Agenda Item 12: Public Sector Specific Financial Instruments

Ross Smith, Technical Manager

IPSASB Meeting

June 23-26, 2015

Toronto, Canada

Objective of Agenda Item

Consider and provide directions on key issues

Materials Presented

- Agenda Item 12.1 Issues Paper
- Agenda Item 12.2 Draft Ch. 3: Monetary Gold
- Agenda Item 12.3 Draft Ch. 3: Currency in Circulation

Monetary Gold (Paras 5 – 8)

- Update of definition of “physical” to “tangible” gold
- Historical cost approach discussion changed from “objectives” to an “intentions” based approach
  - Consistent with IPSAS 28-30

Matters for Consideration:

- *Agree with amended definition of tangible gold (paragraph 3.18 of the CP).*
- *Agree with amendments to introduce the approach to historical cost based on intentions*

IPSASB™

Monetary Gold (Para 9)

- Intentions based approach
  - Concerns of TBG
  - Option vs. Alternative

Matter for Consideration:

- *Confirm if intentions based approach to introduce options for accounting for monetary gold, or alternatively ask for views on a preferred option to narrow and develop further guidance.*

Currency Chapter Objective (Paras 10 – 11)

An entity shall account for currency in circulation in a manner that helps users of its financial statements assess:

- The impact of currency in circulation on the entity's financial performance and financial position;
- The nature and extent of risks arising from distributing currency in circulation, and how the entity manages those risks; and
- The types (different categories and series) of currency in circulation issued by the entity.

Matter for Consideration:

- *Confirm if the chapter objective for currency in circulation is appropriate.*

Definitions and Scope (Paras 12 – 13)

Defined Term	Definition
Currency in Circulation	Physical notes and coins with fixed and determinable values that are legal tender issued by the monetary authority that is, either that of an individual economy or, in a currency union that the economy belongs.

Matter for Consideration:

Confirm if the definition of currency in circulation is appropriate or provide amendments.

Currency: Purchase and Production (Para 14)

Purchase and Production

- Costs related to the purchase and production and notes and coins are appropriate to be recognized as inventory.

Matter for Consideration:

- *Agree that IPSAS 12, Inventories is appropriate for accounting for the purchase and production of currency?*

Notes – Recognition (Paras 15 – 19) (1/6)

- Liability recognized by monetary authorities
  - Obligation arises due to legal requirements to maintain notes supply
- Two types of transactions:
  - Increase money supply
  - Maintain money supply

Notes – Recognition (Paras 15 – 19) (2/6)

- Increase money supply
  - Notes issued and consideration received is a financial asset-other than notes

Example transaction

- Production & distribution of 1000, $100 dollar notes. Materials purchased for production cost $100 dollars and additional manufacturing and production costs and allocated overhead cost $100. Notes were distributed with consideration received equal to the face value of the notes issued, with government bonds received in return (financial asset – other than cash).

Notes – Recognition (Paras 15 – 19) – (3/6)

Example – Money Supply Increase

Cash	
	100
	100

Inventory	
100	
100	
	200

COGS	
200	

Liability - Notes	
	100,000

Fin. Asset - Not Cash	
100,000	

Revenue	
	100,000
100,000	

IPSASB™

Notes – Recognition (Paras 15 – 19) (4/6)

- Maintain money supply
  - Notes issued and consideration received is old notes

Example transaction

- Production & distribution of 1000, $100 dollar notes. Materials purchased for production cost $100 dollars and additional manufacturing and production costs and allocated overhead costs are $100. Notes were distributed with consideration received being an equal value of old notes.

Notes – Recognition (Paras 15 – 19) (5/6)

Example – Money Supply Increase

Cash

	100
	100
100,000	

Inventory

100	
100	
	200

COGS

200	

Liability - Notes

	100,000

Fin. Asset - Not Cash

Revenue

	100,000
100,000	

IPSASB™

Notes – Recognition (Paras 15 – 19) (6/6)

Matters for Consideration:

- *Agree that notes in circulation result in the recognition of a liability;*
- *Indicate if the discussion of the different types of transactions is helpful;*
- *Any additional transactions not identified by staff; and*
- *Is Appendix A helpful for understanding, any further amendments examples recommended?*

Notes – Measurement (Paras 20 – 22) (1/2)

- Current measurement practice is consistent – liability at face value
- Analysis of measurement bases available in the Conceptual Framework in paragraph 1.37 of the chapter
- Measurement bases discuss:
  - Historical cost
  - Market value
  - Cost of fulfillment
- Measurement at face value of notes issued

Notes – Measurement (Paras 20 – 22) (2/2)

Matters for Consideration:

- *Agree with analysis related to the various measurement basis;*
- *Indicate if a view exists as to which measurement basis is most appropriate;*
- *Confirm if it agrees with the approaches discussed for measurement of the liability for notes in circulation, or suggest amendments?*

Notes – Derecognition (Paras 23 – 26) (1/3)

Two types of transactions – derecognition:

- Transactions which lead to a decrease in the money supply, notes takeout of circulation by exchanging a financial asset – other than notes
- Notes for which an obligation no longer exists
  - No longer legal tender
  - Lost/damaged and unlikely to be exchanged

Notes – Derecognition (Paras 23 – 26) (2/3)

- Transactions to reduce the money supply result in derecognition as currency is removed from circulation;
- Notes for which an obligation no longer exists – more complicated:
  - Old series; no longer legal tender, or notes which are damaged or not expected to return – derecognize if no obligation deemed to exist

Options for derecognition:

- Recognition directly in net financial position – liability relates to prior periods may impair current period cost of service
- Recognition in statement of financial performance, impact on current cost of service because it is a realized revenue

Notes – Derecognition (Paras 23 – 26) (3/3)

Matter for Consideration:

- *Indicate if it agrees with the discussion on derecognition and the options presented?*

Coins – Recognition (Paras 27 – 30) (1/4)

Variation in accounting for coins in circulation

Reasons why a liability may not be recognized

- Overall value of coins – material
- Monetary authority – outflow of resources not probable
  - Less likely to be exchanged
  - Coins more robust than notes & face value

Notes – Recognition (Paras 27 – 30) (2/4)

- Increase money supply
  - Coins issued and consideration received is a financial asset-other than notes

Example transaction

- Production & distribution of 1000, $.25 coins. Materials purchased for production cost $100 dollars and additional manufacturing and production costs and allocated overhead cost $100. Coins were distributed with consideration received equal to the face value of the notes issued, with government bonds received in return (financial asset – other than cash).

Coins – Recognition (Paras 27 – 30) – (3/4)

Example – Money Supply Increase

Cash

	100
	100

Inventory

100	
100	
	200

COGS

200	

Liability - Notes

	1000

Fin. Asset - Not Cash

1000	

Revenue

	1000
1000	

Coins – Recognition (Paras 27 – 30) (4/4)

Matters for Consideration:

- *Agrees with the possible reasons why a liability may not be recognized for coins in circulation;*
- *Indicate if the reasons why monetary authorities may not recognize a liability are appropriate?*

Coins – Measurement & Derecognition (Para 31)

- Staff view - liability for coins in circulation – consistency with notes.

Matter for Consideration:

- *Agree with staff view that a liability treatment for coins should be consistent with notes?*

Coins – Consistent with Current IPSAS (Para 32)

- Current IPSAS requirements for recognition and measurement considered for currency liabilities – contrasted with the Framework analysis (paras 1.56-1.61)

Matter for Consideration:

- *Agree with the analysis in Paragraph 1.56-1.61 in the draft chapter?*

IPSASB™

www.ipsasb.org