the financial statements, the total amount of all extraordinary items should be disclosed on the face of the statement of financial performance.~~

~~Surplus or Deficit from Ordinary Activities~~

~~26. When items of revenue and expense within surplus or deficit from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the entity for the period, the nature and amount of such items should be disclosed separately.~~

~~27. Although the items described in paragraph 26 are not extraordinary items, the nature and amount of such items may be relevant to users of financial statements. The disclosures may assist users in understanding the financial position and performance of an entity and in making projections about financial position and performance. Disclosure of such information is usually made in the notes to the financial statements.~~

~~28. Circumstances which may give rise to the separate disclosure of items of revenue and expense in accordance with paragraph 26 include:~~

~~(a)the write-down of inventories to net realizable value or property, plant and equipment to recoverable amount, as well as the reversal of such write-downs;~~

~~(b) a restructuring of the activities of an entity and the reversal of any provisions for the costs of restructuring;~~

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

~~(d) privatizations or other disposals of long-term investments;~~

~~(e) discontinued operations;~~

~~(f) litigation settlements; and~~

~~(g) other reversals of provisions.~~

~~29. Where the impact of a government's restructuring has a material impact upon the financial statements, relevant disclosures in relation to the statement of financial performance would include staff expenses such as redundancy or retraining, relocation and refurbishment expenses, and the net surplus or deficit associated with the sale or disposal of assets.~~

Paras 37 – 42 (ie the accounting policies section) of IPSAS 1 and paras 48 – 68 have been moved to become paras 10 – 38.

The IASB introduced a new section called 'Accounting Policies' which moved the following to before the old paras 30 – 37 of the existing IPSAS 3 (ie the section on Changes in Accounting Estimates)

Accounting Policies

Selection and Application of Accounting Policies

In para 10, implemntn guidance has been replaced with 'Appendices'.

10. When an International Public Sector Accounting Standard specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Standard and considering any relevant Appendices issued by the PSC for the Standard.

11. International Public Sector Accounting Standards (IPSASs) set out accounting policies that the PSC has concluded result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they

apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from IPSASs to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

In the updated IAS 8, there is a paragraph that notes that Implementation Guidance does not form part of the Standard. Staff have attached the relevant paragraph below for your attention. The IASB has now elevated Appendices as part of an IFRS, and therefore is now authoritative. Guidance on how to apply an IAS that formed part of an Appendix have now been moved as Implementation Guidance.

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

Paras 12 – 16 originate from IPSAS 1 paras 37 – 42.

12. ***In the absence of an ~~Management should select and apply an entity's accounting policies so that the financial statements comply with all the requirements of each applicable~~ International Public Sector Accounting Standard that~~. Where there is no~~ specifically applies to a transaction, other event or condition~~ requirement~~, management ~~should~~shall use its judgment in developing and applying an accounting policy~~ies~~ that results in ~~to ensure that the financial statements provide~~ information that is:***

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

(b) reliable, in that the~~y~~ financial statements:

(i) represent faithfully the financial performance and financial position of the entity;

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

(iii) are neutral, ~~that is~~ie, free from bias;

(iv) are prudent; and

(v) are complete in all material respects.

para 13 is from IPSAS 1 para 38

13. If one or more alternative accounting policies ~~(benchmark or allowed alternative)~~ are available under an International Public Sector Accounting Standard, an entity should choose and apply consistently one of those policies unless the Standard specifically requires or permits categorization of items (transactions, events, balances, amounts, etc.) for which policies are to be chosen. If a Standard requires or permits separate categorization of items, a single accounting policy should be selected and applied consistently to each category.

Para 14 is from IPSAS 1 para 39

14. Once an initial policy has been selected, a change in accounting policy should only be made in accordance with International Public Sector Accounting Standard IPSAS 3 ~~Net Surplus or Deficit for the Period, Fundamental Errors and Changes in~~ *Accounting Policies, Changes in Accounting Estimates and Errors* ***and applied to all items or categories of items in the manner specified in paragraph 13~~38~~.***

Para 15 is from IPSAS 1 para 40

15. The quality of information provided in financial statements determines the usefulness of the financial statements to users. Paragraph ~~37~~12 requires the development of accounting policies to ensure that the financial statements provide information that meets a number of qualitative characteristics. Appendix ~~2~~4 to ~~this Standard~~IPSAS 1 summarizes the qualitative characteristics of financial reporting.

Para 16 been updated and reflected as black letter (to follow the changes in IAS 8). Previously, this was a commentary para.

Para 16 is from IPSAS 1 para 42

16. ~~In the absence of a specific International Public Sector Accounting Standard, management uses its judgment in developing an accounting policy that provides the most useful information to users of the entity's financial statements.~~ In making ~~this~~the judgment, described in paragraph 12, management shall refer to, and consider~~s~~ the applicability of, the following sources in descending order:

In its equivalent IAS para, part (b) refers to the defns, recognition, & mesmt criteria in the Framework.

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

(b) ***the definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described in other publications of the International Federation of Accountants — Public Sector Committee.~~; and~~***

~~***(c) pronouncements of other standard setting bodies and accepted public or private sector practices to the extent, but only to the extent, that these are consistent with (a) of this paragraph. For example, pronouncements of the International Accounting Standards Committee (IASC), including the Framework for the Preparation and Presentation of Financial Statements, International Accounting Standards and interpretations issued by the IASC's Standing Interpretations Committee.***~~

This replicates para 17(c), but uses the revised IAS structure. The IAS equivalent refers to a framework. See para 17A.

17. In making the judgment described in paragraph 12, management may also consider the pronouncements of other standard setting bodies and accepted public or private sector practices to the extent, but only to the extent, that these are consistent with paragraph 16(a)~~of this paragraph~~. For example, pronouncements of the International Accounting Standards ~~Committee~~Board (IAS~~C~~B), including the Framework for the Preparation and Presentation of Financial Statements, International ~~Accounting~~ Financial Reporting Standards and interpretations issued by the IAS~~C~~B's International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee(SIC).

In the revised IAS 8, the IASB used para 17A (see below). It refers to the conceptual framework.

17A. In making the judgment described in paragraph 10 (the IPSAS equivalent is para 12), management may also consider the most recent pronouncements of other standard-setting bodies that are use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that

these do not conflict with the sources in paragraph 11. (the IPSAS equivalent is para 16)

Consistency of Accounting Policies

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

Changes in Accounting Policies

Para 51 was moved to before para 48.

19. ~~51.~~ An entity shall change ~~i~~an accounting policy ~~should be made~~ only if the change:

(a) is required by ~~statute (including a mandatory regulation), or by~~ an International Public Sector ~~a~~Accounting ~~s~~Standard ~~setting body,~~; or

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

20. ~~48.~~ Users of financial statements need to be able to compare the financial statements of an entity over ~~a period of~~ time to identify trends in its financial position, performance and cash flows. Therefore the same accounting policies are ~~normally adopted in~~ applied within each period and from one period to th e next unless a change in accounting policy meets one of the criteria in paragraph 19.

Paras 21 and 22 were added by the PSC. But, para 24 has been updated to reflect that guidance on the selection and application of accounting policies (that were previously in IPSAS 1) has been moved to this IPSAS.

21. ~~49. The selection and application of accounting policies are discussed in IPSAS 1.~~ ***A change from one basis of accounting to another basis of accounting is a change in accounting policy.***

22. ~~50.~~ ***A change in the accounting treatment, recognition or measurement of a transaction or event within a basis of accounting is regarded as a change in accounting policy.***

23. ~~52.~~ ***The following are not changes in accounting policies:***

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

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

Unlike its equivalent IAS para, para 24 does not refer to IAS 38 as the PSC has not dealt with the issue of intangible assets

24. ~~53.~~ ***The initial ~~adoption~~application of a policy to ~~carry assets at~~ revalued~~d~~ assets ~~amounts~~ in accordance with IPSAS 17 Property, Plant and Equipment or other International Public Sector Accounting Standards that deal with the revaluation of asets is a change in accounting policy to be dealt with as a revaluation in accordance with IPSAS 17 or that relevant Standard, rather than~~. However, where another appropriate accounting standard establishes requirements for dealing with revaluations in relation to a specific class of assets, such as property, plant and equipment, such changes should be dealt with in accordance with that~~ this Standard.***

25. Paragraphs 26-38 do not apply to the change in accounting policy described in paragraph 24.

~~54. A change in accounting policy is applied retrospectively or prospectively in accordance with the requirements of this Standard. Retrospective application results in the new accounting policy being applied to events and transactions as if the new accounting policy had always been in use. Therefore, the accounting policy is applied to events~~

~~and transactions from the date of origin of such items. Prospective application means that the new accounting policy is applied to the events and transactions occurring after the date of the change. With respect to prospective application, no adjustments relating to prior periods are made either to the opening balance of accumulated surpluses or deficits or in reporting the net surplus or deficit for the current period because existing balances are not recalculated. However, the new accounting policy is applied to existing balances as from the date of the change. For example, an entity may decide to change its accounting policy for borrowing costs and capitalize those costs in conformity with the allowed alternative treatment in International Public Sector Accounting Standard IPSAS 5 *Borrowing Costs*. Under prospective application, the new policy only applies to borrowing costs that are incurred after the date of the change in accounting policy.~~

Paras 10 and 16 now deal with this issue 'adptn of IPSAS'.

Para 55 has been moved to para 26.

~~Adoption of an International Public Sector Accounting Standard~~

~~***55.***~~

~~56. The transitional provisions in an International Public Sector Accounting Standard may require either a retrospective or a prospective application of a change in accounting policy.~~

~~57. IPSAS 1 sets out the principles to be applied in the selection and application of accounting policies.~~

~~58. When an entity has not adopted a new International Public Sector Accounting Standard which has been published but which has not yet come into effect, the entity is encouraged to disclose the nature of the future change in accounting policy and an estimate of the effect of the change on its net surplus or deficit, financial position, and/or net increase/(decrease) in cash and cash equivalents as appropriate.~~

~~Other~~Applying Changes in Accounting Policies ~~– Benchmark Treatment~~

~~29.~~26. ~~***55. A change in accounting policy which is made on the adoption of an International Public Sector Accounting Standard should be accounted for in accordance with the specific transitional provisions, if any, in that International Public Sector Accounting Standard. In the absence of any***~~

~~transitional provisions, the change in accounting policy should be applied in accordance with the benchmark treatment in paragraphs 59, 60, 63 and 64 or the allowed alternative in paragraphs 65, 67 and 68.~~Subject to paragraph 30:

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

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

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

28. In the absence of an International Public Sector Accounting Standard that specifically applies to a transaction, other event or condition, management may, in accordance with paragraph 17, apply an accounting policy from the pronouncements of other standard setting bodies and accepted public or private sector practices to the extent, but only to the extent, that these are consistent with paragraph 14(a)~~ of this paragraph~~. For example, pronouncements of the International Accounting Standards ~~Committee~~ Board (IAS~~C~~B), including the *Framework for the Preparation and Presentation of Financial Statements*, International ~~Accounting~~ Financial Reporting Standards and interpretations issued by the IASB~~C~~'s International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC). If, following an amendment of such a pronouncement, the entity chooses to change an accounting policy, that change is accounted for and disclosed as a voluntary change in accounting policy.

Para 28 has the same issue as para 17. The relevant para used by the IASB in the revised IAS is attached as para 28A below.

28A. In the absence of a Standard that specifically applies to a transaction, other event or condition, management may, in accordance with paragraph 12 *(the IPSAS equivalent is para 17),* apply an accounting policy from the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards. If, following an amendment of such a pronouncement, the entity chooses to change an accounting policy, that change is accounted for and disclosed as a voluntary change in accounting policy.

Retrospective application

~~**59.**~~ ***Subject to paragraph 30, when a~~A~~ change in accounting policy ~~should be~~is applied retrospectively in accordance with paragraph 26(a) or (b), the entity shall~~unless the amount of any resulting adjustment that relates to prior periods is not reasonably determinable.~~***

29. ***~~60. Any resulting adjustment should be reported as an~~ adjust~~ment to~~ the opening balance of each affected component of ~~accumulated surpluses or deficits~~net assets/equity for the earliest period presented and other~~.~~ ~~C~~comparative amounts~~information should be restated unless it is impracticable to do so~~ disclosed as if the new accounting policy had always been applied.***

~~61. The financial statements, including the comparative information for prior periods, are presented as if the new accounting policy had always been in use. Therefore, comparative information is restated in order to reflect the new accounting policy. The amount of the adjustment relating to periods prior to those included in the financial statements is adjusted against the opening balance of accumulated surpluses or deficits of the earliest period presented. Any other information with respect to prior periods, such as historical summaries of financial data, is also restated.~~

~~62. The restatement of comparative information does not necessarily give rise to the amendment of financial statements which have been approved by the governing body or registered or filed with regulatory authorities. However, national laws may require the amendment of such financial statements.~~

Limitations on retrospective application

30. ***When a retrospective application is required by paragraph 26(a) or (b), a change in accounting policy shall be applied retrospectively except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.***

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

32. ~~***63.***~~ ***When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new*** ~~***The change in***~~ ***accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy from the earliest date practicable*** ~~***should be applied prospectively when the amount of the adjustment to the opening balances required by paragraph 60 cannot be reasonably determined***~~**.**

The IASB inserted 3 new paragraphs between the old paragraphs 63 and 64.

33. When an entity applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information for prior periods as far back as is practicable. Retrospective application to a prior period is not practicable unless it is practicable to determine the cumulative effect on the amounts in both the opening and closing statement of financial positions for that period. The amount of the resulting adjustment relating to periods before those presented in the financial statements is made to the opening balance of each affected component of net assets/equity of the earliest prior period presented. Usually the adjustment is made to retained earnings. However, the

adjustment may be made to another component of net assets/equity (for example, to comply with an International Public Sector Accounting Standard). Any other information about prior periods, such as historical summaries of financial data, is also adjusted as far back as it practicable.

34. When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the entity, in accordance with paragraph 32, applies the new policy prospectively from the start of the earliest period practicable. It therefore disregards the portion of the cumulative adjustment to assets, liabilities and equity arising before that date. Changing an accounting policy is permitted even if it is impracticable to apply the policy prospectively for any prior period. Paragraphs 57 - 60 provide guidance when it is impracticable to apply a new accounting policy to one or more prior periods.

Disclosure

New requirement

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

(a) the title of the Standard;

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

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

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

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

In para 35(f)'s equivalent IAS para, IASB requires the disclosure of the amt of adjustment for basic or diluted earnings per share.

(f) for the current period and each prior period presented, to the extent practicable, the amount of the

adjustment for each financial statement line item affected;

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

(h) if retrospective application required by paragraph 26(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Financial statements of subsequent periods need not repeat these disclosures.

Additional disclosure requirement

36. ~~64.~~ When a voluntary change in accounting policy has an ~~material~~ effect on the current period or any prior period ~~presented~~, would have an effect on that period except that it is impracticable to determine the amount of the adjustment, or ~~may~~might have an ~~material~~ effect ~~i~~on ~~subsequent~~future periods, an entity should disclose ~~the following~~:

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

In para 36(b)'s equivalent IAS para, IASB requires the disclosure of the amt of adjustment for basic or diluted earnings per share.

(~~a~~b) the reasons ~~for the change~~why applying the new accounting policy provides more reliable and more relevant information;

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

(~~b~~d) the amount of the adjustment ~~for the current period and for each~~relating to periods before those presented, to the extent possible;

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

applied. ~~***the amount of the adjustment relating to periods prior to those included in the comparative information; and***~~

~~***(d) the fact that comparative information has been restated or that it is impracticable to do so.***~~

Financial statements of subsequent periods need not repeat these disclosures.

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

(a) this fact; and

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

38. In complying with paragraph 37, an entity considers disclosing:

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

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

(c) the date by which application of the International Public Sector Accounting Standard is required;

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

(e) either:

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

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

~~Other Changes in Accounting Policies – Allowed Alternative Treatment~~

As proposed in the ED, the allowed alternative treatment was deleted.

~~***65. A change in accounting policy should be applied retrospectively unless the amount of any resulting adjustment that relates to prior periods is not reasonably determinable. Any resulting adjustment should be included in the determination of the net surplus or deficit for the current period. Comparative information should be presented as reported in the financial statements of the prior period. Additional pro forma comparative information, prepared in accordance with paragraph 60, should be presented unless it is impracticable to do so.***~~

~~66. Adjustments resulting from a change in accounting policy are included in the determination of the net surplus or deficit for the period. However, additional comparative information is presented, often as separate columns, in order to show the net surplus or deficit and the financial position of the current period and any prior periods presented as if the new accounting policy had always been applied. It may be necessary to apply this accounting treatment in countries where the financial statements are required to include comparative information which agrees with the financial statements presented in prior periods.~~

~~***67. The change in accounting policy should be applied prospectively when the amount to be included in net surplus or deficit for the current period required by paragraph 65 cannot be reasonably determined.***~~

~~***68. When a change in accounting policy has a material effect on the current period or any prior period presented, or may have a material effect in subsequent periods, an entity should disclose the following:***~~

~~***(a) the reasons for the change;***~~

~~***(b) the amount of the adjustment recognized in net surplus or deficit in the current period; and***~~

~~***(c) the amount of the adjustment included in each period for which pro forma information is presented and the amount of the adjustment relating to periods prior to those included in the financial***~~

~~***statements. If it is impracticable to present pro forma information, this fact should be disclosed.***~~

Changes in Accounting Estimates

39. ~~30.~~ As a result of the uncertainties inherent in delivering services, conducting trading or other activities, many financial statement items cannot be measured with precision but can only be estimated. ~~The e~~Estimation ~~process~~ involves judgments based on the latest ~~information~~ available, reliable information. For example, ~~E~~estimates may be required, ~~for example,~~ of:

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

(b) inventory obsolescence~~,~~;

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

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

(e) warranty obligations.

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

41. ~~31.~~ An estimate may have to be revised if changes occur ~~regarding~~ in the circumstances on which the estimate was based or as a result of new information~~,~~ or more experience ~~or subsequent developments~~. By its nature, the revision of ~~the~~an estimate does not ~~bring the adjustment within the definitions of an extraordinary item~~ relate to prior periods and is not the correction of ~~or a fundamental~~ an error.

42. ~~32.~~ A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When ~~Sometimes~~ it is difficult to distinguish ~~between~~ a change in accounting policy ~~and~~from a change in an

accounting estimate~~. In such cases~~, the change is treated as a change in an accounting estimate~~, with appropriate disclosure~~.

43. ~~***33.***~~ ***The effect of a change in an accounting estimate, other than a change to which paragraph 44 applies, ~~should~~shall be recognized prospectively by includinged ~~ed~~ it in ~~the determination of net~~ surplus or deficit in:***

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

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

New rq'ment/ clarification

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

45. ~~34.~~ Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events and conditions from the date of the change in estimate. A change in an accounting estimate may affect the current period's surplus or deficit, ~~only~~ or surplus of deficit of both the current period and future periods. For example, a change in the estimate of the amount of bad debts affects only the current period's surplus or deficit and ~~is~~ therefore is recognized ~~immediately~~in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of economic benefits or service potential ~~of~~embodied in, a depreciable asset affects the depreciation expense in the current period and ~~in~~for each period during the asset's remaining useful life ~~of the asset~~. In both cases, the effect of the change relating to the current period is recognized as revenue or expense in the current period. The effect, if any, on future periods is recognized in future periods.

~~***35. The effect of a change in an accounting estimate should be included in the same statement of financial performance classification as was used previously for the estimate.***~~

~~36. To ensure the comparability of financial statements of different periods, the effect of a change in an accounting estimate for estimates which were previously included in the surplus or deficit from ordinary activities is included in that component of net surplus or deficit. The effect of a change in an accounting estimate for an estimate which was previously included as an extraordinary item is reported as an extraordinary item.~~

Disclosure

46. ~~*37.*~~ ***An entity shall disclose ~~T~~the nature and amount of a change in an accounting estimate that has an ~~material~~ effect in the current period or ~~which~~ is expected to have an ~~material~~ effect ~~i~~on ~~subsequent~~future periods~~ should be disclosed~~ when it is impracticable to estimate that effect.***

47. ***If it is impracticable to quantify the amount, this fact should be disclosed.***

IASB removed the notion of fundamental errors and replaced it with errors

~~Fundamental~~ Errors

48. ~~38. Errors in the preparation of the financial statements of one or more prior periods may be discovered in the current period. Errors may occur as a result of mathematical mistakes, mistakes in applying accounting policies, misinterpretation of facts, fraud or oversights. The correction of these errors is normally included in the determination of net surplus or deficit for the current period~~ Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Financial statements do not comply with IPSASs if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorized for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period (see paragraphs 49-54).

~~39. On rare occasions, an error has such a significant effect on the financial statements of one or more prior periods that those financial statements can no longer be considered to have been reliable at the date of their issue. These errors are referred to as fundamental errors. An example of a fundamental error is the omission of a major class of revenue or expense from the financial statements. The correction of fundamental errors that relate to prior periods requires the restatement of the comparative information or the presentation of additional pro forma information.~~

~~40.~~

Para 40 has been moved to after paragraph 55 of the updated IPSAS 3.

~~Benchmark Treatment~~

49. ~~***41.***~~ ***Subject to paragraph 50, an entity shall~~The amount of the~~ correct~~ion of a fundamental~~material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:***

(a) restating the ~~that relates to prior periods should be reported by adjusting the opening balance of accumulated surpluses or deficits. C~~comparative ~~information should be restated, unless it is impracticable to do so~~ amounts for prior period(s) presented in which the error occurred; or

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

Limitations of Retrospective Restatement

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

51. When it is impracticable to determine the period-specific effects of an error on comparative information for one or

more prior periods presented, the entity shall restate the opening balances of assets, liabilities and net assets/equity for the earliest period for which retrospective restatement is practicable (which may be the current period).

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

53. ~~42.~~ The correction of a prior period is excluded from surplus or deficit for the period in which the error is discovered. ~~The financial statements, including the comparative information for prior periods, are presented as if the fundamental error had been corrected in the period in which it was made. Therefore the amount of the correction that relates to each period presented is included within the net surplus or deficit for that period. The amount of the correction relating to periods prior to those included in the comparative information in the financial statements is adjusted against the opening balance of accumulated surpluses or deficits in the earliest period presented.~~ Any ~~other~~ information ~~reported~~presented about ~~with respect to~~ prior periods, ~~such as~~including historical summaries of financial data, is also restated as far back as is practicable.

~~43. The restatement of comparative information does not necessarily give rise to the amendment of financial statements which have been approved by the governing body or registered or filed with regulatory authorities. However, national laws may require the amendment of such financial statements.~~

54. When it is impracticable to determine the amount of an error (eg a mistake in applying an accounting policy) for all prior periods, the entity, in accordance with paragraph 52, restates the comparative information prospectively from the earliest date practicable. It therefore disregards the portion of the cumulative restatement of assets, liabilities and net assets/equity arising before that date. Paragraphs 57-60 provide guidance on when it is impracticable to correct an error for one or more prior periods.

55. ~~40.~~ ~~The c~~Corrections of ~~fundamental~~ errors ~~can be~~are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, the gain or loss recognized on the outcome of a contingency ~~which previously could not be estimated reliably does~~ is not c~~onstitute~~ the correction of an ~~fundamental~~ error.

In para 56(b)'s equivalent IAS, IASB requires disclosure of amt of correction for earnings per share.

Disclosure of Prior Period Errors

56. ~~***44.***~~ ***In applying paragraph 49, ~~A~~an entity ~~should~~shall disclose the following:***

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

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

(c) ***the amount of the correction at the beginning of the earliest ~~relating to~~ prior periods presented~~prior to those included in the comparative information~~; and***

(d) ***if retrospective restatement ~~the fact that comparative information has been restated or that it~~ is impracticable ~~to do so~~for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.***

Financial statements of subsequent periods need not repeat these disclosures.

~~Allowed Alternative Treatment~~

~~***45. The amount of the correction of a fundamental error should be included in the determination of net surplus or deficit for the current period. Comparative information should be presented as reported in the financial statements of the prior period. Additional pro forma information, prepared in accordance with paragraph 41, should be presented unless it is impracticable to do so.***~~

~~46. The correction of the fundamental error is included in the determination of the net surplus or deficit for the current period. However, additional information is presented, often as separate columns, to show the net surplus or deficit of the current period and any prior periods presented as if the fundamental error had been corrected in the period when it was made. It may be necessary to apply this accounting treatment in countries where the financial statements are required to include comparative information which agrees with the financial statements presented in prior periods.~~

~~***47. An entity should disclose the following:***~~

~~***(a) the nature of the fundamental error;***~~

~~***(b) the amount of the correction included in each period for which pro forma information is presented and the amount of the correction relating to periods prior to those included in the pro forma information. If it is impracticable to present pro forma information, this fact should be disclosed; and***~~

~~***(c) the amount of any correction recognized in net surplus or deficit for the current period.***~~

Impracticability in Respect of Retrospective Application and Retrospective Restatement

New guidance/ explanation on the notion of impracticability

57. In some circumstances, it is impracticable to adjust comparative information for one or more periods to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows either retrospective application of a new accounting policy (including, for the purpose of paragraphs 58-60, its prospective application to prior periods) or retrospective restatement to correct a prior period error, and it may be impracticable to recreate the information.

58. It is frequently necessary to make estimates in applying an accounting policy to elements of financial statements recognized or disclosed in respect of transactions, other events or conditions. Estimation is inherently subjective, and estimates

may be developed after the reporting date. Developing estimates is potentially more difficult when retrospectively applying an accounting policy or making a retrospective restatement to correct a prior period error, because of the longer period of time that might have passed since the affected transaction, other event or condition occurred. However, the objective of estimates related to prior periods remains the same as for estimates made in the current period, namely, for the estimate to reflect the circumstances that existed when the transaction, other event or condition occurred.

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

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

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

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

60. Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognized, measured or disclosed in a prior period. For example, when an entity corrects a prior period error in measuring financial assets previously classified as held-to-maturity investments in accordance with International Accounting Standards IAS 39 *Financial Instruments: Recognition and Measurement*, it does not change their basis of

The IASB used examples using issues which the PSC yet to issue an IPSAS. Staff have not changed these examples. The PSC may want to adapt examples for the public sector.

measurement for that period if management decided later not to hold them to maturity. In addition, when an entity corrects a prior period error in calculating its liability for employees' accumulated sick leave in accordance with International Accounting Standards IAS 19 *Employee Benefits*, it disregards information about an unusually severe influenza season during the next period that became available after the financial statements for the prior period were authorized for issue. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.

Effective Date

61. ~~***69.***~~ ***An entity shall apply ~~T~~this International Public Sector Accounting Standard ~~becomes effective~~ for annual ~~financial statements covering~~ periods beginning on or after 1 January 2009~~1 July 2001~~. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2009, it shall disclose that fact.***

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

This section, Amendments to Other Pronouncements, is new. Only the relevant paragraphs in IPSASs that were impacted as a result of proposals in this Standard are shown up in mark-up.
Readers should note that the terms ‘should’ have been replaced with ‘shall’.

Appendix 1

Amendments to Other Pronouncements

The amendment in this appendix becomes effective for annual periods beginning on or after January 1, 2009. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

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

Paragraphs 40 and 41 on extraordinary items are deleted.

The Appendix in IPSAS 2 illustrates a cash flow statement for an entity other than a financial institution, is amended to remove an extraordinary item. The revised Appendix is set below.

Appendix – Cash Flow Statement (for an Entity other than a Financial Institution)

This appendix is illustrative only and does not form part of the standards. The purpose of this appendix is to illustrate the application of the standards to assist in clarifying their meaning.

Notes to the Cash Flow Statement

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

(in thousands of currency units)

	20X2	**20X1**
Surplus/(deficit) from ordinary activities	X	X
Non-cash movements		
Depreciation	X	X
Amortization	X	X
Increase in provision for doubtful debts	X	X
Increase in payables	X	X
Increase in borrowings	X	X
Increase in provisions relating to employee costs	X	X
(Gains)/losses on sale of property, plant and equipment	(X)	(X)
(Gains)/losses on sale of investments	(X)	(X)
Increase in other current assets	(X)	(X)
Increase in investments due to revaluation	(X)	(X)

Increase in receivables	(X)	(X)
~~Extraordinary item~~[1]	~~(X)~~	–
Net cash flows from operating activities	X	X

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

PUBLIC SECTOR ENTITY – CONSOLIDATED CASH FLOW STATEMENT FOR YEAR ENDED 31 DECEMBER 20X2

(in thousands of currency units)

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

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

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

Distribution/dividend to government	(X)	(X)

A2. IPSAS 18 *Segment Reporting* is amended as described below.

Paragraph 57 is amended to read as follows:

57. IPSAS ~~3~~1 requires that when items of revenue or expense are material~~within net surplus (deficit) from ordinary activities are of such size, nature, or incidence that their disclosure is relevant to explain the performance of the entity for the period~~, their nature and amount of such items ~~should~~shall be disclosed separately. IPSAS 1~~3~~ identifies a number of examples of such items, including write-downs of inventories and property, plant, and equipment; provisions for restructurings; disposals of property, plant, and equipment; privatizations and other disposals of long-term investments; discontinuing~~ed~~ operations; litigation settlements; and reversals of provisions. The encouragement in paragraph 56 is not intended to change the classification of any such items ~~of revenue or expense from ordinary to extraordinary (as defined in IPSAS 3)~~ or to change the measurement of such items. The disclosure encouraged by that paragraph, however, does change the level at which the significance of such items is evaluated for disclosure purposes from the entity level to the segment level.

Paragraphs 69 and 70 are amended to read as follows:

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

70. Changes in accounting policies ~~adopted~~ applied at the entity level that affect segment information are dealt with in accordance with IPSAS 3. Unless a new

International Public Sector Accounting Standard specifies otherwise, IPSAS 3 requires that:

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

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

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

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

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

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

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

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

A4. In International Public Sector Accounting Standards, applicable at January 2009, references to the current version of IPSAS 3 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies* are amended to IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Appendix 2:
Illustrative Examples

This appendix is illustrative only and does not form part of the standards. The purpose of this appendix is to illustrate the application of the standards and to assist in clarifying their meaning. Extracts from the financial statements are provided to show the effects on the financial statements of the transactions described in this appendix. These extracts do not necessarily conform with all the disclosure and presentation requirements of other International Public Sector Accounting Standards.

Example 1 – ~~Fundamental~~Retrospective Restatement of Errors

1.1. During 20X2, the entity discovered that revenue from income taxes was incorrect. Income taxes of CU[2]6,500 that should have been recognized in 20~~X~~-1 were incorrectly omitted from 20X1 and recognized as revenue in 20~~X~~-2.

1.2. The entity's accounting records for 20~~X~~-2 show revenue from taxation of CU60,000 (including the CU6,500 taxation which should have been recognized in opening inventory ~~20X1~~), and expenses of CU86,500.

1.3. In 20-~~X~~1, the entity reported:

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

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

1.4. 20-1 opening accumulated surplus was CU2,000 and closing accumulated surplus was CU34,000.

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

PUBLIC SECTOR ENTITY – STATEMENT OF FINANCIAL PERFORMANCE ~~UNDER THE BENCHMARK TREATMENT~~ *(EXTRACT)*

	20~~X~~-2	(restated) 20~~X~~-1 ~~(restated)~~
	CU	CU
Revenue from taxation	53,500	40,500
User charges	4,000	3,000
Other operating revenue	40,000	30,000
Total revenue	97,500	73,500
Expenses	(86,500)	(60,000)
Net surplus	11,000	13,500

PUBLIC SECTOR ENTITY
STATEMENT OF CHANGES IN EQUITY *(EXTRACT)*

	Contributed capital	Accumulated Surpluses	Total
	CU	CU	CU
Balance at 31 December 20-0	5,000	10,000	15,000
Surplus for the year ended December 31 20-1 as restated	-	13,500	13,500
Balance at 31 December 20-1	5,000	23,500	28,500
Surplus for the year ended 31 December 20-2	-	11,000	11,800
Balance at 31 December 20-2	5,000	34,500	40,300

~~**PUBLIC SECTOR ENTITY – STATEMENT OF CHANGES IN NET ASSETS/EQUITY UNDER THE BENCHMARK TREATMENT**~~

	~~20X2~~	~~20X1~~ ~~(restated)~~
~~Opening accumulated surpluses as previously reported~~	~~17,000~~	~~10,000~~

~~Correction of fundamental error (Note 1)~~	~~6,500~~	~~–~~
~~Opening accumulated surpluses~~	~~23,500~~	~~10,000~~
~~Net surplus~~	~~11,000~~	~~13,500~~
~~Closing accumulated surpluses~~	~~34,500~~	~~23,500~~

Extracts from Notes to the Financial Statements

1. Revenue from taxation of CU6,500 was incorrectly omitted from the financial statements of 20X1. The financial statements of 20X1 have been restated to correct this error. The effect of the restatement on those financial statements is summarized below. There is no effect in 20-2.

	Effect on 20-1
	CU
Increase revenue	6,500
Increase in surplus	6,500
Increase in debtors	6,500
Increase in net assets/equity	6,500

~~**PUBLIC SECTOR ENTITY – STATEMENT OF FINANCIAL PERFORMANCE UNDER THE ALLOWED ALTERNATIVE TREATMENT *(EXTRACT)***~~

			~~Pro forma~~	
	~~20X2~~	~~20X1~~	~~20X2 (restated)~~	~~20X1 (restated)~~
~~Revenue from taxation (Note 1)~~	~~60,000~~	~~34,000~~	~~53,500~~	~~40,500~~
~~User charges~~	~~4,000~~	~~3,000~~	~~4,000~~	~~3,000~~
~~Other operating revenue~~	~~40,000~~	~~30,000~~	~~40,000~~	~~30,000~~
~~Total revenue~~	~~104,000~~	~~67,000~~	~~97,500~~	~~73,500~~
~~Expenses~~	~~(86,500)~~	~~(60,000)~~	~~(86,500)~~	~~(60,000)~~
~~Net surplus~~	~~17,500~~	~~7,000~~	~~11,000~~	~~13,500~~

~~**PUBLIC SECTOR ENTITY – STATEMENT OF CHANGES IN NET ASSETS/EQUITY UNDER THE ALLOWED ALTERNATIVE TREATMENT**~~

	~~20X2~~	~~20X1~~	~~Pro forma 20X2 (restated)~~	~~20X1 (restated)~~
~~Opening accumulated surpluses as previously reported~~	~~17,000~~	~~10,000~~	~~17,000~~	~~10,000~~
~~Correction of fundamental error (Note 1)~~	~~–~~	~~–~~	~~6,500~~	~~–~~
~~Opening accumulated surpluses as restated~~	~~17,000~~	~~10,000~~	~~23,500~~	~~10,000~~
~~Net surplus~~	~~17,500~~	~~7,000~~	~~11,000~~	~~13,500~~
~~Closing accumulated surpluses~~	~~34,500~~	~~17,000~~	~~34,500~~	~~23,500~~

~~**Extracts from Notes to the Financial Statements**~~

~~1. Revenue from taxation of 6,500 was incorrectly omitted from the financial statements of 20X1. Restated pro forma information for 20X2 and 20X1 is presented as if the error had been corrected in 20X1.~~

Example 2 - Change~~s~~ in Accounting Policy with Retrospective Application

2.1. During 20-~~X~~2, the entity changed its accounting policy with respect to the treatment of borrowing costs that are directly attributable to the acquisition of a hydro-electric power station which is under construction. In previous periods, the entity had capitalized such costs~~ in accordance with the allowed alternative treatment in IPSAS 5~~. The entity has now decided to expense, rather than capitalize them~~, these costs in order to conform with the benchmark treatment in IPSAS 5~~. Management judges that the new policy is preferable because it results in a more transparent treatment of finance costs and is consistent with local industry practice, making the entity's financial statements more comparable.

2.2. The entity capitalized borrowing costs incurred of CU2,600 during 20~~X~~-1 and CU5,200 in periods prior to 20~~X~~-1. All borrowing costs incurred in previous years with respect to the acquisition of the power station were capitalized.

2.3. The accounting records for 20X2 show surplus ~~from operating activities~~ before interest of CU30,000; and interest expense of CU3,000 (which relates only to 20-~~X~~2).

2.4. In 20X1, the entity reported:

	CU
Surplus ~~from operating activities~~ before interest	18,000
Interest expense	–
~~Net s~~Surplus from ordinary activities	18,000

2.5. 20~~X~~-1 opening accumulated surpluses were CU20,000 and closing accumulated surpluses ~~were~~was -CU38,000.

PUBLIC SECTOR ENTITY – STATEMENT OF FINANCIAL PERFORMANCE UNDER THE BENCHMARK TREATMENT *(EXTRACT)*

	20-~~X~~2	(restated) 20~~X~~-1 ~~(restated)~~
	CU	CU
Surplus ~~from operating activities~~ before interest	30,000	18,000
Interest expense	(3,000)	(2,600)
~~Net s~~Surplus from ordinary activities	27,000	15,400

PUBLIC SECTOR ENTITY – STATEMENT OF CHANGES IN NET ASSETS/EQUITY UNDER THE BENCHMARK TREATMENT

	Contributed capital	~~20X2~~ Accumulated Surplus (restated) 20~~X~~-1 ~~(restated)~~	Total
	CU	CU	CU
~~Opening accumulated surpluses~~			

	Contributed capital	~~20X2~~	Accumulated Surplus (restated) 20~~X~~-1 ~~(restated)~~	Total
Balance at 31 December 20-0 as previously reported	10,000	~~38,000~~	20,000	
Change in accounting policy with respect to the capitalization of interest (Note 1)	-	~~(7,800)~~	(5,200)	(5,200)
~~Opening accumulated surpluses~~ Balance at 31 December 20-0 as restated	10,000	~~30,200~~	14,800	24,800
~~Net s~~Surplus for the year ended 31 December 20-1 (restated)	-	~~27,000~~	15,400	15,400
Balance at 31 December 20-1	10,000		30,200	40,200
Surplus for the year ended 31 December 20-2	-		27,000	27,000
Closing ~~accumulated surpluses~~at 31 December 20-2	10,000	~~57,200~~	30,200	67,200

Extracts from the Notes ~~to the Financial Statements~~

1. During 20~~X~~-2, the entity changed its accounting policy ~~with respect to~~for the treatment of borrowing costs relat~~ing~~ed to a hydro-electric power station ~~which is in the course of construction for use~~. Previously, ~~In order to conform with the benchmark treatment in IPSAS 5,~~ the entity ~~now expenses rather than~~ capitalize~~s~~d such costs. They are now written off as expenses as incurred. Management judges that this policy provides reliable and more relevant information because it results in a more transparent treatment of finance costs and is consistent with local industry practice, making the entity's financial statements more comparable. This change in accounting policy has been accounted for retrospectively and~~.~~ ~~T~~the comparative statements for 20~~X~~-1 have been restated ~~to conform to the changed policy~~. The effect of the change on 20-1 is tabulated below ~~is an increase in interest expense of 3,000 (20X2) and 2,600 (20X1)~~. Opening accumulated surpluses for

20~~X~~-1 have been reduced by CU5,200 which is the amount of the adjustment relating to periods prior to 20~~X~~-1.

~~PUBLIC SECTOR ENTITY – STATEMENT OF FINANCIAL PERFORMANCE UNDER THE ALLOWED ALTERNATIVE TREATMENT~~ *~~(EXTRACT)~~*

	~~20X2~~	~~20X1~~	~~Pro forma 20X2 (restated)~~	~~20X1 (restated)~~
~~Surplus from operating activities before interest~~	~~30,000~~	~~18,000~~	~~30,000~~	~~18,000~~
~~Interest expense~~	~~(3,000)~~	~~–~~	~~(3,000)~~	~~(2,600)~~
~~Cumulative effect of change in accounting policy~~	~~(7,800)~~	~~–~~	~~–~~	~~–~~
~~Net surplus~~	~~19,200~~	~~18,000~~	~~27,000~~	~~15,400~~

~~PUBLIC SECTOR ENTITY – STATEMENT OF CHANGES IN NET ASSETS/EQUITY UNDER THE ALLOWED ALTERNATIVE TREATMENT~~

	~~20X2~~	~~20X1~~	~~Pro forma 20X2 (restated)~~	~~20X1 (restated)~~
~~Opening accumulated surpluses as previously reported~~	~~38,000~~	~~20,000~~	~~38,000~~	~~20,000~~
~~Change in accounting policy with respect to the capitalization of interest (Note 1)~~	~~–~~	~~–~~	~~(7,800)~~	~~(5,200)~~
~~Opening accumulated surpluses as restated~~	~~38,000~~	~~20,000~~	~~30,200~~	~~14,800~~
~~Net surplus~~	~~19,200~~	~~18,000~~	~~27,000~~	~~15,400~~
~~Closing accumulated surpluses~~	~~57,200~~	~~38,000~~	~~57,200~~	~~30,200~~

~~Extracts from Notes to the Financial Statements~~

~~1. An adjustment of 7,800 has been made in the statement of financial performance for 20X2 representing the effect of a change in accounting policy with respect to the treatment of borrowing costs~~

~~relating to the construction of a hydro-electric power station which is in the course of construction for use. In order to conform with the benchmark treatment in IPSAS 5, the entity now expenses rather than capitalizes such costs. This change in accounting policy has been accounted for retrospectively. Restated pro forma information, which assumes that the new policy had always been in use, is presented. The opening accumulated surpluses in the pro forma information for 20X1 have been reduced by 5,200 which is the amount of the adjustment relating to periods prior to 20X1.~~

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

3.1. During 20-2, the entity changed its accounting policy for depreciating property, plant and equipment, so as to apply much more fully a components approach, whilst at the same time adopting the revaluation model.

3.2. In years before 20-2, the entity's asset records were not sufficiently detailed to apply a components approach fully. At the end of year 20-1, management commissioned an engineering survey, which provided information on the components held and their fair values, useful lives, estimated residual values and depreciable amounts at the beginning of 202. However, the survey did not provide a sufficient basis for reliably estimating the cost of those components that had not previously been accounted for separately, and the existing records before the survey did not permit this information to be reconstructed.

3.3. Management considered how to account for each of the two aspects of the accounting change. They determined that it was not practicable to account for the change to a fuller components approach retrospectively, or to account for that change prospectively from any earlier date than the start of 20-2. Also, the change from a cost model to a revaluation model is required to be accounted for prospectively. Therefore, management concluded that it should apply the entity's new policy prospectively from the start of 20-2.

3.4. Additional information:

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

Extract from the Notes

1. From the start of 20-2, the entity changed its accounting policy for depreciating property, plant and equipment, so as to apply much more fully a components approach, whilst at the same time adopting the revaluation model. Management takes the view that this policy provides reliable and more relevant information because it deals more accurately with the components of property, plant and equipment and is based on up-to-date values. The policy has been applied prospectively from the start of 20-2 because it was not practicable to estimate the effects of applying the policy either retrospectively or prospectively from any earlier date. Accordingly the adopting of the new policy has no effect on prior periods. The effect on the current year is to increase the carrying amount of property, plant and equipment at the start of the year by CU6,000; create a revaluation reserve at the start of the year of CU6,000; and increase depreciation expense by CU5,000.

This example was deleted because extraordinary items have been deleted from IPSASs.

~~Extraordinary Items~~

~~The examples shown below are intended to illustrate the disclosure of extraordinary items in a statement of financial performance. The~~

~~disclosure of extraordinary items in a cash flow statement is required by IPSAS 2. The classification of an event or transaction as extraordinary is dependent upon the nature of the event and the entity. Events or transactions which may be an extraordinary item for one entity may not be extraordinary for another entity. In particular, few events are likely to be extraordinary at the whole-of-government level.~~

~~PUBLIC SECTOR ENTITY – STATEMENT OF FINANCIAL PERFORMANCE~~
~~(EXTRACT)~~

	~~20X2~~	~~20X1~~
~~Surplus from ordinary activities~~	~~7,900~~	~~8,400~~
~~Extraordinary item – loss on destruction of overseas broadcasting operation (Note 1)~~	~~–~~	~~(3,150)~~
~~Net surplus for the period~~	~~7,900~~	~~5,250~~

~~Extracts from Notes to the Financial Statements~~

~~1. On 1 October 20X1, the overseas broadcasting operations of the entity were destroyed by an earthquake. The results of this operation had previously been reported in the "Broadcasting" segment. The loss arising from the earthquake has been accounted for as an extraordinary item as earthquakes are uncommon in this region. The loss arising from the earthquake is the net carrying amount of the assets and liabilities of the operation at the date of the earthquake. The revenues recognized relating to this operation from 1 January 20X1 until 1 October 20X1 were 10,000 and the surplus was 2,000.~~

Comparison with IAS 8

International Public Sector Accounting Standard IPSAS 3 ~~*Net Surplus or Deficit for the Period, Fundamental Errors and Changes in*~~ *Accounting Policies, Changes in Accounting Estimates and Errors* is drawn primarily from International Accounting Standard IAS 8 (Revised 2003), ~~*Net Profit or Loss for the Period, Fundamental Errors and Changes in*~~ *Accounting Policies, Changes in Accounting Estimates and Errors*. The main differences between IPSAS 3 and IAS 8 are as follows:

- Commentary additional to that in IAS 8 has been included in IPSAS 3 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 3 uses different terminology, in certain instances, from IAS 8. The most significant examples are the use of the terms ~~“entity”,~~ “revenue”, “statement of financial performance”, “statement of financial position” and “net assets/equity” in IPSAS 3. The equivalent terms in IAS 8 are ~~“enterprise”,~~ “income”, “income statement”, “balance sheet” and “equity”.
- IPSAS 3 contains a different set of definitions of technical terms from IAS 8 (paragraph 8~~6~~).
- ~~IPSAS 3 contains a different definition of extraordinary items from IAS 8. IPSAS 3 contains a specific requirement that extraordinary items must be outside the control or influence of the entity (paragraph 6).~~IPSAS 3 does not require disclosures about adjustments to basic or diluted earnings per share. IAS 8 requires disclosure of amount of adjustment or correction for basic or diluted earnings per share.

Summary of Main Changes
IPSAS 17 *Property, Plant and Equipment*

The main changes proposed are:

Scope

In paragraph 5:

- to exclude "property, plant and equipment classified as held for sale in accordance with IPSAS XX *Non-current Assets and Discontinued Operations*" from the scope of IPSAS 17.
- to replace the scope exclusion of "forests and similar regenerative natural resources" with "biological assets related to agricultural activity (see IPSAS XX *Agriculture*)" (Staff have proposed in the IASB Harmonization Strategy paper to also issue an ED proposing to endorse IAS 41 as IPSAS XX *Agriculture* at the same time as issuing the IPSASs Improvements ED).

Definitions

In paragraph 14:

- to define the term "entity-specific value", which refers to "the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability". This term was defined by IASB and used to determine whether an asset exchange transaction has commercial substance. Previously, IPSAS 17 did not contain this definition.
- to define terms "carrying amount", "impairment loss of a cash-generating asset", "impairment loss of a non-cash-generating asset", "recoverable amount" and "recoverable service amount" due to the issuance of ED 23 (and a subsequent IPSAS based on ED 23). Previously, IPSAS 17 did not contain those definitions.
- to amend the definition of "cost" to reflect the changes made by the IASB upon issuing IFRS 2 *Share-based Payment*.
- to amend the definition of "residual value". The amended definition would require an entity to measure the residual value of an item of property, plant and equipment as the amount it estimates it would receive currently from the disposal of the asset if the asset were already of the age and in the condition expected at the end of its useful life. Previous definition in IPSAS 17 did not clarify that residual value is a current amount.

Recognition

- to require an entity to apply the general asset recognition principle to all property, plant and equipment costs at the time they are incurred, including initial costs and subsequent expenditures (see paragraphs 15, 20, 23, 25-26). Previously, IPSAS 17 contained two recognition principles, which one applies to initial costs while another applies to subsequent expenditures.
- to clarify in paragraph 24 that the cost of day-to-day servicing of property, plant and equipment are recognized in surplus or deficit. Previously, IPSAS 17 did not make this very clear.

Measurement at Recognition

- to require an entity to include asset dismantlement, removal and restoration costs as an element of cost of an item of property, plant and equipment in paragraph 31. Previously, IPSAS 17 provided that when initially measuring an item of property, plant and equipment at its cost, an entity would include the cost of dismantling and removing that item and restoring the site on which it is located to the extent it had recognized a provision for that cost.

- to require an entity to recognize all asset exchange transactions at fair value unless the transactions lack commercial substances or the fair value of neither the asset given up nor the asset received can be reliably measured. The proposed IPSAS 17 also provides guidance on how to judge whether an asset exchange transaction has commercial substance (see paragraphs 39-41). Previously, IPSAS 17 divided asset exchange transactions into exchanges between similar assets and exchanges between dissimilar assets, and subject to different treatments. For similar asset exchanges, it required that the cost of the asset received is the carrying amount of the asset given up. For dissimilar asset exchanges, its cost is the fair value of the asset given up adjusted by the amount of any cash or cash equivalent transferred.

Depreciation

- to require an entity to determine the depreciation charge separately for each significant part of an item of property, plant and equipment (see paragraphs 60-64). Previously, IPSAS 17 did not make this clear.
- to require an entity to begin depreciating an item of property, plant and equipment when it is available for use and to continue depreciating it until the earlier of the date that the asset is classified as held for sale (or included in a disposal group classified as held for sale) and the date that the asset is derecognized, even if during that period the item is idle (see paragraph 72). Previously, IPSAS 17 did not specify when depreciation of an item began. It also specified that an entity should cease depreciating an item that it had retired from active use and was holding for disposal.

Compensation for Impairments

- to require an entity to include in surplus or deficit compensation from third parties for items of property, plant and equipment that were impaired, lost or given up when the compensation becomes receivable (see paragraphs 81-82). Previously, IPSAS 17 did not contain these requirements.

Derecognition

- to require an entity to derecognize the carrying amount of an item of property, plant and equipment that it disposes of on the date the criteria for the sale of goods in IPSAS 9 *Revenue for Exchange Transactions* are met (see paragraph 85). Previously, IPSAS 17 did not require an entity to use those criteria contained in IPSAS 9 to determine the date on which it derecognized the carrying amount of a disposed item of property, plant and equipment. Rather, the recognition criteria in previous IPSAS 17 might lead to the conclusion that an entity will recognize a deferred gain, which does not meet the definition of a liability under existing IPSASs.
- to require an entity to derecognize the carrying amount of a part of an item of property, plant and equipment if that part has been replaced and the entity has included the cost of replacement in the carrying amount of the item (see paragraph 86). Previously, IPSAS 17 did not extend its derecognition principle to replaced parts; rather, its recognition principle for subsequent expenditures effectively precluded the cost of a replacement from being included in the carrying amount of the item.

Interpretations of IFRSs/IASs

- to include an authoritative appendix of interpretations of IAS 16 *Property, Plant and Equipment* – IPSAS 17 is based on IAS 16.

Amendments to Other Pronouncements

- to include an authoritative appendix of amendments to other IPSASs that are not part of the IPSASs Improvements project and will be impacted as a result of the proposals in this IPSAS.

IFAC

Public

Sector

Committee

Issued ~~December~~X ~~2001~~200X

IPSAS 17

Property, Plant and Equipment

International Public Sector

Accounting Standard

Issued by

the International

Federation of

Accountants

This Standard was approved by the Public Sector Committee of the International Federation of Accountants.

Acknowledgment

This International Public Sector Accounting Standard is drawn primarily from International Accounting Standard IAS 16 (Revised ~~1998~~2003), *Property, Plant and Equipment* published by the International Accounting Standards ~~Committee~~Boards (~~IASC~~IASB). The International Accounting Standards Board (IASB) and the International Accounting Standards Committee Foundation (IASCF) were established in 2001 to replace the International Accounting Standards Committee (IASC). The International Accounting Standards (IASs) issued by the IASC remain in force until they are amended or withdrawn by the IASB. Extracts from IAS 16 are reproduced in this publication of the Public Sector Committee of the International Federation of Accountants with the permission of the IASB.

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E-mail: publications@iasb.org.uk
Internet: http://www.iasb.org.uk

Information about the International Federation of Accountants and copies of this Standard can be found at its ~~internet~~ website~~,~~ http://www.ifac.org.

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INTRODUCTION

Accounting Standards for the Public Sector

The International Federation of Accountants — Public Sector Committee (the Committee) is developing ~~a set of~~ recommended accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The Committee recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs ~~will~~ play a key role in enabling these benefits to be realized.

The revision to the introduction was consistent with the latest version in ED 23.

The IPSASs are based on the International Financial Reporting Standards, formerly known as International Accounting Standards (IASs), issued by the International Accounting Standards Board (IASB), where the requirements of those Standards are applicable to the public sector. The Committee is also developing IPSASs that deal with accounting issues in the public sector that are not addressed in the IFRSs or IASs.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The Committee strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in these Exposure Drafts. The Committee recognizes the right of governments and national standard~~—~~-setters to establish accounting standards and guidelines ~~and accounting standards~~ for financial reporting ~~by the public sector~~ in their jurisdictions. The Committee encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS.

~~The objective of the current phase of the Committee's workplan is to develop IPSASs based on the International Accounting Standards (IASs) issued by the International Accounting Standards Committee and extant at 31 August 1997, or their subsequently revised versions. Some accounting issues in the public sector are not fully addressed in the IASs. Although these issues are not included in the brief of the current phase of the Committee's workplan, it is cognizant of the importance of these issues and expects to address them once it has issued its initial set of Standards.~~

Contents

International Public Sector Accounting Standard IPSAS 17

Property, Plant and Equipment

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS 17

As part of PSC's due process, Staff did not change this para per IASB's changes regarding equal authority.

Property, Plant and Equipment

The standards, which have been set in bold italic type, should be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the "Preface to International Public Sector Accounting Standards". International Public Sector Accounting Standards are not intended to apply to immaterial items.

Objective

1. The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that users of financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the ~~timing of~~ recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognized in relation to them.

Staff are concerned about the applicability of the word "investment" used by IASB to public sector.

Scope

~~1~~2. ***An entity ~~which~~that prepares and presents financial statements under the accrual basis of accounting shall ~~should~~ apply this Standard in accounting for property, plant and equipment, except:***

(a) when a different accounting treatment has been adopted in accordance with another International Public Sector Accounting Standard; and

(b) in respect of heritage assets. However, the disclosure requirements of paragraphs ~~73~~89, ~~74~~90 and ~~77~~93 apply to those heritage assets that are recognized.

~~2~~3. ***This Standard applies to all public sector entities other than Government Business Enterprises.***

~~3~~4. This Standard applies to property, plant and equipment including:

(a) specialist military equipment; and

(b) infrastructure assets.

The transitional provisions in paragraphs ~~80~~96 to ~~87~~103 provide relief from the requirement to recognize all property, plant and equipment during the five year transitional period.

Please note Staff retained current text of this para per BA meeting's discussion but also included below a version equivalent to IAS 16.

~~4~~5. This Standard does not apply to:

(a) forests and similar regenerative natural resources; and

(b) mineral rights, the exploration for and extraction of minerals, oil, natural gas and similar non-regenerative resources.

However, this Standard does apply to property, plant and equipment used to develop or maintain the activities or assets covered in ~~4~~5(a) or ~~4~~5(b) but which are separable from those activities or assets.

The version of paragraph 5 equivalent to that in IAS 16 would be:

~~4~~5. This Standard does not apply to:

(a) property, plant and equipment classified as held for sale in accordance with IPSAS XX *Non-current Assets Held for Sale and Discontinued Operations*;

(b) ~~forests and similar regenerative natural resources~~ biological assets related to agricultural activity (see IPSAS XX *Agriculture*); ~~and~~ or

(~~b~~c) mineral rights~~, the exploration for and extraction of minerals,~~ and mineral reserves such as oil, natural gas and similar non-regenerative resources.

However, this Standard ~~does apply~~ applies to property, plant and equipment used to develop or maintain the ~~activities or~~ assets ~~covered~~ described in ~~4~~5(~~a~~b) ~~or~~ and ~~4~~5(~~b~~c) ~~but which are separable from those activities or assets~~.

Staff have incorporated the changes made by the IASB upon issuing IFRS 5. Also refer to the IASB Harmonization Strategy Paper for proposed "endorsement approach" to IAS 41 and IFRS 5.

~~5~~6. ~~This Standard also does not apply where o~~Other International Public Sector Accounting Standards or, in the absence of an International Public Sector Accounting Standard, other relevant international guidance, may ~~permits~~ require ~~the initial~~ recognition of ~~the carrying amount~~an item of property, plant and equipment ~~to be determined using~~ based on an approach different from that ~~prescribed~~ in this Standard. For example,

~~International Accounting Standard IAS 22, *Business Combinations* provides guidance on valuing property, plant and equipment when it is acquired in a business combination~~ IPSAS 13 *Leases* requires an entity to evaluate its recognition of an item of property, plant and equipment on the basis of the transfer of risks and rewards. However, in such cases ~~all~~ other aspects of the accounting treatment for these assets, including depreciation, are ~~determined~~prescribed by ~~the requirements of~~ this Standard.

~~6. This Standard does not deal with certain aspects of the application of a comprehensive system reflecting the effects of changing prices (see International Public Sector Accounting Standard IPSAS 10 *Financial Reporting in Hyperinflationary Economies*). However, entities applying such a system are required to comply with all aspects of this Standard, except for those that deal with the measurement of property, plant and equipment subsequent to its initial recognition.~~

7. An entity shall apply this Standard to property that is being constructed or developed for future use as investment property but does not yet satisfy the definition of " investment property" in IPSAS 16 *Investment Property*. Once the construction or development is complete, the property becomes investment property and the entity is required to apply IPSAS 16. IPSAS 16 also applies to investment property that is being redeveloped for continued future use as investment property. An entity using the cost model for investment property in accordance with IPSAS 16 shall use the cost model in this Standard.

Heritage Assets

~~7~~8. This Standard does not require an entity to recognize heritage assets that would otherwise meet the definition of, and recognition criteria for, property, plant and equipment. If an entity does recognize heritage assets, it must apply the disclosure requirements of this Standard and may, but is not required to, apply the measurement requirements of this Standard.

~~8~~9. Some assets are described as "heritage assets" because of their cultural, environmental or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art. Certain characteristics, including the following, are often displayed by heritage assets (although these characteristics are not exclusive to such assets):

(a) their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;

(b) legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;

(c) they are often irreplaceable and their value may increase over time even if their physical condition deteriorates; and

(d) it may be difficult to estimate their useful lives, which in some cases could be several hundred years.

Public sector entities may have large holdings of heritage assets that have been acquired over many years and by various means, including purchase, donation, bequest and sequestration. These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes.

~~9~~10. Some heritage assets have service potential other than their heritage value, for example, an historic building being used for office accommodation. In these cases, they may be recognized and measured on the same basis as other items of property, plant and equipment. For other heritage assets, their service potential is limited to their heritage characteristics, for example, monuments and ruins. The existence of alternative service potential can affect the choice of measurement base.

~~10~~11. The disclosure requirements in paragraphs ~~73~~89 to ~~79~~95 require entities to make disclosures about recognized assets. Therefore, entities that recognize heritage assets are required to disclose in respect of those assets such matters as, for example:

(a) the measurement basis used;

(b) the depreciation method used, if any;

(c) the gross carrying amount;

(d) the accumulated depreciation at the end of the period, if any; and

(e) a reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

Government Business Enterprises

~~11~~12. The *Preface to International Financial Reporting Standards* issued by the International Accounting Standards Board (IASB) explains that International Financial Reporting Standards (IFRSs) are designed to apply to the general purpose financial statements of all profit-oriented entities. Government Business Enterprises (GBEs) are defined in IPSAS 1 *Presentation of Financial Statements*. They are profit-oriented entities. Accordingly, they are required to comply with IFRSs~~International Accounting Standards (IASs) issued by the International Accounting Standards Committee. The Public Sector Committee's Guideline No. 1 *Financial Reporting by Government Business Enterprises* notes that IASs are relevant to all business enterprises, regardless of whether they are in the private or public sector. Accordingly, Guideline No. 1 recommends that GBEs should present financial statements that conform, in all material respects, to IASs~~.

The revision to para 12 and addition of para 13 are consistent with its latest version in ED 23.

13. The International Accounting Standards Board (IASB) was established in 2001 to replace the International Accounting Standards Committee (IASC). The IASs issued by the IASC remain in force until they are amended or withdrawn by the IASB.

Definitions

~~12~~14. The following terms are used in this Standard with the meanings specified:

Carrying amount (for the purpose of this Standard) is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.

Class of property, plant and equipment means a grouping of assets of a similar nature or function in an entity's operations, that is shown as a single item for the purpose of disclosure in the financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognized in accordance with the specific requirements of other IPSASs.

The defn of "cost" was amended by the IASB upon issuing IFRS2 *Share-based payment*. The change was also made in IPSAS 16.

Depreciation ***is the systematic allocation of the depreciable amount of an asset over its useful life.***

Depreciable amount ***is the cost of an asset, or other amount substituted for cost ~~in the financial statements~~, less its residual value.***

Entity-specific value is a new term added by IASB due to the change in measurement of asset exchange transactions.

Entity-specific value is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

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

An impairment loss of a cash-generating asset is the amount by which the carrying amount of the asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of the asset exceeds its recoverable service amount.

"Impairment loss" defined by IASB was replaced by two terms due to the applicability to public sector. "Impairment loss of non-cash-generating assets" is defined in ED 23.

Property, plant and equipment ***are tangible ~~assets~~ items that:***

(a) are held ~~by an entity~~ for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one reporting period.

"Recoverable service amount" is defined in ED 23

Recoverable amount is the higher of a cash-generating asset's fair value less costs to sell and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

The ~~R~~residual value of an asset is the ~~net~~ estimated amount ~~which~~ that ~~the~~ an entity ~~expects to~~ would currently obtain ~~for an~~ from disposal of the asset~~, at the end of its useful life~~ after deducting the ~~expected~~ estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

***Useful life** is ~~either~~:*

(a) the period ~~of time~~ over which an asset is expected to be available for used by ~~the~~ an entity; or

(b) the number of production or similar units expected to be obtained from the asset by ~~the~~ an entity.

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

Recognition ~~of Property, Plant and Equipment~~

Pls note recognition principle in para 15 applies to both initial costs and subsequent costs as per IASB's changes.

~~13~~15. ***The cost or fair value of ~~A~~an item of property, plant and equipment shall ~~should~~ be recognized as an asset ~~when~~if, and only if:***

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

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

~~14. Property, plant and equipment is often a major portion of the total assets of an entity, and therefore is significant in the presentation of its financial position. Furthermore, the determination of whether an expenditure represents an asset or an expense can have a significant effect on an entity's reported surplus or deficit from operating activities.~~

Paras 16, 17 were removed by the IASB. Staff still contained them because of lack of the framework in IPSASs.

~~15~~16. In determining whether an item satisfies the first criterion for recognition, an entity needs to assess the degree of certainty attaching to the flow of future economic benefits or service potential on the basis of the available evidence at the time of initial recognition. Existence of sufficient certainty that the future economic benefits or service potential will flow to the entity necessitates an assurance that the entity will receive the rewards attaching to the asset and will undertake the associated risks. This assurance is usually only available when the risks and rewards have passed to the entity. Before this occurs, the transaction to acquire the asset can usually be canceled without significant penalty and, therefore, the asset is not recognized.

~~16~~17. The second criterion for recognition is usually readily satisfied because the exchange transaction evidencing the purchase of the asset identifies its cost. In the case of a self-constructed asset, a relevant and reliable measurement of the cost can be made from the transactions with parties external to the entity for the acquisition of the materials, labor and other inputs used during the construction process. In addition, as outlined in paragraphs ~~22~~27 to ~~25~~30 of this Standard, under certain circumstances cost is determined by reference to fair value.

The first part of this para was relocated to current para 19 with minor changes.

~~17~~18. ~~In identifying what constitutes a separate item of property, plant and equipment, judgment is required in applying the criteria in the definition to specific circumstances or specific types of entities. It may be appropriate to aggregate individually insignificant items, such as library books, computer peripherals and small items of equipment, and to apply the criteria to the aggregate value. Most s~~Spare parts and servicing equipment are usually carried as inventory and recognized ~~as an expense~~in surplus or deficit as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when ~~the~~an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment~~ and their use is expected to be irregular~~, they are accounted for as property, plant and equipment~~ and are depreciated over a time period not exceeding the useful life of the related asset~~.

Previous para 18 was relocated to current "Depreciation" section and covered in paras 60 to 64 with many additional contents.

~~18. In certain circumstances, it is appropriate to allocate the total expenditure on an asset to its component parts and account for each component separately. This is the case when the component assets have different useful lives or provide economic benefits or service potential to the entity in a different pattern, thus necessitating use of different depreciation rates and methods. For example, the pavements, formation, curbs and channels, footpaths, bridges and lighting may need to be treated as separate items within a road system to the extent that they have different useful lives. Similarly, an aircraft body and its engines need to be treated as separate depreciable assets if they have different useful lives.~~

~~19. Property, plant and equipment may be acquired for safety or environmental reasons. The acquisition of such property, plant and equipment, while not directly increasing the future economic benefits or service potential of any particular existing asset, may be necessary in order for the entity to obtain the future economic benefits or service potential from its other assets. When this is the case, such acquisitions of property, plant and equipment qualify for recognition as assets, in that they enable future economic benefits or service potential from related assets to be derived by the entity in excess of what it could derive if they had not been acquired. However, such assets are only recognized to the extent that the resulting carrying amount of such an asset and related assets does not exceed the total economic benefits or service potential that the entity expects to recover from their continued use and ultimate disposal. For example, fire safety regulations may require a hospital to retro-fit new sprinkler systems. These enhancements are recognized as an asset because, without them, the entity is unable to operate the hospital in accordance with the regulations.~~

Para 19 was relocated to current para 23 with minor changes.

19. This standard does not prescribe the unit of measure for recognition, ie what constitutes an item of property, plant and equipment. Thus, judgment is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to aggregate individually insignificant items, such as library books, computer peripherals and small items of equipment, and to apply the criteria to the aggregate value.

Para 19 was relocated from previous para 17 with changes.

20. An entity evaluates under this recognition principle all its property, plant and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it.

~~20~~21. Specialist military equipment will normally meet the definition of property, plant and equipment and should be recognized as an asset in accordance with this Standard.

Infrastructure Assets

~~21~~22. Some assets are commonly described as "infrastructure assets". While there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following characteristics:

(a) they are part of a system or network;

(b) they are specialized in nature and do not have alternative uses;

(c) they are immovable; and

(d) they may be subject to constraints on disposal.

Although ownership of infrastructure assets is not confined to entities in the public sector, significant infrastructure assets are frequently found in the public sector. Infrastructure assets meet the definition of property, plant and equipment and should be accounted for in accordance with this Standard. Examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks.

Initial Costs

This para was relocated from original para 19 with minor changes.

23. Items of property, plant and equipment may be required for safety or environmental reasons. The acquisition of such property, plant and equipment, although not directly increasing the future economic benefits or service potential of any particular existing item of property, plant and equipment, may be necessary for an entity to obtain the future economic benefits or service potential from its other assets. Such items of property, plant and equipment qualify for recognition as assets because they enable an entity to derive future economic benefits or service potential from related assets in excess of what could be derived had those items not been acquired. For example, fire safety regulations may require a hospital to retro-fit new sprinkler systems. These enhancements are recognized as an asset because without them the entity is unable to operate the hospital in accordance with the regulations. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment in accordance with IPSAS XX *Impairment of Cash-generating Assets* and IPSAS XX *Impairment of Non-cash-generating Assets*.

The PSC considers IAS 36 as for cash-generating assets. Therefore, consistent with the proposed “endorsement approach” to IAS 36 and anticipated issue of the IPSAS on ED 23, Staff have changed the last sentence of this para.

Subsequent Costs

Para 24 was added to clarify that day-to-day servicing costs are recognized in surplus or deficit as incurred.

24. Under the recognition principle in paragraph 15, an entity does not recognize in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognized in surplus or deficit as incurred. Costs of day-to-day servicing are primarily the costs of labor and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the item of property, plant and equipment.

Para 25 was relocated from original para 37 with changes.

25. Parts of some items of property, plant and equipment may require replacement at regular intervals. For example, a road may need resurfacing every few years, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant and equipment may also be required to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle in paragraph 15, an entity recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of this Standard (see paragraphs 83-88).

Para 26 was added to explain how the general recognition principle applies to subsequent expenditures.

26. A condition of continuing to operate an item of property, plant and equipment (for example, an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognized in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of previous inspection (as distinct from physical parts) is derecognized. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

~~Initial~~ Measurement at Recognition~~of Property, Plant and Equipment~~

~~22~~27. ***An item of property, plant and equipment ~~which~~ that qualifies for recognition as an asset shall ~~should initially~~ be measured at its cost.***

~~23~~28. ***Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.***

~~24~~29. An item of property, plant and equipment may be gifted or contributed to the entity. For example, land may be contributed to a local government by a developer at nil or nominal consideration, to enable the local government to develop parks, roads and paths in the development. An asset may also be acquired at nil or nominal consideration through the exercise of powers of sequestration. Under these circumstances the cost of the item is its fair value as at the date it is acquired.

~~25~~30. For the purposes of this Standard, the ~~initial~~ measurement at recognition of an item of property, plant and equipment, acquired at no or nominal cost, at its fair value consistent with the requirements of paragraph ~~23~~28, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph ~~39~~45, and the supporting commentary in paragraphs ~~40~~46 to ~~45~~51, only apply where an entity elects to revalue an item of property, plant and equipment in subsequent reporting periods.

~~Components~~Elements of Cost

~~26~~31. The cost of an item of property, plant and equipment comprises:

Previous para 26 was split into current para 31 and 32 with changes.

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.~~; and~~

(b) any costs directly attributable ~~costs of bringing~~ to bringing the asset to the location and ~~working~~ condition necessary for ~~its intended use~~ it to be capable of operating in the manner intended by management.~~;~~

Subpara (c) was relocated from previous para 26(e) with changes.

(c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period~~; any trade discounts and rebates are deducted in arriving at the purchase price~~.

32. Examples of directly attributable costs are:

(a) costs of employee benefits (as defined in IPSAS XX *Employee Benefits*) arising directly from the construction or acquisition of the item of property, plant and equipment[1];

(~~a~~b) ~~the~~ costs of site preparation;

(~~b~~c) initial delivery and handling costs;

(~~c~~d) installation and assembly costs;

(e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and

(~~d~~f) professional fees. ~~such as for architects and engineers; and~~

Previous subpara (e) was relocated to current para 31(c) with changes.

~~(e) the estimated cost of dismantling the asset and restoring the site, to the extent that it is recognized as a provision. Guidance on accounting for provisions is found in Accounting Standards on *Provisions, Contingent Liabilities and Contingent Assets*.~~

~~27. When payment for an item of property, plant and equipment is deferred beyond normal credit terms, its cost is the cash price equivalent; the difference between this amount and the total payments is recognized as interest expense over the period of credit unless it is capitalized in accordance with the allowed alternative treatment in International Public Sector Accounting Standard IPSAS 5 *Borrowing Costs*.~~

This para was relocated to current para 38 with minor changes.

33. An entity applies IPSAS 12 *Inventories* to the costs of obligations for dismantling, removing and restoring the site on

[1] Staff have proposed that IAS 19 be endorsed by the PSC as IPSAS XX *Employee Benefits* – see the IASB Harmonization Strategy paper. It is proposed that IAS 19 be considered in detail in PSC November 2004 meeting.

which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. The obligations for costs accounted for in accordance with IPSAS 12 and IPSAS 17 are recognized and measured in accordance with IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*.

~~28~~34. Examples of costs that are not the costs of an item of property, plant and equipment are:

(a) costs of opening a new facility;

(b) costs of introducing a new product or service (including costs of advertising and promotional activities);

(c) costs of conducting business in a new location or with a new class of customers (including costs of staff training); and

(d) ~~A~~administration and other general overhead costs~~ are not an component of the cost of property, plant and equipment unless they can be directly attributed to the acquisition of the asset or bringing the asset to its working condition. Similarly, start-up and similar costs do not form part of the cost of an asset unless they are necessary to bring the asset to its working condition. Initial operating losses incurred prior to an asset achieving planned performance are recognized as an expense~~.

Para 35 was relocated from previous para 28 with changes.

35. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant and equipment:

(a) costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;

(b) initial operating losses, such as those incurred while demand for the item's output builds up; and

(c) costs of relocating or reorganizing part or all of the entity's operations.

36. Some operations occur in connection with the construction or development of an item of property, plant and equipment, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities. For example, revenue may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the revenue and related expenses of incidental operations are recognized in surplus or deficit for the period, and included in their respective classifications of revenue and expense.

Para 36 was added mainly to explain more clearly what items couldn't constitute an element of costs.

~~29~~37. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of ~~producing~~constructing ~~the~~ an assets for sale (see International Public Sector Accounting Standard IPSAS 12 *Inventories*). Therefore, any internal surpluses are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labor, or other resources incurred in ~~the production of a~~ self-constructinged an asset~~,~~ is not included in the cost of the asset. IPSAS 5 *Borrowing Costs* establishes criteria ~~which need to be satisfied before~~ for the recognition of interest ~~costs can be recognized~~ as a component of the carrying amount of a self-constructed item of property, plant and equipment ~~cost~~.

Measurement of cost

38. The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date except those items referred in paragraph 28. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit unless such interest is recognized in the carrying amount of the item in accordance with the allowed alternative treatment in IPSAS 5.

Para 38 was relocated from original para 27 with minor changes.

39. One or more items of property, plant and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all the changes described in the preceding sentence. The cost of such an item of property, plant and equipment is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired item is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

Para 39-41 were added due to the change in measurement of asset exchange transactions.

40. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. An exchange transaction has commercial substance if:

(a) the configuration (risk, timing and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred; or

(b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and

(c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows. The result of these analyses may be clear without an entity's having to perform detailed calculations.

Staff are concerned about the applicability of "post-tax" cash flows used by the IASB to the public sector.

41. The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used

in estimating fair value. If an entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

~~30~~42. The cost of an ~~asset~~item of property, plant and equipment held by a lessee under a finance lease is determined in accordance with ~~using the principles set out in International Public Sector Accounting Standard~~ IPSAS 13 *Leases*.

~~Exchanges of Assets~~

This section was deleted due to restructuring the Standard. The relevant content is now located in paras 39-41.

~~31. An item of property, plant and equipment may be acquired in exchange or part exchange for a dissimilar item of property, plant and equipment or other asset. The cost of such an item is measured at the fair value of the asset received, which is equivalent to the fair value of the asset given up adjusted by the amount of any cash or cash equivalents transferred.~~

~~32. An item of property, plant and equipment may be acquired in exchange for a similar asset that has a similar use in the same line of business and which has a similar fair value. An item of property, plant and equipment may also be sold in exchange for an equity interest in a similar asset. In both cases, no gain or loss is recognized on the transaction. Instead, the cost of the new asset is the carrying amount of the asset given up. However, the fair value of the asset received may provide evidence of an impairment in the asset given up. Under these circumstances the asset given up is written down and this written-down value assigned to the new asset. Examples of exchanges of similar assets include the exchange of buildings and other real estate, machinery, specialized equipment, and aircraft. If other assets such as cash are included as part of the exchange transaction this may indicate that the items exchanged do not have a similar value.~~

~~Subsequent Expenditure~~

This section was deleted due to restructuring the Standard. The relevant content is now located in para 15 and paras 24-26.

~~***33. Subsequent expenditure relating to an item of property, plant and equipment that has already been recognized should be added to the carrying amount of the asset when it is probable that future economic benefits or service potential over the total***~~

~~***life of the asset, in excess of the most recently assessed standard of performance of the existing asset, will flow to the entity. All other subsequent expenditures should be recognized as expenses in the period in which they are incurred.***~~

~~34. Subsequent expenditure on property, plant and equipment is only recognized as an asset when the expenditure improves the condition of the asset, measured over its total life, beyond its most recently assessed standard of performance. Examples of improvements which result in increased future economic benefits or service potential include:~~

~~(a) modification of an item of plant to extend its useful life, including an increase in its capacity;~~

~~(b) upgrading machine parts to achieve a substantial improvement in the quality of output; and~~

~~(c) adoption of new production processes enabling a substantial reduction in recently assessed operating costs.~~

~~35. Expenditures related to repairs or maintenance of property, plant and equipment are made to restore or maintain the future economic benefits or service potential that an entity can expect from the most recently assessed standard of performance of the asset. As such, they are usually recognized as an expense when incurred. For example, the cost of servicing or overhauling plant and equipment is usually an expense since it restores, rather than increases, the most recently assessed standard of performance.~~

~~36. The appropriate accounting treatment for expenditures incurred subsequent to the acquisition of an item of property, plant and equipment depends on the circumstances which were taken into account on the initial measurement and recognition of the related item of property, plant and equipment and whether the subsequent expenditure is recoverable. For instance, when the carrying amount of the item of property, plant and equipment already takes into account a loss in economic benefits or service potential, the subsequent expenditures to restore the future economic benefits or service potential expected from the asset are capitalized, provided that the carrying amount does not exceed the total economic benefits or service potential that the entity expects to recover from the continued use and ultimate disposal of the item. This is also the case when the purchase~~

~~price of an asset already reflects the entity's obligation to incur expenditures in the future, which are necessary to bring the asset to its working condition. An example of this might be the acquisition of a building requiring renovation. In such circumstances, the subsequent expenditures are added to the carrying amount of the asset to the extent that they can be recovered from future use of the asset.~~

> **~~Example~~**
>
> ~~An entity is upgrading a wastewater and effluent treatment plant. The plant was recently assessed to have a total life of 20,000 hours of operating time, and is operated for 6,000 hours over a year, leaving a remaining life of 14,000 hours. The plant then undergoes a major overhaul that adds a further 4,000 hours of operating time to its life. After the overhaul, the plant can be viewed as having a total life of 24,000 hours, which is an improvement on the previously assessed 20,000 hours, and the relevant expenditures are capitalized~~.

~~37. Major components of some items of property, plant and equipment may require replacement at regular intervals. For example, a road may need resurfacing every few years, a furnace may require relining after a specified number of hours of usage or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. The components are accounted for as separate assets because they have useful lives different from those of the items of property, plant and equipment to which they relate. Therefore, provided the recognition criteria in paragraph 13 are satisfied, the expenditure incurred in replacing or renewing the component is accounted for as the acquisition of a separate asset and the replaced asset is written off.~~

Para 37 was relocated to current para 25 with minor changes.

Measurement ~~Subsequent to Initial~~ after Recognition

IASB no longer use "benchmark or alternative" treatment, para 43 was therefore added by the IASB.

43. An entity shall choose the cost model in paragraph 44 or the revaluation model in paragraph 45 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

~~Benchmark Treatment~~Cost Model

~~38~~44. ***~~Subsequent to initial recognition~~ After recognition as an asset, an item of property, plant and equipment ~~should~~ shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.***

~~Allowed Alternative Treatment~~ Revaluation Model

~~39~~45. ***~~Subsequent to initial recognition~~ After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably ~~should~~ shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations ~~should~~ shall be made with sufficient regularity ~~such~~ to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The accounting treatment for revaluations is set out in paragraphs ~~49~~55 to ~~51~~57.***

~~Revaluations~~

~~40~~46. The fair value of items of property is usually determined from market-based evidence by appraisal. The fair value of items of~~,~~ plant and equipment is usually their market value~~,~~ determined by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession, who holds a recognized and relevant professional qualification. For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialized buildings, motor vehicles and many types of plant and equipment.

~~41~~47 For some public sector assets, it may be difficult to establish their market value because of the absence of market transactions for these assets. Some public sector entities may have significant holdings of such assets.

~~42~~48. ~~Where~~If no evidence is available to determine the market value in an active and liquid market of an item of property, the fair value of the item may be established by reference to other items with similar characteristics, in similar circumstances and location. For example, the fair value of vacant government land that has been held for a long period during which time there have been few transactions may be estimated by reference to the market value of land with similar features and topography in a similar location for which market evidence is available. In the case of specialized buildings and other man-made structures, fair value may be estimated using depreciated replacement cost, or approaches described in IPSAS XX *Impairments of Non-cash-generating Assets* as the restoration cost or service units approach. In many cases, the depreciated replacement cost of an asset can be established by reference to the buying price of a similar asset with similar remaining service potential in an active and liquid market. In some cases, an asset's reproduction cost will be the best indicator of its replacement cost. For example, in the event of loss, a parliament building may be reproduced rather than replaced with alternative accommodation because of its significance to the community.

Staff amended para 48 per BA meeting's discussion to maintain consistency between IPSAS 17 and the IPSAS on ED 23.

~~43~~49. ~~For~~ If there is no market-based evidence of fair value because of the specialized nature of the item~~s~~ of plant and equipment ~~of a specialized nature~~, an entity may need to estimate fair value ~~may be based on~~ using, for example, ~~either~~ reproduction cost, ~~or on~~ depreciated replacement cost, or approaches described in IPSAS XX *Impairments of Non-cash-generating Assets* as the restoration cost or service units approach. The depreciated replacement cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. When the indexed price method is used, judgment is required to determine whether production technology has changed significantly over the period, and whether the capacity of the reference asset is the same as that of the asset being valued.

Staff amended para 49 per BA meeting's discussion to maintain consistency between IPSAS 17 and the IPSAS on ED 23.

~~44~~50. The frequency of revaluations depends upon the ~~movements~~ changes in the fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some items of property, plant and equipment ~~may~~ experience significant and volatile ~~movements~~ changes in fair value, thus necessitating annual revaluation.

Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant ~~movements~~ changes in fair value. Instead, it may be necessary to revalueation the item only every three or five years ~~may be sufficient~~.

~~45~~51. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is ~~either~~treated in one of the following ways:

(a) restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. This method is often used when an asset is revalued by means of an index to its depreciated replacement cost~~; or~~.

(b) eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. ~~For example, t~~This method is used for buildings ~~which are revalued to their market value~~.

The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in carrying amount ~~which~~ that is dealt with in accordance with paragraphs ~~49~~55 and ~~50~~56.

~~46~~52. ~~When~~If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs ~~should~~ shall be revalued.

~~47~~53. A class of property, plant and equipment is a grouping of assets of a similar nature or function in an entity's operations. The following are examples of separate classes:

(a) land;

(b) operational buildings;

(c) roads;

(d) machinery;

(e) electricity transmission networks;

(f) ships;

(g) aircraft;

(h) specialist military equipment;

(i) motor vehicles;

(j) furniture and fixtures;

(k) office equipment; and

(l) oil rigs.

~~48~~54. The items within ~~the~~a class of property, plant and equipment are revalued simultaneously in order to avoid selective revaluation of assets and the reporting of amounts in the financial statements ~~which~~ that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period ~~of time~~ and provided the revaluations are kept up to date.

~~49~~55. ~~When~~If the carrying amount of a class of assets is increased as a result of a revaluation, the increase ~~should~~ shall be credited directly to revaluation surplus. However, ~~a revaluation~~ the increase ~~should~~ shall be recognized ~~as revenue~~ in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognized ~~as an expense~~ in surplus or deficit.

~~50~~56. ~~When~~If the carrying amount of a class of assets is decreased as a result of a revaluation, the decrease ~~should~~ shall be recognized ~~as an expense~~ in surplus or deficit. However, ~~a revaluation~~the decrease ~~should~~ shall be ~~charged~~debited directly ~~against~~ to ~~any related~~ revaluation surplus to the extent of any credit balance existing ~~that the decrease does not exceed the amount held~~ in the revaluation surplus in respect of that ~~same~~ class of assets.

~~51~~57. Revaluation increases and decreases relating to individual assets within a class of property, plant and equipment must be offset against one another within that class but must not be offset in respect of assets in different classes.

~~52~~58. Some or all of the revaluation surplus included in net assets in respect of property, plant and equipment may be transferred directly to accumulated surpluses or deficits when the ~~surplus~~ assets ~~is~~ are ~~realized~~ derecognized. This may involve transferring ~~The surplus may be realized, in part or in~~ some or the whole of the surplus when the assets~~, on the retirement or~~

~~disposal of some or all of the assets~~ within the class of property, plant and equipment to which the surplus relates are retired or disposed of. However, some of the surplus may be ~~realized~~ transferred as the assets are used by the entity~~;~~. ~~i~~In such a case, the amount of the surplus ~~realized is the~~ transferred would be the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. ~~The t~~Transfers from revaluation surplus to accumulated surpluses or deficits ~~is~~ are not made through ~~the statement of financial performance~~ surplus or deficit.

~~53~~59. Guidance on the effects on taxes on surpluses, if any, resulting from the revaluation of property, plant and equipment can be found in International Accounting Standard IAS 12, *Income Taxes*.

Depreciation

Paras 60-64 were relocated from original para 18 and split into 5 paras with additional contents mainly relating to components of depreciation.

60. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

61. An entity allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, it may be appropriate to depreciate separately the pavements, formation, curbs and channels, footpaths, bridges and lighting within a road system. Similarly, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease.

62. A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

63. To the extent that an entity depreciates separately some parts of an item of property, plant and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a

manner that faithfully represents the consumption pattern and/or useful life of its parts.

64. An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.

Para 65 was relocated from the last sentence of original para 54.

65. The depreciation charge for each period shall be recognized in surplus or deficit unless it is included in the carrying amount of another asset.

66. The depreciation charge for a period is usually recognized in surplus or deficit. However, sometimes, the economic benefits or service potential embodied in an asset is absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see IPSAS 12). Similarly, depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset that is recognized in accordance with the appropriate international or national accounting standard on intangible assets that has been applied by the entity.

Para 66 was relocated from original para 61 with minor changes.

Depreciation Amount and Depreciation Period

The last two sentences of original para 54 were relocated to current para 65 and 77.

~~54~~67. ***The depreciable amount of an asset ~~item of property, plant and equipment should~~ shall be allocated on a systematic basis over its useful life. ~~The depreciation method used should reflect the pattern in which the asset's economic benefits or service potential is consumed by the entity. The depreciation charge for each period should be recognized as an expense unless it is included in the carrying amount of another asset~~.***

Para 68 was relocated from original para 62 with changes.

68. The residual value and the useful life of an asset shall be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors.

Para 69 was relocated from original para 64 with minor changes.

69. Depreciation is recognized even if the fair value of the assets exceeds its carrying amount, as long as the asset's residual value

does not exceed its carrying amount. Repair and maintenance of an asset does not negate the need to depreciate it. Conversely, some assets may be poorly maintained or maintenance may be deferred indefinitely because of budgetary constraints. Where asset management policies exacerbate the wear and tear of an asset, its useful life should be reassessed and adjusted accordingly.

Para 70 was relocated from the first sentence of original para 59.

70. The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

71. The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

Para 72 was relocated from original para 72 with additional contents.

Pls note that Staff have incorporated the changes made by the IASB upon issuing IFRS 5 and proposed endorsement approach to IFRS 5.

72. Depreciation of an asset begins when it is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with IPSAS XX *Non-current Assets Held for Sale and Discontinued Operations* and the date that the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

~~55. As the economic benefits or service potential embodied in an asset is consumed by the entity, the carrying amount of the asset is reduced to reflect this consumption, normally by charging an expense for depreciation. A depreciation charge is made even if the value of the asset exceeds its carrying amount.~~

~~5~~~~6~~73. The future economic benefits or service potential embodied in an item of property, plant and equipment is consumed by the entity principally through the use of the asset. However, other factors such as technical or commercial obsolescence and wear and tear while an asset remains idle often result in the diminution of the economic benefits or service potential that might have been ~~expected to be available~~ obtained from the asset. Consequently, all the following factors ~~need to be~~are considered in determining the useful life of an asset:

(a) ~~the~~ expected usage of the asset~~ by the entity~~. Usage is assessed by reference to the asset's expected capacity or physical output~~;~~.

(b) ~~the~~ expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance program ~~of the entity~~, and the care and maintenance of the asset while idle~~;~~.

(c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset~~; and~~.

(d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.

~~57~~74. The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of an entity may involve the disposal of assets after a specified time or after consumption of a ~~certain~~ specified proportion of the future economic benefits or service potential embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of ~~an item of property, plant and equipment~~ the asset is a matter of judgment based on the experience of the entity with similar assets.

~~58~~75. Land and buildings are separable assets and are ~~dealt with~~ accounted separately~~ for accounting purposes~~, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, l~~L~~and ~~normally~~ has an unlimited useful life and~~,~~ therefore~~,~~ is not depreciated. Buildings have a limited useful life and~~,~~ therefore~~,~~ are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the ~~useful life~~ depreciable amount of the building.

76. If the cost of land includes the cost of site dismantlement, removal and restoration, that portion of the land asset is

depreciated over the period of benefits or service potential obtained by incurring those costs. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits or service potential to be derived from it.

Para 77 was relocated from the middle sentence of original para 54.

Depreciation Method

77. ***The depreciation method shall reflect the pattern in which the asset's future economic benefits or service potential is expected to be consumed by the entity.***

Para 78 was relocated from original para 65 with minor changes.

78. ***The depreciation method applied shall be reviewed at least at each annual reporting date and, if there has been a significant change in the expected pattern of the consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3.***

The first sentence of original para 59 was relocated to para 70.

~~59. The depreciable amount of an asset is determined after deducting the residual value of the asset. In practice, the residual value of an asset is often insignificant and therefore is immaterial in the calculation of the depreciable amount. When the benchmark treatment is adopted and the residual value is likely to be significant, the residual value is estimated at the date of acquisition and is not subsequently increased for changes in prices. However, when the allowed alternative treatment is adopted, a new estimate is made at the date of any subsequent revaluation of the asset. The estimate is based on the residual value prevailing at the date of the estimate for similar assets which have reached the end of their useful lives and which have operated under conditions similar to those in which the asset will be used.~~

~~60~~79. A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the ~~sum-of-the-~~units of production method. Straight-line depreciation results in a constant charge over the useful life of the asset. The diminishing balance method results in a decreasing charge over the useful life of the asset. The ~~sum-of-the-~~units of production method results in a charge based on the expected use or output ~~of the asset~~. The entity selects the method ~~used for an asset is selected based on~~ that most closely reflects the expected pattern of consumption of the future economic benefits or service potential embodied in the asset.~~, and~~ That method is ~~consistently~~ applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential~~ from that asset~~.

This para was relocated to current para 66 with minor changes.

~~61. The depreciation charge for a period is usually recognized as an expense. However, in some circumstances, the economic benefits or service potential embodied in an asset is absorbed by the entity in producing other assets rather than giving rise to an expense. In this case, the depreciation charge comprises part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see IPSAS 12). Similarly, depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset that is recognized in accordance with the relevant international or national accounting standard dealing with intangible assets.~~

~~Review of Useful Life~~

This section has been deleted due to restructuring the Standard. Its main contents are now located in current paras 68-69.

~~***62. The useful life of an item of property, plant and equipment should be reviewed periodically and, if expectations are significantly different from previous estimates, the depreciation charge for the current and future periods should be adjusted.***~~

~~63. During the life of an asset it may become apparent that the estimate of the useful life is inappropriate. For example, the useful life may be extended by subsequent expenditures on the asset which improve the condition of the asset beyond its most recently assessed standard of performance. Alternatively, technological changes or changes in the market for the products may reduce the useful life of the asset. In such cases, the useful life, and therefore the depreciation rate, is adjusted for the current and future periods.~~

~~64. The repair and maintenance policy of the entity may also affect the useful life of an asset. The policy may result in an extension of the useful life of the asset or an increase in its residual value.~~

~~However, the adoption of such a policy does not negate the need to charge depreciation. Conversely, some assets may be poorly maintained or maintenance may be deferred indefinitely because of budgetary constraints. Where asset management policies exacerbate the wear and tear of an asset, its useful life should be reassessed and adjusted accordingly.~~

~~Review of Depreciation Method~~

This section has been deleted due to restructuring the Standard and relocated to current para 78 with minor changes.

~~*65. The depreciation method applied to property, plant and equipment should be reviewed periodically and, if there has been a significant change in the expected pattern of economic benefits or service potential from those assets, the method should be changed to reflect the changed pattern. When such a change in depreciation method is necessary the change should be accounted for as a change in accounting estimate and the depreciation charge for the current and future periods should be adjusted.*~~

~~Recoverability of the Carrying Amount –~~ Impairment ~~Losses~~

Pls note consistent with the proposed endorsement approach, this para has been amended to reflect the endorsed IAS 36 and anticipated issuance of an IPSAS on ED 23.

~~66~~80. To determine whether an item of property, plant and equipment is impaired, an entity applies ~~the appropriate international or national accounting standard, dealing with impairment of assets~~ IPSAS XX *Impairment of Cash-generating Assets* and IPSAS XX *Impairment of Non-cash-generating Assets*[2]~~.~~ ~~International Accounting Standard IAS 36, *Impairment of Assets* contains guidance~~ These Standards explain ~~on~~ how an entity reviews~~ing~~ the carrying amount of its assets ~~held for generating positive cash flows~~, how it determines~~ing~~ the recoverable amount of ~~such~~ an asset~~s~~, and when it recognizes, or reverses the recognition of, an impairment loss~~es~~.

Pls note that para 67 has been removed to reflect the changes made by the IASB upon issuing IFRS 3 *Business Combinations.*

~~67. IAS 22 provides guidance on impairment losses recognized before the end of the first annual accounting period commencing after a business combination that is an acquisition.~~

~~[2] The Committee is currently developing a Standard on impairment of assets. The Committee has issued an Invitation to Comment Exposure Draft (ITCED) *Impairment of Assets*. Responses received on this ITCED will assist the Committee in developing an International Public Sector Accounting Standard on the impairment of assets.~~

Compensation for impairment

This section is a new section. It was dealt with in SIC-14 and was incorporated in IAS 16.

81. Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up shall be included in surplus or deficit when the compensation becomes receivable.

82. Impairments or losses of items of property, plant and equipment, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

The footnote will be removed upon the issue of the IPSAS on ED 23.

Subpara (a) has been amended to reflect the proposed endorsement approach to IAS 36 and anticipated issuance of an IPSAS on ED 23.

(a) impairments of items of property, plant and equipment are recognized in accordance with IPSAS XX *Impairment of Cash-generating Assets* and IPSAS XX *Impairment of Non-cash-generating Assets*;

(b) derecognition of items of property, plant and equipment retired or disposed of is determined in accordance with this Standard;

(c) compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in determining surplus or deficit when it becomes receivable; and

(d) the cost of items of property, plant and equipment restored, purchased or constructed as replacement is determined in accordance with this Standard.

~~Retirements and Disposals~~Derecognition

~~68~~83. The carrying amount of ~~A~~an item of property, plant and equipment shall~~should~~ be ~~eliminated from the statement of financial position~~derecognized ~~on~~:-

(a) on disposal; or

(b) when ~~the asset is permanently withdrawn from use and~~ no future economic benefits or service potential is expected from its use or disposal.

Pls note, IASB does not allow gains to be classified as revenues. Staff retain the previous version because of the absence of "income" notion in

The middle sentence of previous para 69 is relocated to current para 87.

~~69~~84. The ~~G~~gains~~s~~ or loss~~es~~ arising from the ~~retirement or disposal~~ derecognition of an item of property, plant and equipment

shall ~~should~~ be included in surplus or deficit when the item is derecognized. ~~determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset.~~ For the purposes of display in the financial statements, the gain or loss ~~should~~ shall be included in the statement of financial performance as an item of revenue or expense, as appropriate. (unless IPSAS 13, Leases requires otherwise on a sale and leaseback).

~~70. When an item of property, plant and equipment is exchanged for a similar asset under the circumstances described in paragraph 31, the cost of the acquired asset is equal to the carrying amount of the asset disposed of and no gain or loss results.~~

~~71~~85. The disposal of an item of property, plant and equipment may occur in a variety ways (eg by sale, by entering into a finance lease or by donation). In determining the date of disposal of an item, an entity applies the criteria in IPSAS 9 *Revenues from Exchange Transactions* for recognizing revenue from the sale of goods. IPSAS 13 *Leases* applies to disposal by a ~~S~~sale and leaseback~~ transactions are accounted for in accordance with IPSAS 13~~.

Para 85 was amended to state how to determine the derecognition date of a PPE item.

86. If, under the recognition principle in paragraph 15, an entity recognizes in the carrying amount of an item of property, plant and equipment the cost of a replacement for part of the item, then it derecognizes the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

Para 86 was added to be consistent with the general recognition principle specified in para 15.

87. The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Para 87 was relocated from the middle sentence of original para 69.

88. The consideration receivable on disposal of an item of property, plant and equipment is recognized initially at its fair value. If payment for the item is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash

Para 88 was added to reflect a common practice while disposing an asset.

price equivalent is recognized as interest revenue in accordance with IPSAS 9 reflecting the effective yield on the receivable.

~~72. Property, plant and equipment which is retired from active use and held for disposal is carried at its carrying amount at the date when the asset is retired from active use. At least at each reporting date, an entity tests the asset for impairment under the relevant international or national accounting standard adopted in relation to impairment of assets and recognizes any impairment loss accordingly.~~

Disclosure

~~73~~89. ***The financial statements shall ~~should~~ disclose, for each class of property, plant and equipment recognized in the financial statements:***

(a) the measurement bases used for determining the gross carrying amount~~. When more than one basis has been used, the gross carrying amount for that basis in each category should be disclosed~~;

(b) the depreciation methods used;

(c) the useful lives or the depreciation rates used;

(d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and

(e) a reconciliation of the carrying amount at the beginning and end of the period showing:

Pls note that subpara (ii) has been amended to reflect the changes made by the IASB upon issuing IFRS 5 and proposed endorsement of IFRS 5.

(i) additions;

(ii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IPSAS XX Non-current Assets and Discontinued Operations and other disposals;

(iii) acquisitions through business combinations;

(iv) increases or decreases ~~during the period~~ resulting from revaluations under paragraphs ~~39~~45, ~~49~~55 and ~~50~~56 and from impairment losses (if any) recognized or reversed directly in net assets/equity ~~under~~ in accordance with IPSAS XX Impairment of Cash-generating Assets and IPSAS XX Impairment

Subpara (iv), (v) and (vi) have been amended to reflect the proposed endorsement of IAS 36 and the anticipated *of Non-cash-generating Assets~~the appropriate international or national accounting standard adopted~~;*

(v) impairment losses ~~(if any)~~ recognized in ~~the statement of financial performance during the period~~ surplus or deficit ~~under~~ in accordance with IPSAS XX Impairment of Cash-generating Assets and IPSAS XX Impairment of Non-cash-generating Assets~~the appropriate international or national accounting standard adopted~~;

(vi) impairment losses ~~(if any)~~ reversed in ~~the statement of financial performance during the period~~ surplus or deficit ~~under~~ in accordance with IPSAS XX Impairment of Cash-generating Assets and IPSAS XX Impairment of Non-cash-generating Assets~~the appropriate international or national accounting standard adopted~~;

(vii) depreciation;

Subpara (viii) was changed due to the change in IPSAS 4.

(viii) the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign ~~entity~~operation into the presentation currency of the reporting entity; and

(ix) other ~~movements~~ changes.

~~74~~90. The financial statements shall~~should~~ also disclose for each class of property, plant and equipment recognized in the financial statements:

(a) the existence and amounts of restrictions on title~~,~~ ~~for~~ and property, plant and equipment pledged as securities for liabilities;

~~(b)the accounting policy for the estimated costs of restoring the site of items of property, plant and equipment;~~

~~(c)~~(b) the amount of expenditures ~~on account~~ recognized in the carrying amount of an item of property, plant and equipment in the course of its construction;~~ and~~

~~(d)~~(c) the amount of contractual commitments for the acquisition of property, plant and equipment~~.~~; and

Subpara (d) is a new disclosure requirement added by IASB.

(d) if it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in surplus or deficit.

~~75~~91. ~~The s~~Selection of the depreciation method and the estimation of the useful life of the assets are matters of judgment. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information ~~which~~that allows them to review the policies selected by management and enables comparisons to be made with other entities. For similar reasons, it is necessary to disclose:

(a) ~~the~~ depreciation ~~allocated~~, whether recognized in surplus or deficit or as a part of the cost of other assets, during ~~in~~ a period; and

(b) ~~the~~ accumulated depreciation at the end of ~~that~~the period.

~~76~~92. In accordance with IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* ~~A~~an entity discloses the nature and effect of a change in an accounting estimate that has an ~~material~~ effect in the current period~~,~~ or ~~which~~ is expected to have an ~~material~~ effect in subsequent periods~~, in accordance with International Public Sector Accounting Standard IPSAS 3~~ ~~*Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policy*~~. For property, plant and equipment, ~~S~~such disclosure may arise from changes in estimates with respect to:

(a) residual values;

(b) the estimated costs of dismantling, ~~and~~ removing or restoring items of property, plant ~~or~~and equipment ~~and restoring the site~~;

(c) useful lives; and

(d) depreciation methods.

~~77~~93. ~~When~~If a class of property, plant and equipment is stated at revalued amounts, the following ~~should~~shall be disclosed:

~~(a) the basis used to revalue the assets within the class;~~

~~*(b)*~~*(a)* *the effective date of the revaluation;*

~~*(c)*~~*(b)* *whether an independent valuer was involved;*

~~*(d)*~~*(c)* ~~***the nature of any indices used to determine replacement cost***~~ ***the methods and significant assumptions applied in estimating the assets' fair values;***

(d) the extent to which the assets' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques;

(e) the revaluation surplus, indicating the ~~movement~~change for the period and any restrictions on the distribution of the balance to shareholders or other equity holders;

(f) the sum of all revaluation surpluses for individual items of property, plant and equipment within that class; and

(g) the sum of all revaluation deficits for individual items of property, plant and equipment within that class.

Para 94 is amended to reflect the proposed endorsement of IAS 36 and the issue of the IPSAS on ED 23.

~~78~~94. In accordance with IPSAS XX *Impairment of Cash-generating Assets* and IPSAS XX *Impairment of Non-cash-generating Assets* ~~A~~an entity discloses information on impaired property, plant and equipment ~~under the appropriate international or national accounting standard adopted~~ in addition to the information required by paragraph ~~73~~89(e)(iv) to (vi).

~~79~~95. Users of ~~F~~financial statements ~~users~~ may also find the following information relevant to their needs:

(a) the carrying amount of temporarily idle property, plant and equipment;

(b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;

Subpara (c) has been amended to reflect the changes made by the IASB upon issuing IFRS 5 and proposed endorsement of IFRS 5.

(c) the carrying amount of property, plant and equipment retired from active use and not classified as held for ~~disposal~~ sale in accordance with IPSAS XX *Non-current Assets Held for Sale and Discontinued Operations*; and

(d) when the ~~benchmark treatment~~cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.

Therefore, entities are encouraged to disclose these amounts.

Transitional Provisions

Staff are concerned whether 5 years transition relief is still necessary given the next generation will take effect in 2009.

~~80~~96. ***Entities are not required to recognize property, plant and equipment for reporting periods beginning on a date within five years following the date of first adoption of this Standard.***

~~81~~97. ***An entity that adopts accrual accounting for the first time in accordance with International Public Sector Accounting Standards may 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.***

~~82~~98. Paragraph ~~13~~15 of this Standard requires the cost or fair value of an item~~s~~ of property, plant and equipment to be recognized as an asset ~~when~~if, and only if:

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

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

~~83~~99. The transitional provisions in paragraphs ~~80~~96 and ~~81~~97 are intended to give relief in situations where an entity is seeking to comply with the provisions of this Standard, in the context of implementing accrual accounting for the first time in accordance with International Public Sector Accounting Standards, with effect from the effective date of this Standard or subsequently. When entities adopt accrual accounting in accordance with International Public Sector Accounting Standards for the first time, there are often difficulties in compiling comprehensive information on the existence and valuation of assets. For this reason, for a five-year period following the date of first ~~adoption~~a application of this Standard, entities are not required to comply fully with the requirements of paragraph ~~13~~15.

~~84~~100. Notwithstanding the transitional provisions in paragraphs ~~80~~96 and ~~81~~97, entities that are in the process of adopting accrual accounting are encouraged to comply in full with the provisions of this Standard as soon as possible.

~~85~~101. The exemption from the requirements of paragraph ~~13~~15 implies that the associated measurement and disclosure provisions of this Standard do not need to be complied with in respect of those assets or classes of asset that are not recognized under paragraphs ~~80~~ 96 and ~~81~~97.

~~86~~102. When initially ~~adopting~~ applying this Standard, an entity may control assets that it has not previously recognized. This Standard allows entities to initially recognize items of property, plant and equipment at cost or fair value. Where assets are initially recognised 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.

~~87~~103. When an entity takes advantage of the transitional provisions in paragraphs ~~80~~96 and ~~81~~97 that fact ~~should~~ shall be disclosed. Information on the major classes of asset that have not been recognized by virtue of paragraph ~~80~~96 ~~should~~ shall also be disclosed. When an entity takes advantage of the transitional provisions for a second or subsequent reporting period, details of the assets or classes of asset that were not recognized at the previous reporting date but ~~which~~ that are now recognized ~~should~~ shall be disclosed.

104. The amendments to the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transactions specified in paragraphs 39-41 shall be applied prospectively to future transactions.

Effective Date

~~88~~105. An entity shall apply ~~T~~this International Public Sector Accounting Standard ~~becomes effective~~ for annual financial statements covering periods beginning on or after 1 January ~~2003~~2009. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2009, it shall disclose that fact.

~~89~~106. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Pls note this Appendix is a new section. See also the IASB Harmonization Strategy paper for the proposed approach to SIC/IFRIC interpretations.

Appendix 1– Interpretations of International Financial Reporting Standards

This appendix is an integral part of the Standard.

1. IFRIC Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* issued by the International Financial Reporting Interpretations Committee provides guidance on interpreting the requirements of this International Public Sector Accounting Standard.

Pls note "Amendments to Other Pronouncements" is a new section. Only the relevant paragraphs in other IPSASs that are not part of IPSASs Improvements project but impacted as a result of proposals in this IPSAS are included and shown in marked-up.

Appendix 2– Amendments to Other Pronouncements

The amendments in this appendix shall be applied for annual financial statements covering periods beginning on or after 1 January 2009. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

A1. In IPSAS 18 Segment Reporting, paragraph 37 is amended to read as follows:

37. ……Measurements of segment assets and liabilities include any adjustments to the prior carrying amounts of the identifiable segment assets and segment liabilities of an entity acquired in an entity combination accounted for as a purchase, even if those adjustments are made only for the purpose of preparing consolidated financial statements and are not recorded in either the controlling entity's separate or the controlled entity's ~~separate~~ individual financial statements. Similarly, if property, plant, and equipment has been revalued subsequent to acquisition in accordance with the ~~alternative accounting treatment allowed by~~ revaluation model in International Public Sector Accounting Standard IPSAS 17 *Property, Plant and Equipment*, measurements of segment assets reflect those revaluations.

Appendix 3 – Illustrative Disclosures

The appendix is illustrative only and does not form part of the standards. The purpose of the appendix is to illustrate the application of the standards to assist in clarifying their meaning.

The Department of the Interior is a public sector entity that controls a wide range of property, plant and equipment and is responsible for replacement and maintenance of the property. The following are extracts from the notes to its Statement of Financial Position for the year ended 31 December 20X1 and illustrate the principal disclosures required ~~under~~ in accordance with this Standard.

Notes

1. Land

a) Land consists of twenty thousand hectares at various locations. Land is valued at fair value as at 31 December 20X1, as determined by the Office of the National Valuer, an independent valuer.

b) Restrictions on Titles:

Five hundred hectares of land (carried at 62,500 currency units) is designated as national interest land and may not be sold without the approval of the legislature. Two hundred hectares (carried at 25,000 currency units) of the national interest land and a further two thousand hectares (carried at 250,000 currency units) of other land are subject to title claims by former owners in an international court of human rights and the Court has ordered that the land may not be disposed of until the claim is decided; the Department recognizes the jurisdiction of the Court to hear these cases.

2. Buildings

a) Buildings consist of office buildings and industrial facilities at various locations.

b) Buildings are initially recognized at cost, but are subject to revaluation to fair value on an ongoing basis. The Office of the National Valuer determines fair value on a rolling basis within a short period of time. Revaluations are kept up to date.

c) Depreciation is calculated on a straight-line basis over the useful life of the building. Office buildings have a useful life of twenty-five years, and industrial facilities have a useful life of fifteen years.

This disclosure requirement no longer exists (previous para 74 (b) was removed. see current para 90).

d) ~~The Department recognizes the estimated cost of restoration of building sites in the cost of the buildings, when those costs meet the recognition criteria of a liability.~~

~~e)~~ The Department has entered into five contracts for the construction of new buildings; total contract costs are 250,000 currency units.

3. Machinery

a) Machinery is measured at cost less depreciation.

b) Depreciation is calculated on a straight-line basis over the useful life of the machine.

c) The machinery has various useful lives:

Tractors:	10 years
Washing Equipment:	4 years
Cranes:	15 years

d) The Department has entered into a contract to replace the cranes it uses to clean and maintain the buildings - the contracted cost is 100,000 currency units.

4. Furniture and Fixtures

a) Furniture and fixtures are measured at cost less depreciation.

b) Depreciation is calculated on a straight-line basis over the useful life of the furniture and fixtures.

c) All items within this class have a useful life of five years.

Reconciliations (in '000 of currency units)

	Land		**Buildings**		**Machinery**		**Furniture and Fixtures**	
Reporting Period	**20X1**	**20X0**	**20X1**	**20X0**	**20X1**	**20X0**	**20X1**	**20X0**
Opening Balance	2,250	2,025	2,090	2,260	1,085	1,100	200	150
Additions	-	-	250	100	120	200	20	100
Disposals	-	-	150	40	60	80	20	-
Depreciation (As per Statement of Financial Performance)	-	-	160	180	145	135	50	50
Revaluations (net)	250	225	- 30	- 50	-	-	-	-
Closing Balance (As per Statement of Financial Position	2,500	2,250	2,000	2,090	1,000	1,085	150	200

Sum of Revaluation Surpluses (Paragraph ~~78~~93(f))	750	500	250	250	-	-	-	-
Sum of Revaluation Deficits (Paragraph ~~78~~93(g))	25	25	380	350	-	-	-	-

Gross Carrying Amount	2,500	2,250	2,500	2,430	1,500	1,440	250	250
Accumulated Depreciation	-	-	500	340	500	355	100	50
Net Carrying Amount	2,500	2,250	2,000	2,090	1,000	1,085	150	200

Comparison with IAS 16

International Public Sector Accounting Standard IPSAS 17 *Property, Plant and Equipment* is drawn primarily from International Accounting Standard IAS 16 (Revised ~~1998~~2003), *Property, Plant and Equipment*. The main differences between IPSAS 17 and IAS 16 are as follows:

This difference no longer exists as Staff have proposed changes to para 5(a) of the scope.

- ~~At the time of issuing this Standard, the PSC has not considered the applicability of IAS 41, *Agriculture*, to public sector entities, therefore IPSAS 17 does not reflect amendments made to IAS 16 consequent upon the issuing of International Accounting Standard IAS 41.~~

- IPSAS 17 does not require or prohibit the recognition of heritage assets. An entity which recognizes heritage assets is required to comply with the disclosure requirements of this Standard with respect to those heritage assets that have been recognized and may, but is not required to, comply with other requirements of this Standard in respect of those heritage assets. IAS 16 does not have a similar exclusion.

- IAS 16 requires items of property, plant and equipment to be initially measured at cost. IPSAS 17 states that where an item is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date it is acquired.

This difference no longer exists because there is a general recognition principle for both initial costs and subsequent expenditures.

- ~~IAS 16 requires subsequent expenditures on property, plant and equipment to be capitalized when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the entity. IPSAS 17 adopts a similar treatment, but refers to the most recently assessed standard of performance — rather than that originally assessed — as the benchmark.~~

- IAS 16 requires, where an enterprise adopts the ~~allowed alternative treatment~~ revaluation model and carries items of property, plant and equipment at revalued amounts, the equivalent historical cost amounts to be disclosed. This requirement is not included in IPSAS 17.

- Under IAS 16, revaluation increases and decreases may only be matched on an individual item basis. Under IPSAS 17, revaluation increases and decreases may be offset on a class of asset basis.

This difference no longer exists as the revised IAS 16 does not provide an exemption for comparative info.

- ~~IPSAS 17 does not provide an exemption from requiring comparative information for the disclosures in paragraph 73, IAS 16 provides an exemption~~.

- IPSAS 17 contains transitional provisions allowing entities to not recognize property, plant and equipment for reporting periods beginning on a date within five years following the date of first adoption of this Standard. The transitional provisions also allow entities to recognize property, plant and equipment at fair value on first adopting this Standard. IAS 16 does not include these transitional provisions.

- IPSAS 17 contains a different set of definitions of technical terms from IAS 16.

- The IASC Framework defines an asset as a resource controlled by an enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise. IPSAS 17 adopts a slightly amended definition that incorporates the notion of service potential.

- Commentary additional to that in IAS 16 has been included in IPSAS 17 to clarify the applicability of the standards to accounting by public sector entities.

- IPSAS 17 uses different terminology, in certain instances, from IAS 16. The most significant examples are the use of the terms ~~"entity",~~ "revenue", "statement of financial performance", "statement of financial position" and "net assets/equity" in IPSAS 17. The equivalent terms in IAS 16 are ~~"enterprise",~~ "income", "income statement", "balance sheet" and "equity".

Summary of Main Changes
IPSAS 16 *Investment Property*

The main changes proposed are:

Scope

- to replace the scope exclusion of “forests and similar regenerative natural resources” in paragraph 5(a) with “biological assets related to agricultural activity (see IPSAS XX *Agriculture*)” (Staff have proposed in the IASB Harmonization Strategy paper to also issue an ED proposing to endorse IAS 41 as IPSAS XX *Agriculture* at the same time as issuing the IPSASs Improvements ED).

Definitions

- to amend in paragraph 8 the definition of “cost” to reflect the changes made by the IASB upon issuing IFRS 2 *Share-based Payment*.

Property Interests Held by a Lessee under An Operating Lease

- to allow in paragraph 9 a property interest held by a lessee under an operating lease to be classified and accounted for as investment property provided certain criteria are met.

- to require a lessee that classifies a property interest held under an operating lease as investment property to account for the lease as if it were a finance lease in accordance with IPSAS 13 *Lease*, ie the asset shall be recognized at the lower of the fair value of the property interest and the present value of the minimum lease payments. The fair value is referred to that interest and not the underlying property (see paragraphs 35-36).

- to clarify the subsequent measurement choice between cost model and fair value model is not available for a lessee accounting for a property interest held under an operating lease that it has elected to classify as investment property. Such investment property is required to be measured using fair value model. Once this alternative is selected for one such property, all other properties classified as investment property held by the entity are to be accounted for consistently on a fair value basis (see paragraphs 46-47).

  Previously, IPSAS 16 did not contain these requirements.

Investment Property Linked to Liabilities

- to allow an entity to choose (a) either the fair value model or the cost model for all investment property backing liabilities that pay a return linked directly to the fair value of, or returns from, specified assets including that investment property; and (b) either the fair value model or the cost model for all <u>other</u> investment property, regardless of the choice made in (a) (see paragraphs 41-43).

Changes Emanating from Proposed IPSAS 17 *Property, Plant and Equipment*

- to require an entity to apply one general asset recognition principle to all investment property costs at the time when they are incurred, including initial costs and subsequent expenditures. Previously, IPSAS 16 contained two recognition principles: one applied to initial costs while another applied to subsequent expenditures (see paragraphs 21-26).

- to require an entity to recognize all asset exchange transactions at fair value unless the transactions lack commercial substances or the fair value of neither the asset given up nor the asset received can be reliably measured. Previously, IPSAS 16 did not contain relevant requirements with regard to the treatment for asset exchange transactions (see paragraphs 37-39).

- to require in paragraph 83 an entity to derecognize the carrying amount of a part of an investment property if that part has been replaced and to include the cost of replacement in the carrying amount of the asset. Previously, IPSAS 16 did not extend its derecognition principle to replaced parts. Rather, its recognition principle for subsequent expenditures effectively precluded the cost of a replacement from being included in the carrying amount of the asset.

- to require an entity to include compensation from third parties for an investment property that was impaired, lost or given up in surplus or deficit when the compensation becomes receivable. Previously, IPSAS 16 did not contain this requirement (see paragraphs 87-88).

IFAC

Public

Sector

Committee

Issued ~~December~~X ~~2001~~200X

IPSAS 16

Investment Property

International Public Sector

Accounting Standard

Issued by

the International

Federation of

Accountants

This Standard was approved by the Public Sector Committee of the International Federation of Accountants.

Acknowledgment

This International Public Sector Accounting Standard is drawn primarily from International Accounting Standard IAS 40 (revised ~~2000~~2003), *Investment Property* published by the International Accounting Standards ~~Committee~~Board (~~IASC~~IASB). The International Accounting Standards Board (IASB) and the International Accounting Standards Committee Foundation (IASCF) were established in 2001 to replace the International Accounting Standards Committee (IASC). The International Accounting Standards (IASs) issued by the IASC remain in force until they are amended or withdrawn by the IASB. Extracts from IAS 40 are reproduced in this publication of the Public Sector Committee of the International Federation of Accountants with the permission of the IASB.

The approved text of the IASs is that published by the IASB in the English language, and copies may be obtained directly from ~~IASB~~IASCF Publications Department, ~~7th Floor, 166 Fleet~~ 30 Cannon Street, London EC4~~A~~M ~~2DY~~6XH, United Kingdom.

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INTRODUCTION

Accounting Standards for the Public Sector

The International Federation of Accountants — Public Sector Committee (the Committee) is developing~~ a set of~~ recommended accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The Committee recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs~~ will~~ play a key role in enabling these benefits to be realized.

The revision to the introduction was consistent with the latest version in ED 23.

The IPSASs are based on the International Financial Reporting Standards, formerly known as International Accounting Standards (IASs), issued by the International Accounting Standards Board (IASB), where the requirements of those Standards are applicable to the public sector. The Committee is also developing IPSASs that deal with accounting issues in the public sector that are not addressed in the IFRSs or IASs.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The Committee strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in these Exposure Drafts. The Committee recognizes the right of governments and national standard setters to establish accounting standards and guidelines~~ and accounting standards~~ for financial reporting~~ by the public sector~~ in their jurisdictions. The Committee encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS.

~~The objective of the current phase of the Committee's workplan is to develop IPSASs based on the International Accounting Standards (IASs) issued by the International Accounting Standards Committee and extant at 31 August 1997, or their subsequently revised versions. Some accounting issues in the public sector are not fully addressed in the IASs. Although these issues are not included in the brief of the current phase of the Committee's workplan, it is cognizant of the importance of these issues and expects to address them once it has issued its initial set of Standards.~~

Contents

International Public Sector Accounting Standard IPSAS 16

Investment Property

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS 16

Investment Property

As part of PSC's due process, Staff did not change this para per IASB's changes regarding equal authority.

The standards, which have been set in bold italic type, should be read in the context of the commentary paragraphs in this Standard, which are in plain type, and in the context of the "Preface to International Public Sector Accounting Standards". International Public Sector Accounting Standards are not intended to apply to immaterial items.

Objective

1. The objective of this International Public Sector Accounting Standard is to prescribe the accounting treatment for investment property and related disclosure requirements.

Scope

~~1~~2. ***An entity ~~which~~ that prepares and presents financial statements under the accrual basis of accounting ~~should~~ shall apply this Standard in accounting for investment property.***

~~2~~3. ***This Standard applies to all public sector entities other than Government Business Enterprises.***

~~3~~4. This Standard ~~deals with~~ applies to accounting for investment property including the measurement in a lessee's financial statements of investment property interests held under a lease accounted for as a finance lease and ~~with~~ to the measurement in a lessor's financial statements of investment property ~~leased out~~ provided to a lessee under an operating lease. This Standard does not deal with matters covered in International Public Sector Accounting Standard IPSAS 13 *Leases,* including:

(a) classification of leases as finance leases or operating leases;

(b) recognition of lease revenue ~~earned on~~ from investment property (see also International Public Sector Accounting Standard IPSAS 9 *Revenue from Exchange Transactions*);

(c) measurement in a lessee's financial statements of property interests held under a lease accounted for as an operating lease;

(d) measurement in a lessor's financial statements of ~~property leased out~~ its net investment ~~under~~in a finance lease;

(e) accounting for sale and leaseback transactions; and

(f) disclosure about finance leases and operating leases.

Staff have retained the current version of para 5 per BA meeting's discussion and also include a version below equivalent to IAS 40 as a comparison. See also the IASB Harmonization strategy paper for the proposed endorsement approach to IAS 41.

~~4~~5. This Standard does not apply to:

(a) forests and similar regenerative natural resources; and

(b) mineral rights, the exploration for and extraction of minerals, oil, natural gas and similar non-regenerative resources**.**

The version of paragraph 5 equivalent to that in IAS 40 would be:

~~4~~5. This Standard does not apply to:

(a) ~~forests and similar regenerative natural resources~~ biological assets related to agricultural activity (see IPSAS XX *Agriculture*); and

(b) mineral rights~~, the exploration for and extraction of~~ and mineral~~s~~ reserves such as~~,~~ oil, natural gas and similar non-regenerative resources**.**

The revision to para 6 and addition of para 7 are consistent with the latest version in ED 23.

~~5~~6. The *Preface to International Financial Reporting Standards* issued by the International Accounting Standards Board (IASB) explains that International Financial Reporting Standards (IFRSs) are designed to apply to the general purpose financial statements of all profit-oriented entities. Government Business Enterprises (GBEs) are defined in IPSAS 1 *Presentation of Financial Statements*. They are profit-oriented entities. Accordingly, they are required to comply with IFRSs~~International Accounting Standards (IASs) issued by the International Accounting Standards Committee. The Public Sector Committee's Guideline No. 1~~ ~~*Financial Reporting by Government Business Enterprises*~~ ~~notes that IASs are relevant to all business enterprises, regardless of whether they are in the~~

~~private or public sector. Accordingly, Guideline No. 1 recommends that GBEs should present financial statements that conform, in all material respects, to IASs~~.

7. The International Accounting Standards Board (IASB) was established in 2001 to replace the International Accounting Standards Committee (IASC). The IASs issued by the IASC remain in force until they are amended or withdrawn by the IASB.

Definitions

~~6~~8. ***The following terms are used in this Standard with the meanings specified:***

***Carrying amount** is (for the purpose of this Standard) the amount at which an asset is recognized in the statement of financial position.*

The defn of "cost" was amended to reflect changes made by the IASB upon issuing IFRS *2 Share-based payment*. The same amendment has also been made in IPSAS 17.

***Cost** is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognized in accordance with the specific requirements of other IPSASs.*

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

***Investment property** is property (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation or both, rather than for:*

(a) use in the production or supply of goods or services or for administrative purposes; or

(b) sale in the ordinary course of operations.

***Owner-occupied property** is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.*

Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as

in those other Standards, and are reproduced in the Glossary of Defined Terms published separately.

Property Interest held by a Lessee under An Operating Lease

Para 9 was added by IASB. It is a new measurement requirement regarding property interests held under an operating lease and accounted for as a finance lease.

9. A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property if , and only if, the property would otherwise meet the definition of an investment property and the lessee uses the fair value model set out in paragraphs 46-68 for the asset recognized. This classification alternative is available on a property-by-property basis. However, once this classification alternative is selected for one such property interest held under an operating lease, all property classified as investment property shall be accounted for using the fair value model. When this classification alternative is selected, any interest so classified is included in the disclosures required by paragraphs 89-93.

Investment Property

~~7~~10. There are a number of circumstances in which public sector entities may hold property to earn rental and for capital appreciation. For example, a public sector entity (other than a GBE) may be established to manage a government's property portfolio on a commercial basis. In this case, the property held by the entity, other than property held for resale in the ordinary course of operations, meets the definition of an investment property. Other public sector entities may also hold property for rentals or capital appreciation and use the cash generated to finance their other (service delivery) activities. For example, a university or local government may own a building for the purpose of leasing on a commercial basis to external parties to generate funds, rather than to produce or supply goods and services. This property would also meet the definition of investment property.

~~8~~11. Investment property is held to earn rentals or for capital appreciation or both. Therefore, investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from other land or buildings controlled by public sector entities, including owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) can also generate cash flows. For example, public sector entities may use a building to provide goods and services to recipients in return for full or partial cost recovery. However, the building is held to facilitate the production of goods and services and the cash flows are attributable not merely to the building, but also to other assets used in the production or supply process. International Public Sector Accounting Standard IPSAS 17 *Property, Plant and Equipment* applies to owner-occupied property.

~~9~~12. In some public sector jurisdictions, certain administrative arrangements exist such that an entity may control an asset that may be legally owned by another entity. For example, a government department may control and account for certain buildings that are legally owned by the State. In such circumstances, references to owner-occupied property means property occupied by the entity that recognizes the property in its financial statements.

~~10~~13. The following are examples of investment property:

(a) land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations. For example, land held by a hospital for capital appreciation which may be sold at a beneficial time in the future;

(b) land held for a currently undetermined future use. (If an entity has not determined that it will use the land either as owner-occupied property, including occupation to provide services such as those provided by national parks to current and future generations, or for short-term sale in the ordinary course of operations, the land is considered to be held for capital appreciation);

(c) a building owned by the reporting entity (or held by the reporting entity under a finance lease) and leased out under one or more operating leases on a commercial basis. For example, a university may own a building that it leases on a commercial basis to external parties; and

(d) a building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

~~11~~14. The following are examples of items that are not investment property and are therefore ~~fall~~ outside the scope of this Standard:

(a) property ~~held~~ intended for sale in the ordinary course of operations or in the process of construction or development for such sale (see International Public Sector Accounting Standard IPSAS 12 *Inventories*). For example, a municipal government may routinely supplement rate income by buying and selling property, in which case property held exclusively with a view to subsequent disposal in the near future or for development for resale is classified as inventory. A housing department may routinely sell part of its housing stock in the ordinary course of its operations as a result of changing demographics, in which case any housing stock held for sale is classified as inventory;

(b) property being constructed or developed on behalf of third parties. For example, a property and service department may enter into construction contracts with entities external to its government (see International Public Sector Accounting Standard IPSAS 11 *Construction Contracts*);

(c) owner-occupied property (see IPSAS 17), including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for military personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;

(d) property that is being constructed or developed for future use as investment property. IPSAS 17 applies to such property until construction or development is complete, at which time the property becomes investment property and this Standard applies. However, this Standard ~~does~~ appliesy~~y~~ to existing investment property that is being redeveloped for continued future use as investment property (see paragraph ~~61~~72);

(e) property held to provide a social service and which also generates cash inflows. For example, a housing department may hold a large housing stock used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held. Such property is not considered an "investment property" and would be accounted for in accordance with IPSAS 17; and

(f) property held for strategic purposes which would be accounted for in accordance with IPSAS 17.

~~12~~15. In many jurisdictions, public sector entities will hold property to meet service delivery objectives rather than to earn rental or for capital appreciation. In such situations the property will not meet the definition of investment property. However, where a public sector entity does hold property to earn rental or for capital appreciation, this Standard is applicable. In some cases, public sector entities hold certain property that includes a portion that is held to earn rentals or for capital appreciation rather than to provide services and another portion that is held for use in the production or supply of goods or services or for administrative purposes. For example, a hospital or a university may own a building, part of which is used for administrative purposes, and part of which is leased out as apartments on a commercial basis. If these portions could be sold separately (or leased out separately under a finance lease), an entity accounts for the portions separately. If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

~~13~~16. In ~~certain~~ some cases, an entity provides ancillary services to the occupants of a property it holds ~~held by the entity~~. An entity treats such a property as investment property if the services are ~~a relatively~~ insignificant ~~component of~~ to the arrangement as a whole. An example ~~would be where~~ is when a government agency owns an office building which is held exclusively for rental purposes and rented on a commercial basis and also provides security and maintenance services to the lessees who occupy the building.

~~14~~17. In other cases, the services provided are ~~a more~~ significant ~~component~~. For example, a government may own a hotel or hostel that it manages through its general property management agency. The services provided to guests are ~~a~~ significant ~~component of~~ to the arrangement as a whole. Therefore, an owner-managed hotel or hostel is owner-occupied property, rather than investment property.

~~15~~18. It may be difficult to determine whether ancillary services are so significant that a property does not qualify as investment property. For example, a government or government agency which is the owner of a hotel may transfer certain responsibilities to third parties under a management contract. The terms of such management contracts vary widely. At one end of the spectrum, the government's or government agency's position may, in substance, be that of a passive investor. At the other end of the spectrum, the government or government agency may simply have outsourced ~~certain~~ day-to-day functions while retaining significant exposure to variation in the cash flows generated by the operations of the hotel.

~~16~~19. Judgment is needed to determine whether a property qualifies as investment property. An entity develops criteria so that it can exercise that judgment consistently in accordance with the definition of investment property and with the related guidance in paragraphs ~~7~~10 to ~~15~~18. Paragraph ~~75~~90(~~a~~c) requires an entity to disclose these criteria when classification is difficult.

Para 17 was deleted due to the new treatment to property interests held by a lessee under an operating lease and accounted for as a finance lease.

~~17. Under IPSAS 13, a lessee does not capitalize property held under an operating lease. Therefore, the lessee does not treat its interest in such property as investment property.~~

~~18~~20. In some cases, an entity owns property that is leased to, and occupied by, its controlling entity or another controlled entity. The property does not qualify as investment property in consolidated financial statements that include both entities, because the property is owner-occupied from the perspective of the economic entity as a whole. However, from the perspective of the individual entity that owns it, the property is investment property if it meets the definition in paragraph ~~6~~8. Therefore, the lessor treats the property as investment property in its individual financial statements. This situation may arise where a government establishes a property management entity to manage government office buildings. The buildings are then leased out to other government entities on a commercial basis. In the financial statements of the property management entity, the property would be accounted for as investment property. However, in the consolidated financial statements of the government the property would be accounted for as property, plant and equipment in accordance with IPSAS 17.

Recognition

The recognition principle in para 21 now applies to both initial and subsequent costs. It is a major change.

~~19~~21. Investment property ~~should~~ shall be recognized as an asset when, and only when:

(a) it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity; and

(b) the cost or fair value of the investment property can be measured reliably.

Pls note equivalent paras 22 and 23 were removed by IASB. Staff still retained them because of lack of framework in IPSASs.

~~20~~22. In determining whether an item satisfies the first criterion for recognition, an entity needs to assess the degree of certainty attaching to the flow of future economic benefits or service potential on the basis of the available evidence at the time of initial recognition. Existence of sufficient certainty that the future economic benefits or service potential will flow to the entity necessitates an assurance that the entity will receive the rewards attaching to the asset and will undertake the associated risks. This assurance is usually only available when the risks and rewards have passed to the entity. Before this occurs, the transaction to acquire the asset can usually be cancelled without significant penalty and, therefore, the asset is not recognized.

~~21~~23. The second criterion for recognition is usually readily satisfied because the exchange transaction evidencing the purchase of the asset identifies its cost. As specified in paragraph ~~23~~28 of this Standard, under certain circumstances an investment property may be acquired at no cost or for a nominal cost. In such cases, cost is the investment property's fair value as at the date of acquisition.

Current paras 24-26 were relocated from previous para 30 with changes to illustrate how the general recognition applies.

24. An entity evaluates under this recognition principle all its investment property costs at the time they are incurred. These costs include costs incurred initially to acquire an investment property and costs incurred subsequently to add to, replace part of, or service a property.

25. Under the recognition principle in paragraph 21, an entity does not recognize in the carrying amount of an investment property the costs of the day-to-day servicing of such a property. Rather, these costs are recognized in surplus or deficit as incurred. Costs of day-to-day servicing are primarily the costs of labor and consumables, and may include the cost of minor parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the property.

26. Parts of investment property may have been required through replacement. For example, the interior walls may be replacements of original walls. Under the recognition principle, an entity recognizes in the carrying amount of an investment property the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of this Standard.

~~Initial~~ Measurement at Recognition

~~22~~27. ***Investment property ~~should~~ shall be measured initially at its cost (transaction costs ~~should~~ shall be included in this initial measurement).***

~~23~~28. ***Where an investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.***

~~24~~29. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs.

~~25~~30. The cost of a self-constructed investment property is its cost at the date when the construction or development is complete. Until that date, an entity applies IPSAS 17. At that date, the property becomes investment property and this Standard applies (see paragraphs ~~59~~70(e) and ~~69~~80 ~~below~~).

~~26~~31. The cost of investment property is not increased by:

(a) start-up costs (unless they are necessary to bring the property to ~~its working~~ the condition necessary for it to be capable of operating in the manner intended by management)~~,~~;

(b) ~~initial~~ operating losses incurred before the investment property achieves the planned level of occupancy; or

(c) abnormal amounts of wasted material, labor or other resources incurred in constructing or developing the property.

~~27~~32. If payment for investment property is deferred, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit.

~~28~~33. An investment property may be gifted or contributed to the entity. For example, a national government may transfer at no charge a surplus office building to a local government entity, which then lets it out at market rent. An investment property may also be acquired for no cost, or for a nominal cost, through the exercise of powers of sequestration. In these circumstances, the cost of the property is its fair value as at the date it is acquired.

~~29~~34. Where an entity initially recognizes its investment property at fair value in accordance with paragraph ~~23~~28, the fair value is the cost of the property. The entity ~~may~~ shall decide, subsequent to initial recognition, to adopt either the fair value model (paragraphs ~~35~~46 to ~~57~~68) or the cost model (paragraph ~~58~~69).

Paras 35-36 were added due to the new measurement requirement regarding the property interests held under an operating lease and accounted for as a finance lease.

35. The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease by paragraph 30 of IPSAS 13, ie the asset shall be recognized at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount shall be recognized as a liability in accordance with that same paragraph.

36. Any premium paid for a lease is treated as part of the minimum lease payments for this purpose, and is therefore included in the cost of the asset, but is excluded from the liability. If a property interest held under a lease is classified as investment property, the item accounted for at fair value is that interest and not the underlying property. Guidance on determining the fair value of a property interest is set out for the fair value model in paragraphs 46-65. That guidance is also relevant to the determination of fair value when that value is used as cost for initial recognition purposes.

Paras 37-39 were added due to the change in measurement of asset exchange transactions in IPSAS 17.

37. One or more investment properties may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers to an exchange of one non-monetary asset for another, but it also applies to all the exchanges described in the preceding sentence. The cost of such an investment property is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired asset is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

38. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. An exchange transaction has commercial substance if:

(a) the configuration (risk, timing and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred; or

(b) the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of exchange; and

(c) the difference in (a) or (b) is significant relative to the fair value of the assets exchanged.

Staff are concerned about the applicability of "post-tax" cash flows used by IASB to public sector.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows. The result of these analyses may be clear without an entity's having to perform detailed calculations.

39. The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If the entity is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost unless the fair value of the asset received is more clearly evident.

~~Subsequent Expenditure~~

This section was deleted by IASB. The recognition principle in para 21 now applies to both initial and subsequent costs. The related content is now located in paras 24-26.

~~***30. Subsequent expenditure relating to an investment property that has already been recognized should be added to the carrying amount of the investment property when it is probable that future economic benefits or service potential over the total life of the investment property, in excess of the most recently assessed standard of performance of the existing investment property, will flow to the entity. All other subsequent expenditure should be recognized as an expense in the period in which it is incurred.***~~

~~31. Subsequent expenditure on investment property is only recognized as an asset when the expenditure improves the condition of the asset, measured over its total life, beyond its most recently assessed standard of performance. The appropriate accounting treatment for expenditure incurred subsequent to the acquisition of an investment property depends on the circumstances which were taken into account on the initial measurement and recognition of the related investment and whether subsequent expenditure is recoverable. For instance, when the carrying amount of an investment property already takes into account a loss in future economic benefits or service potential, subsequent expenditure to restore the future economic benefits or service potential expected from the asset is capitalized. This is also the case when the purchase price of an asset reflects the entity's obligation to incur expenditure that is necessary in the future to bring the asset to its working~~

~~condition. An example of this might be the acquisition of a building requiring renovation. In such circumstances, the subsequent expenditure is added to the carrying amount.~~

Measurement ~~Subsequent to Initial~~ After Recognition

Accounting Policy

~~32~~40. With the exception noted in paragraphs 41 and 47, ~~A~~an entity ~~should~~ shall choose as its accounting policy either the fair value model in paragraphs ~~35~~46 to ~~57~~68 or the cost model in paragraph ~~58~~69 ~~as its accounting policy~~ and ~~should~~ shall apply that policy to all of its investment property.

Investment property linked to liabilities

41. An entity may:

Paras 41-43 were added by the IASB upon issuing IFRS 4 *Insurance Contracts*.

(a) choose either the fair value model or the cost model for all investment property backing liabilities that pay a return linked directly to the fair value of, or returns from, specified assets including that investment property; and

(b) choose either the fair value model or the cost model for all other investment property, regardless of the choice made in (a).

42. Some insurers and other entities operate an internal property fund that issues notional units, with some units held by investors in linked contracts and others held by the entity. Paragraph 41 does not permit an entity to measure the property held by the fund partly at cost and partly at fair value.

Pls note Staff used "cost"(bolded) rather than "deemed cost" which the IASB used as there is no "deem cost" notion in IPSASs.

43. If an entity chooses different models for the two categories described in paragraph 41, sales of investment property between pools of assets measured using different models shall be recognized at fair value and the cumulative change in fair value shall be recognized in surplus or deficit. Accordingly, if an investment property is sold from a pool in which the fair value model is used into a pool in which the cost model is used, the property's fair value at the date of the sale becomes its ***cost***.

~~33~~44. International Public Sector Accounting Standard IPSAS 3 ~~*Net Surplus or Deficit for the Period,*~~ *Accounting Policies, Changes in Accounting Estimates and* ~~*Fundamental*~~ *Errors* ~~*and Changes in Accounting Policies,*~~ states that a voluntary change in accounting policy ~~should~~ shall be made only if the change will result in a more appropriate presentation of ~~events or~~ transactions, other events or conditions in the entity's financial statements ~~of the entity~~. It is highly unlikely that a change from the fair value model to the cost model will result in a more appropriate presentation.

~~34~~45. This Standard requires all entities to determine the fair value of investment property for the purpose of either measurement (if the entity uses the fair value model) or disclosure (if it uses the cost model). An entity is encouraged, but not required, to determine the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognized and relevant professional qualification and who has recent experience in the location and category of the investment property being valued.

Fair Value Model

~~35~~46. After initial recognition, an entity that chooses the fair value model ~~should~~ shall measure all of its investment property at its fair value, except in the ~~exceptional~~ cases described in paragraph ~~55~~66.

Para 44 was added due to the new requirement regarding property interests under an operating lease in current para 9.

47. When a property interest held by a lessee under an operating lease is classified as an investment property under paragraph 9, paragraph 40 is not elective; the fair value model shall be applied.

~~36~~48. A gain or loss arising from a change in the fair value of investment property ~~should~~ shall be included in ~~net~~ surplus/deficit for the period in which it arises.

~~37~~49. The fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction (see paragraph 8). ~~usually its market value. Fair value is measured as the most probable price reasonably obtainable in the market at the reporting date in keeping with the fair value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate~~ Fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale.

~~38~~50. An entity determines fair value without any deduction for transaction costs ~~that the entity~~ it may incur on sale or other disposal.

~~39~~51. The fair value of investment property ~~should~~ shall reflect ~~the actual~~ market ~~state and circumstances as of~~ conditions at the reporting date~~, not as of either a past or future date~~.

~~40~~52. ~~The estimated f~~Fair value is time~~-~~specific as of a given date. Because ~~markets and~~ market conditions may change, the ~~estimated value~~ amount reported as fair value may be incorrect or inappropriate if estimated ~~at~~ as of another time. The definition of fair value also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might be made in an arm's length transaction between knowledgeable, willing parties if exchange and completion are not simultaneous.

~~41~~53. The fair value of investment property reflects, among other things, rental revenue from current leases and reasonable and supportable assumptions that represent ~~the market's view of~~ what knowledgeable, willing parties would assume about rental revenue from future leases in the light of current market conditions. It also reflects, on a similar basis, any cash outflows (including rental payments and other outflows) that could be expected in respect of the property. Some of those outflows are reflected in the liability whereas others relate to outflows that are not recognized in the financial statements until a later date (eg periodic payments such as contingent rents).

54. Paragraph 35 specifies the basis for initial recognition of the cost of an interest in a leased property. Paragraph 46 requires the interest in the leased property to be remeasured, if necessary, to fair value. In a lease negotiated at market rates, the fair value of an interest in a leased property at acquisition, net of all expected lease payments (including those relating to recognized liabilities), should be zero. This fair value does not change regardless of whether, for accounting purpose, a leased asset and

This para was added by the IASB to clarify the measurement regarding property interest held under an operating lease.

liability are recognized at fair value or at the present value of minimum lease payments, in accordance with paragraph 30 of IPSAS 13. Thus, remeasuring a leased asset from cost in accordance with paragraph 35 to fair value in accordance with paragraph 46 should not give rise to any initial gain or loss, unless fair value is measured at different times. This could occur when an election to apply the fair value model is made after initial recognition.

~~42~~55. The definition of fair value refers to "knowledgeable, willing parties". In this context, "knowledgeable" means that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the investment property, its actual and potential uses, and ~~the state of the~~ market conditions ~~as of~~ at the reporting date.

~~43.~~ A willing buyer is motivated, but not compelled, to buy. This buyer is neither over-eager nor determined to buy at any price. ~~This buyer is also one who purchases in accordance with the realities of the current market, and with the current market expectations, rather than an imaginary or hypothetical market that cannot be demonstrated or anticipated to exist.~~ The assumed buyer would not pay a higher price than ~~the~~ a market comprising knowledgeable, willing buyers and sellers would requires. ~~The present owner of an investment property is included among those who constitute the market.~~

~~44~~56. A willing seller is neither an over-eager nor a forced seller, prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in ~~the~~ current market conditions. The willing seller is motivated to sell the investment property at market terms for the best price obtainable ~~in the open market after proper marketing, whatever that price may be~~. The factual circumstances of the actual investment property owner are not a part of this consideration because the willing seller is a hypothetical owner (eg a willing seller would not take into account the particular tax circumstances of the actual investment property owner).

Previous para 45 was deleted due to the change made in original para 44 (current para 56).

~~45. The expression "after proper marketing" means that the investment property would be exposed to the market in the most appropriate manner to effect its disposal at the best price reasonably obtainable. The length of exposure time may vary with market conditions, but must be sufficient to allow the~~

~~investment property to be brought to the attention of an adequate number of potential purchasers. The exposure period is assumed to occur prior to the reporting date.~~

~~46~~57. The definition of fair value refers to an arm's length transaction. An arm's length transaction is one between parties who do not have a particular or special relationship that makes prices of transactions uncharacteristic of ~~the~~ market condition. The transaction is presumed to be between unrelated parties, each acting independently.

~~47~~58. The best evidence of fair value is ~~normally~~ given by current prices ~~on~~ in an active market for similar property in the same location and condition and subject to similar lease and other contracts. An entity takes care to identify any differences in the nature, location or condition of the property, or in the contractual terms of the leases and other contracts relating to the property.

~~48~~59. In the absence of current prices ~~on~~ in an active market of the kind described in paragraph ~~47~~58, an entity considers information from a variety of sources, including:

(a) current prices ~~on~~ in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (~~where~~ when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

~~49~~60. In some cases, the various sources listed in the previous paragraph may suggest different conclusions ~~as to~~ about the fair value of an investment property. An entity considers the reasons for those differences, in order to arrive at the most reliable estimate of fair value within a ~~relatively narrow~~ range of reasonable fair value estimates.

~~50~~61. In exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes an investment property following the completion of construction or development, or after a change in use) that the variability in the range of reasonable fair value estimates will be so great, and the probabilities of the various outcomes will be so difficult to assess, that the usefulness of a single estimate of fair value is negated. This may indicate that the fair value of the property will not be determinable reliably on a continuing basis (see paragraph ~~55~~66).

This para is amended to reflect the proposed endorsement approach to IAS 36.

~~51~~62. Fair value differs from value in use, as defined in ~~International Accounting Standard IAS 36,~~ IPSAS XX *Impairment of Cash-generating Assets*[1]. Fair value reflects knowledge and estimates of ~~participants in the market, as well as factors that are relevant to market participants in general~~ knowledgeable, willing buyers and sellers. In contrast, value in use reflects the entity's ~~knowledge and~~ estimates, ~~as well as entity-specific~~ including the effects of factors that may be specific to the entity and ~~that are~~ not applicable to entities in general. For example, fair value does not reflect any of the following factors to the extent that they would not be generally available to knowledgeable, willing buyers and sellers:

(a) additional value derived from the creation of a portfolio of properties in different locations;

(b) synergies between investment property and other assets;

(c) legal rights or legal restrictions that are specific only to the current owner; and

(d) tax benefits or tax burdens that are specific to the current owner.

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[1] IAS 36, *Impairment of Assets*, defines value in use as "the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its life." The PSC is currently developing a Standard on impairment of assets. The PSC has issued an ~~Invitation to Comment~~ Exposure Draft (~~ITC~~ED) *Impairment of Assets* (issued ~~July~~September ~~2000~~2003). Responses received on this ~~ITC~~ED will assist the PSC in developing an International Public Sector Accounting Standard on the impairment of assets.

The footnote will be updated upon the issue of the endorsed IAS 36 and the IPSAS on ED 23.

~~52~~63. In determining the fair value of investment property, an entity ~~avoids~~ does not double-~~-~~counting ~~of~~ assets or liabilities that are recognized ~~in the statement of financial position~~ as separate assets or liabilities. For example:

(a) equipment such as elevators or air-conditioning is often an integral part of a building and is generally included in the fair value of the investment property, rather than being recognized separately as property, plant and equipment.~~;~~

(b) if an office is leased on a furnished basis, the fair value of the office generally includes the fair value of the furniture, because the rental revenue relates to the furnished office. When furniture is included in the fair value of investment property, an entity does not recognize that furniture as a separate asset.~~; and~~

(c) the fair value of investment property excludes prepaid or accrued operating lease revenue, ~~as~~ because the entity recognizes it as a separate liability or asset.

Subpara (d) was added consequent on the addition to current para 53 regarding fair value.

(d) the fair value of investment property held under a lease reflects expected cash flows (including contingent rent that is expected to become payable). Accordingly, if a valuation obtained for a property is net of all payments expected to be made, it will be necessary to add back any recognized liability, to arrive at the fair value of the investment property for accounting purpose.

~~53~~64. The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure.

~~54~~65. In some cases, an entity expects that the present value of its payments relating to an investment property (other than payments relating to recognized ~~financial~~ liabilities) will exceed the present value of the related cash receipts. ~~Guidance on accounting for any liability that may arise in this situation may be found in Accounting Standards on~~ An entity applies IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* to determine whether to recognize a liability and, if so, how to measure it.

Inability to ~~Measure~~Determine Fair Value Reliably

~~*55*~~*66*. ***There is a rebuttable presumption that an entity ~~will be able to~~ can reliably determine the fair value of an investment property ~~reliably~~ on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property following the completion of construction or development, or after a change in use) that ~~the entity will not be able to determine~~ the fair value of the investment property is not reliably determinable on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative reliable estimates of fair value (for example, based on discounted cash flow projections) are not available. In such cases, an entity ~~should~~ shall measure that investment property using the ~~benchmark treatment~~ cost model in IPSAS 17 Property, Plant and Equipment. The residual value of the investment property ~~should~~ shall be assumed to be zero. The entity ~~should continue to~~ shall apply IPSAS 17 until ~~the~~ disposal of the investment property.***

~~56~~67. In the exceptional cases when an entity is compelled, for the reason given in the previous paragraph, to measure an investment property using the cost model in accordance the IPSAS 17~~ benchmark treatment (being the cost model as explained in paragraph 58 below)~~, ~~the entity~~ it measures all its other investment property at fair value. In these cases, although an entity may use the cost model for one investment property, the entity shall continue to account for each of the remaining properties using the fair value model.

~~*57*~~*68*. ***If an entity has previously measured an investment property at fair value, ~~the entity~~ it ~~should~~ shall continue to measure the property at fair value until disposal (or until the property becomes owner-occupied property or the entity begins to develop the property for subsequent sale in the ordinary course of operations) even if comparable market transactions become less frequent or market prices become less readily available.***

Cost Model

~~*58*~~*69*. ***After initial recognition, an entity that chooses the cost model ~~should~~ shall measure all of its investment property ~~using the benchmark treatment~~ in accordance with IPSAS 17's***

This para has been amended to reflect the changes made by the IASB upon issuing IFRS 5 and endorsement of IFRS 5.

~~Property, Plant and Equipment~~ requirements for that model other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IPSAS XX Non-current Assets Held for Sale and Discontinued Operations~~, that is, at cost less any accumulated depreciation and any accumulated impairment losses~~. Investment properties that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) shall be measured in accordance with that IPSAS.

Transfers

~~59~~70. Transfers to, or from, investment property ~~should~~ shall be made when, and only when, there is a change in use, evidenced by:

(a) commencement of owner-occupation, for a transfer from investment property to owner-occupied property;

(b) commencement of development with a view to sale, for a transfer from investment property to inventories;

(c) end of owner-occupation, for a transfer from owner-occupied property to investment property;

(d) commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property; or

(e) end of construction or development, for a transfer from property in the course of construction or development (covered by IPSAS 17 Property, Plant and Equipment) to investment property.

~~60~~71. A government's use of property may change over time. For example, a government may decide to occupy a building currently used as an investment property or to convert a building currently used as naval quarters or for administrative purposes into a hotel and to let that building to private sector operators. In the former case, the building would be accounted for as an investment property until commencement of occupation. In the latter case, the building would be accounted for as property, plant and equipment until its occupation ceased and it is reclassified as an investment property.

~~61~~72. Paragraph ~~59~~70(b) above requires an entity to transfer a property from investment property to inventories when, and only when, there is a change in use, evidenced by commencement of development with a view to sale. When an entity decides to dispose of an investment property without development, ~~the entity~~ it continues to treat the property as an investment property until it is derecognized (eliminated from the statement of financial position) and does not treat it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, ~~it~~ the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment.

~~62~~73. A government property department may regularly review its buildings to determine whether they are meeting its requirements, and as part of that process may identify, and hold, certain buildings for sale. In this situation, the building may be considered inventory. However, if the government decided to hold the building for its ability to generate rent revenue and its capital appreciation potential it would be reclassified as an investment property on commencement of any subsequent operating lease.

~~63~~74. Paragraphs ~~64~~75 to ~~69~~80 ~~deal with~~ apply to recognition and measurement issues that ~~apply~~ arise when an entity uses the fair value model for investment property. When an entity uses the cost model, transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

Pls note in equivalent para 75, IASB uses "deemed cost". Staff retain "cost" due to the absence of "deemed cost" notion in IPSASs.

~~64~~75. For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's cost for subsequent accounting ~~under~~ in accordance with IPSAS 17 Property, Plant and Equipment or IPSAS 12 Inventories ~~should~~ shall be its fair value at the date of change in use.

~~65~~76. If an owner-occupied property becomes an investment property that will be carried at fair value, an entity ~~should~~ shall apply IPSAS 17 Property, Plant and Equipment up to the date of change in use. The entity ~~should~~ shall treat any difference at that date between the carrying amount of the property ~~under~~ in accordance with IPSAS 17 and its fair value

in the same way as a revaluation ~~under~~ in accordance with IPSAS 17.

~~66~~77. Up to the date when an owner-occupied property becomes an investment property carried at fair value, an entity continues to depreciate the property and to recognize any impairment losses that have occurred. The entity treats any difference at that date between the carrying amount of the property ~~under~~ in accordance with IPSAS 17 and its fair value in the same way as a revaluation ~~under~~ in accordance with IPSAS 17. ~~This means that~~ In other words:

(a) any resulting decrease in the carrying amount of the property is recognized in ~~net~~ surplus~~/~~ or deficit ~~for the period~~. However, to the extent that an amount is included in revaluation surplus for that property, the decrease is charged against that revaluation surplus~~; and~~.

(b) any resulting increase in the carrying amount is treated as follows:

(i) to the extent that the increase reverses a previous impairment loss for that property, the increase is recognized in ~~net~~ surplus~~/~~ or deficit ~~for the period~~. The amount recognized in ~~net~~ surplus~~/~~ or deficit ~~for the period~~ does not exceed the amount needed to restore the carrying amount to the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized~~; and~~.

(ii) any remaining part of the increase is credited directly to equity ~~under the heading of~~ in revaluation surplus. On subsequent disposal of the investment property, the revaluation surplus included in equity may be transferred to accumulated surpluses or deficits. The transfer from revaluation surplus to accumulated surpluses or deficits is not made through ~~the statement of financial performance~~ surplus or deficit.

~~*67*~~*78*. ***For a transfer from inventories to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount ~~should~~ shall be recognized in ~~net~~ surplus~~/~~ or deficit ~~for the period~~.***

~~68~~79. The treatment of transfers from inventories to investment property that will be carried at fair value is consistent with the treatment of sales of inventories.

~~*69*~~*80*. ***When an entity completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount ~~should~~ shall be recognized in ~~net~~ surplus~~/~~ or deficit ~~for the period~~.***

Disposals

~~*70*~~*81*. ***An investment property ~~should~~ shall be derecognized (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.***

~~71~~82. The disposal of an investment property may ~~occur~~ be achieved by sale or by entering into a finance lease. In determining the date of disposal for investment property, an entity applies the criteria in IPSAS 9 *Revenue from Exchange Transactions* for recognizing revenue from the sale of goods and considers the related guidance in the Appendix to IPSAS 9. IPSAS 13 applies on a disposal by entering into a finance lease or by a sale and leaseback.

83. If, in accordance with the recognition principle in paragraph 21, an entity recognizes in the carrying amount of an asset the cost of a replacement for part of an investment property, it derecognizes the carrying amount of the replaced part. For investment property accounted for using the cost model, a replaced part may not be a part that was depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed. Under the fair value model, the fair value of the investment property may

Para 83 was added due to the recognition principle in para 21 now applies to both initial and subsequent costs.

already reflect that the part to be replaced has lost its value. In other cases it may be difficult to discern how much fair value should be reduced for the part being replaced. An alternative to reducing fair value for the replaced part, when it is not practical to do so, is to include the cost of the replacement in the carrying amount of the asset and then to reassess the fair value, as would be required for additions not involving replacement.

Pls note, IASB does not allow gains to be classified as revenues. Staff retain the previous version because of the absence of "income" notion in IPSASs

~~72~~84. Gains or losses arising from the retirement or disposal of investment property ~~should~~ shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognized in surplus or deficit (unless IPSAS 13 Leases requires otherwise on a sale and leaseback) in the period of the retirement or disposal. For the purposes of display in the financial statements, the gain or loss should be included in the statement of financial performance as an item of revenue or expense, as appropriate ~~(unless IPSAS 13 Leases, requires otherwise on a sale and leaseback)~~.

~~73~~85. The consideration receivable on disposal of an investment property is recognized initially at fair value. In particular, if payment for an investment property is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue ~~under~~ in accordance with IPSAS 9 ~~on a time proportion basis that takes into account~~ using the effective interest method~~yield on the receivable~~.

Paras 87-88 were added. to deal with compensations from third parties for assets impaired, lost or given up.

86. An entity applies IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* or other Standards, as appropriate, to any ~~(Guidance on accounting for~~ liabilities ~~such as those~~ that ~~the entity~~ it retains after disposal of an investment property ~~may be found in Accounting Standards on *Provisions, Contingent Assets and Contingent Liabilities*~~).

87. Compensation from third parties for investment property that was impaired, lost or given up shall be recognized in surplus or deficit when the compensation becomes receivable.

Consistent with proposed endorsement approach to IAS 36, staff have updated subpara (a).

88. Impairments or losses of investment property, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are

separate economic events and are accounted for separately as follows:

(a) impairments of investment property are recognized in accordance with IPSAS XX *Impairments of Cash-generating Assets*;

(b) retirements or disposals of investment property are recognized in accordance with paragraphs 81-86 of this Standard;

(c) compensation from third parties for investment property that was impaired, lost or given up is recognized in surplus or deficit when it becomes receivable; and

(d) the cost of assets restored, purchased or constructed as replacements is determined in accordance with paragraphs 27-39 of this Standard.

Disclosure

Fair Value Model and Cost Model

~~74~~89. The disclosures ~~set out~~ below apply in addition to those in IPSAS 13. ~~Under~~ In accordance with IPSAS 13, the owner of an investment property ~~gives~~ provides ~~a~~ lessors’~~s~~ disclosures about ~~operating~~ leases into which it has entered. ~~Under IPSAS 13 a~~An entity that holds an investment property under a finance lease or operating lease ~~gives~~provides ~~a~~ lessees’~~s~~ disclosures ~~about that~~ for finance leases and ~~a~~ lessors’~~s~~ disclosures ~~about~~for any operating leases into which ~~that~~ ~~the entity~~ it has ~~granted~~ entered.

~~75~~90. An entity ~~should~~ shall disclose:

(a) whether it applies the fair value or the cost model.

(b) if it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property.

(~~a~~c) when classification is difficult (see paragraph ~~16~~19), the criteria ~~developed by the entity~~ it uses to distinguish investment property from owner-occupied

property and from property held for sale in the ordinary course of operations~~;~~.

(~~b~~d) ***the methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the entity ~~should~~ shall disclose) because of the nature of the property and lack of comparable market data~~;~~.***

(~~c~~e) ***the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and ~~who~~ has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact ~~should~~ shall be disclosed~~;~~.***

(~~d~~f) ***the amounts ~~included~~ recognized in ~~the statement of financial performance~~ surplus or deficit for:***

- ***(i)*** ***rental revenue from investment property;***
- ***(ii)*** ***direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period; ~~and~~***
- ***(iii)*** ***~~(iii)~~ direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period; and***
- ***(iv)*** ***the cumulative change in fair value recognized in surplus or deficit on a sale of investment property from a pool of assets in which the cost model is used into a pool in which the fair value model is used (see paragraph 43)***

Subpara (iv) was added by the IASB upon issuing IFRS 4 *Insurance Contracts.*

(~~e~~g) ***the existence and amounts of restrictions on the realizability of investment property or the remittance of revenue and proceeds of disposal~~; and~~.***

(~~f~~h) *~~material~~ contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.*

Fair Value Model

~~76~~91. *In addition to the disclosures required by paragraph ~~75~~90, an entity that applies the fair value model in paragraphs ~~35~~46 to ~~57~~68 ~~should~~ shall ~~also~~ disclose a reconciliation ~~of~~ between the carrying amounts of investment property at the beginning and end of the period, showing the following ~~(comparative information is not required)~~:*

(a) *additions, disclosing separately those additions resulting from acquisitions and those resulting from ~~capitalized~~ subsequent expenditure recognized in the carrying amount of an asset;*

(b) *additions resulting from acquisitions through entity combinations;*

Subpara (c) has been amended to reflect the changes made by the IASB upon issuing IFRS 5 and the proposed endorsement approach to IFRS 5.

(c) *assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IPSAS XX Non-current Assets Held For Sale and Discontinued Operations and other disposals;*

(d) *net gains or losses from fair value adjustments;*

(e) *the net exchange differences arising on the translation of the financial statements ~~of a foreign entity~~ into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;*

Subpara (e) was amended due to the change in IPSAS 4.

(f) *transfers to and from inventories and owner-occupied property; and*

(g) *other ~~movements~~ changes.*

92. *When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, for example to avoid double-counting of assets or liabilities that are recognized as separate assets and liabilities as described in paragraph 63, the entity shall disclose a reconciliation between*

Para 92 was added due to the additional example in current para 63 (d).

the valuation obtained and the adjusted valuation included in the financial statements, showing separately the aggregate amount of any recognized lease obligations that have been added back, and any other significant adjustments.

~~77~~93. ***In the exceptional cases referred to in paragraph 66, when an entity measures investment property using the ~~benchmark treatment~~ cost model in IPSAS 17 Property, Plant and Equipment ~~(because of the lack of a reliable fair value, see paragraph 55 above)~~, the reconciliation required by ~~the previous~~ paragraph 91 ~~should~~ shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity ~~should~~ shall disclose:***

(a) a description of the investment property;

(b) an explanation of why fair value cannot be determined reliably ~~measured~~;

(c) if possible, the range of estimates within which fair value is highly likely to lie; and

(d) on disposal of investment property not carried at fair value:

(i) the fact that the entity has disposed of investment property not carried at fair value;

(ii) the carrying amount of that investment property at the time of sale; and

(iii) the amount of gain or loss recognized.

Cost Model

~~78~~94. ***In addition to the disclosures required by paragraph ~~75~~90, an entity that applies the cost model in paragraph ~~58~~69 ~~should~~ shall ~~also~~ disclose:***

(a) the depreciation methods used;

(b) the useful lives or the depreciation rates used;

(c) the gross carrying amount and the accumulated depreciation (aggregated with accumulated

impairment losses) at the beginning and end of the period;

(d) ***a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following~~ (comparative information is not required)~~:***

(i) ***additions, disclosing separately those additions resulting from acquisitions and those resulting from ~~capitalized~~ subsequent expenditure recognized as an asset;***

Subpara (iii) has been amended to reflect the changes made by the IASB upon issuing IFRS 5 and the proposed endorsement approach to IFRS 5.

(ii) ***additions resulting from acquisitions through entity combinations;***

(iii) ***assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IPSAS XX Non-current Assets Held for Sale and Discontinued Operations and other disposals;***

Subpara (v) was amended to reflect the proposed endorsement approach to IAS 36.

(iv) ***depreciation;***

(v) ***the amount of impairment losses recognized, and the amount of impairment losses reversed, during the period in accordance with IPSAS XX Impairments of Cash-generating Assets;***

Subparagraph (vi) was amended due to the change in IPSAS 4.

(vi) ***the net exchange differences arising on the translation of the financial statements ~~of a foreign entity~~ into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;***

(vii) ***transfers to and from inventories and owner-occupied property; and***

(viii) ***other ~~movements~~ changes; and***

(e) ***the fair value of investment property. In the exceptional cases described in paragraph ~~55~~66, when an entity cannot determine the fair value of the***

investment property reliably, the entity ~~should~~ shall disclose:

(i) ***a description of the investment property;***

(ii) ***an explanation of why fair value cannot be determined reliably; and***

(iii) ***if possible, the range of estimates within which fair value is highly likely to lie.***

Transitional Provisions

Initial Adoption of Accrual Accounting

~~79~~95. ***Where, on adoption of the accrual basis of accounting for the first time, an entity initially recognizes investment property on adoption of this Standard, the entity ~~should~~ shall report the effect of the initial recognition of investment property as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the Standard is first adopted.***

~~80~~96. ***An entity that adopts accrual accounting for the first time in accordance with International Public Sector Accounting Standards may 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.***

~~81~~97. When initially adopting this Standard, an entity may control investment property that it has not previously recognized. This Standard allows entities to initially recognize investment property at cost or fair value. Where assets are initially recognized at cost and were acquired at no cost, or for a nominal cost, cost will be determined by reference to the investment property's fair value as at the date of acquisition. Where the cost of acquisition of an investment property is not known, its cost may be estimated by reference to its fair value as at the date of acquisition.

Fair Value Model

~~82~~98. ***Under the fair value model, an entity ~~should~~ shall report the effect of ~~adopting~~ applying this Standard on its effective date (or earlier) as an adjustment to the opening balance of***

accumulated surpluses or deficits for the period in which the Standard is first ~~adopted~~ applied. In addition:

Having regarded to that the first application of an IPSAS for public sector entities is different from profit-entities, Staff retained para 98(previous para 82 and added para 99 per IASB's changes.

(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 ~~6~~8 and the guidance in paragraphs ~~37~~49 to ~~54~~65), the entity is encouraged, but not required~~,~~ ~~to~~:

(i) to adjust the opening balance of accumulated surpluses or deficits for the earliest period presented for which such fair value was disclosed publicly; and

(ii) to restate comparative information for those periods; and

(b) if the entity has not previously disclosed publicly the information described in (a), ~~the entity~~ it ~~should~~ shall not restate comparative information and ~~should~~ shall disclose that fact.

99. An entity that has previously applied IPSAS 16 and elects for the first time to classify and account for some or all eligible property interests held under operating leases as investment property shall recognize the effect of that election as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the election is first made. In addition, it shall make the same disclosures for those property interests as required in paragraph 98.

~~83~~100. On the initial 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 accumulated surplus or deficit for the period in which the Standard is first applied. This Standard requires a different treatment from ~~the benchmark and allowed alternative treatments for changes in accounting policies~~ that required ~~under~~ by IPSAS 3. IPSAS 3 requires comparative information to be restated ~~(benchmark treatment) or additional pro forma comparative information on a restated basis to be~~

The minor change made here was due to the elimination of allowed alternative in proposed IPSAS3.

~~disclosed (allowed alternative treatment)~~ unless ~~it is~~ such restatement is impracticable ~~to do so~~.

~~84~~101. When an entity first ~~adopts~~ applies this Standard, the adjustment to the opening balance of accumulated surpluses or deficits includes the reclassification of any amount held in revaluation surplus for investment property.

Cost Model

~~85~~102. Prior to initial adoption of this Standard an entity may recognize its investment property on a basis other than cost, for example fair value or some other measurement basis. IPSAS 3 applies to any change in accounting policies that ~~occurs~~ is made when an entity first ~~adopts~~ applies this Standard and chooses to use the cost model. The effect of the change in accounting policies includes the reclassification of any amount held in revaluation surplus for investment property.

103. The requirements of paragraphs 37-39 regarding the initial measurement of an investment property acquired in an exchange of assets transaction shall be applied prospectively only to future transactions.

Effective Date

~~86~~104. An entity shall apply ~~T~~this International Public Sector Accounting Standard ~~becomes effective~~ for annual financial statements covering periods beginning on or after 1 January ~~2003~~2009. Earlier application is encouraged. If an entity applies this Standard for a period~~s~~ beginning before 1 January ~~2003~~2009, it ~~should~~ shall disclose that fact.

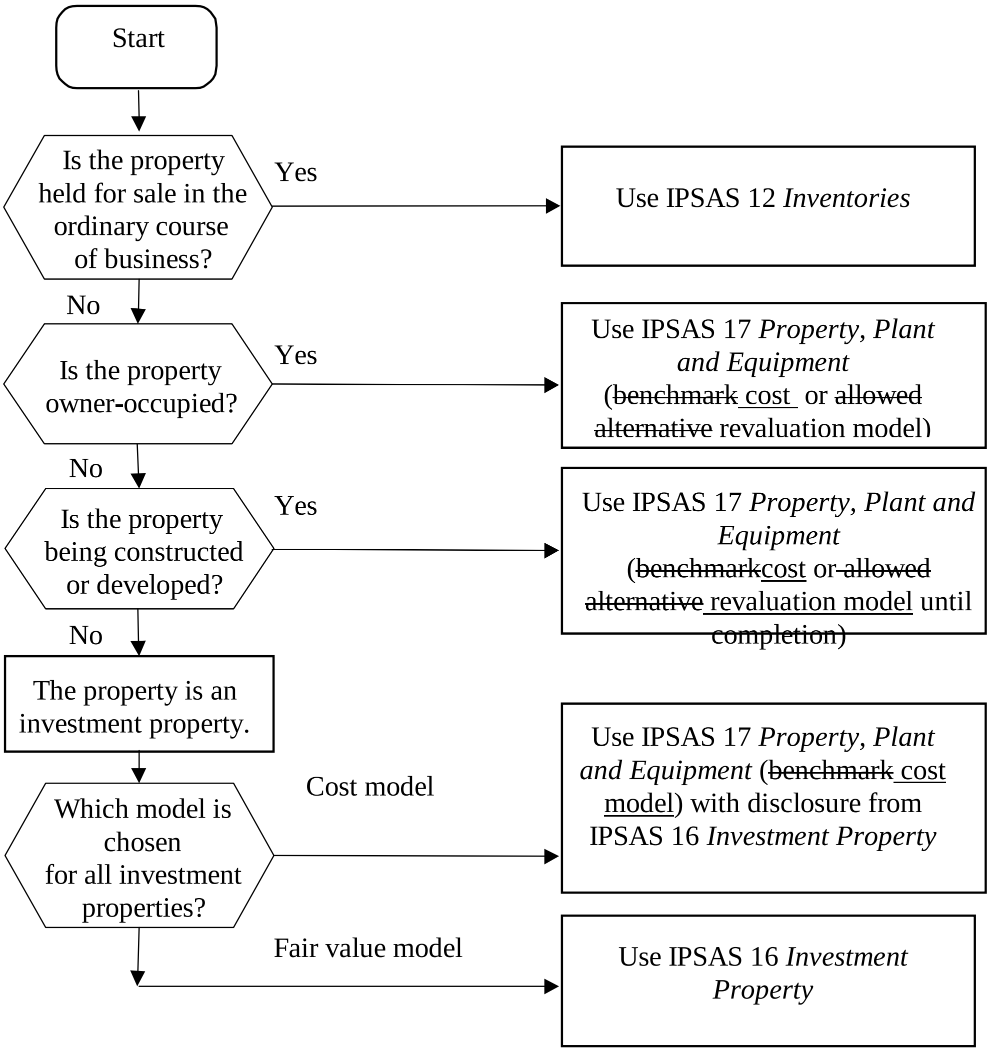
~~87~~105. When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

This appendix has been deleted in improved IAS 40. However, given that it is helpful for reader to understand the relationship between these standards. It has been updated and retained.

Appendix

Decision Tree

The purpose of the following decision tree is to summarize which International Public Sector Accounting Standards apply to various kinds of property. This Appendix should be read in the context of the full standards.



Comparison with IAS 40

International Public Sector Accounting Standard IPSAS 16 *Investment Property* is drawn primarily from International Accounting Standard IAS 40 (~~2000~~2003), *Investment Property*. The main differences between IPSAS 16 and IAS 40 are as follows:

- IPSAS 16 requires that investment property initially be measured at cost and specifies that where an asset is acquired for no cost or for a nominal cost,~~ its cost is~~ its fair value as at the date of acquisition is deemed to its cost. IAS 40 requires investment property to be initially measured at cost.

- There is additional commentary to make clear that IPSAS 16 does not apply to property held to deliver a social service which also generates cash inflows. Such property is accounted for in accordance with IPSAS 17 *Property, Plant and Equipment*.

This difference no longer exists because there is a general recognition principle for initial costs and subsequent expenditures.

- ~~IAS 40 requires subsequent expenditures on investment property to be capitalized when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the entity. IPSAS 16 adopts a similar treatment, but refers to the most recently assessed standard of performance – rather than that originally assessed – as the benchmark.~~

- IPSAS 16 includes additional transitional provisions which specify that when an entity adopts the accrual basis of accounting for the first time and recognizes investment property that was previously unrecognized, the adjustment should be reported in the opening balance of accumulated surpluses or deficits. The transitional provisions also allow entities to recognize investment property at fair value on first adopting this Standard.

This difference no longer exists as Staff have amended the scope exclusion in para 5.

- ~~At the time of issuing this Standard, the PSC has not considered the applicability of IAS 41, *Agriculture*, to public sector entities, therefore IPSAS 16 does not reflect amendments made to IAS 40 consequent upon the issuing of International Accounting Standard IAS 41.~~

- Commentary additional to that in IAS 40 has been included in IPSAS 16 to clarify the applicability of the standards to accounting by public sector entities.

- IPSAS 16 uses different terminology, in certain instances, from IAS 40. The most significant examples are the use of the terms ~~“entity”,~~ “revenue”, “statement of financial performance” and “statement of financial position” in IPSAS 16. The equivalent terms in IAS 40 are ~~“enterprise”,~~ “income”, “income statement” and “balance sheet”.