

Exposure Draft Summary First-Time Adoption of Accrual Basis International Public Sector Accounting Standards

This summary provides an overview of Exposure Draft (ED) 53, *First-Time Adoption of Accrual Basis International Public Sector Accounting Standards*.

Project objectives:

The objective of the proposed IPSAS is to provide a comprehensive set of principles that provide relief to entities that adopt the accrual basis International Public Sector Accounting Standards (IPSASs) for the first time. These principles will ensure that an entity's first annual financial statements, prepared using accrual basis IPSASs, contain highly quality information that :

- (a) Provides transparent reporting about a first-time adopter's transition to accrual basis IPSASs;
- (b) Provides a suitable starting point for accounting in accordance with accrual basis IPSASs; and
- (c) Can be generated at a cost that does not exceed the benefits.

The project and stage:

The IPSASB issued ED 53 in October 2013.

Next steps:

The IPSASB seeks feedback to guide it in developing a final standard that assists an entity with the adoption of accrual basis IPSASs.

Comment deadline:

The ED is open for public comment until February 15, 2014.

Why is the IPSASB Undertaking this Project?

The purpose of the IPSASB's project on first-time adoption of accrual basis IPSASs is to develop a standard that will help entities in their implementation of accrual basis IPSASs.

The proposed standard, ED 53, addresses the need for a standard on first-time adoption of accrual basis IPSASs. Presently there is no IPSAS on this topic, although there is guidance.

Exemptions applicable to first-time adoption are included, presently, in different individual IPSASs. ED 53 provides comprehensive coverage, in a single IPSAS, of all exemptions applicable during entities' transition to accrual basis IPSASs.

This project supports entities that are adopting accrual basis IPSASs. The transitional exemptions in ED 53 are designed to provide relief to entities, where the cost of complying would likely exceed the benefits to users of financial statements.

The IPSASB does not give entity specific guidance on how to manage the IPSAS implementation process. The IPSASB has compiled good practices on implementation in Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities*, which is available from the IPSASB website, free of charge, in English and Spanish.

The transitional exemptions in ED 53 will replace many of the existing transitional provisions contained in IPSASs.

This project is consistent with the IPSASBs strategic priorities of (a) developing requirements and guidance on public sector specific issues, and (b) encouraging adoption and implementation of IPSASs.

When would an entity apply this proposed Standard?

An entity would consider this proposed IPSAS when it prepares and presents its annual financial statements on the adoption of, and during the transition to accrual basis IPSASs.

ED 53 applies to a first-time adopter that either applied the cash basis of accounting, another accrual basis of accounting, or a modified version of either the cash or the accrual basis of accounting prior to the adoption of accrual basis IPSASs.

The *date of adoption* is the date that an entity adopts accrual basis IPSASs for the first time. It is the beginning of the earliest period for which the entity presents its first *transitional IPSAS financial statements*, or its first *IPSAS financial statements*.

ED 53 allows a first-time adopter to take advantage of certain exemptions that affect fair presentation and compliance with accrual basis IPSASs. If a first-time adopter takes advantage of the exemptions that affect the fair presentation and its ability to assert compliance with accrual basis IPSASs, it will not be able to make an explicit and unreserved statement of compliance with other IPSASs, during the period of transition.

An entity will present its first *IPSAS financial statements* when it can make an explicit and unreserved statement of compliance with other IPSASs.

While applying the exemptions during the period of transition to accrual basis IPSASs, a first-time adopter will prepare *transitional IPSAS financial statements*.

Exemptions that Affect Fair Presentation and Compliance

On adoption of accrual basis IPSASs, an entity may not have comprehensive information about the existence of all assets and/or liabilities. This proposed Standard allows a first-time adopter three years to recognize certain assets and liabilities where it has not previously recognized them.

If assets or liabilities were recognized under a previous basis of accounting, a first-time adopter may elect not to change its accounting policy in respect of the measurement of these assets or liabilities, for a period of three years, following the adoption of accrual basis IPSASs.

Exemptions Relating to Assets and Liabilities

A first-time adopter may elect to apply a three year transitional relief period to the recognition and/or measurement of:

- Investment property
- Property, plant and equipment
- Defined benefit plans and other long-term employee benefits
- Biological assets and agricultural produce
- Intangible assets
- Service concession assets and the related liabilities
- Financial instruments.

A first-time adopter shall only change its accounting policies during the period of transition to better conform them to accrual basis IPSASs.

In applying the three year transitional relief period to the recognition and/or measurement of assets, a first-time adopter may also elect to prospectively account for borrowing costs incurred on qualifying assets under the allowed alternative treatment (for which commencement

of capitalization is prior to the date of adoption of accrual basis IPSASs), from the date when the exemptions providing the relief expire, and/or when the relevant assets are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier).

Other Exemptions that Affect Fair Presentation and Compliance

Consolidated Financial Statements

A first-time adopter is required to prepare consolidated financial statements following the adoption of accrual basis IPSASs, but may elect not to eliminate all balances, transactions, revenue and expenses between entities within the economic entity.

A similar exemption is also available to a venturer and an investor.

Related Party Disclosures

A first-time adopter may also elect to not disclose related party relationships, related party transactions and information about key management for a period of three years, following the adoption of accrual basis IPSASs.

Exemptions that Do Not Affect Fair Presentation and Compliance

ED 53 proposes that a first-time adopter may elect to determine a surrogate for acquisition cost or depreciated cost when reliable cost information about the historical cost of an asset is not available on the date of adoption of accrual basis IPSASs.

The asset's fair value will be its deemed cost as determined on the specific date.

Determining Deemed Cost on the Date of Adoption of Accrual Basis IPSASs

The date at which deemed cost is determined may vary depending on whether a first-time adopter takes advantage of the three year transitional relief period. If a first-time adopter takes advantage of the relief period, deemed cost may be determined at any date during this period. If advantage is not taken of the three year exemption, deemed cost will be determined at the beginning of the earliest period for which IPSAS financial statements are presented.

Other Exemptions that Do Not Affect Fair Presentation and Compliance

IPSAS 5, Borrowing Costs

This Standard encourages a first-time adopter to change its accounting policy in accounting for borrowing costs incurred on qualifying assets, to the benchmark treatment. Any borrowing costs incurred under the benchmark treatment should be accounted for prospectively.

A first-time adopter should, however, retrospectively account for borrowing costs incurred on qualifying assets before and after the date of adoption of accrual basis IPSASs if it elects to apply the allowed alternative method.

IPSAS 21 and IPSAS 26 Impairment of Assets

A first-time adopter may apply IPSAS 21 and IPSAS 26 prospectively from the date of adoption of IPSASs. When a first-time adopter takes advantage of the exemption that provides three year transitional relief, IPSAS 21 and IPSAS 26 will only be applied when the exemption that provided the relief has expired, and/or the relevant assets are recognized and/or measured in accordance with the applicable IPSASs (whichever is earlier).

IPSAS 25, Employee Benefits

The initial liability for defined benefit plans and other long-term employee benefits should be determined at the date of adoption of accrual basis IPSASs.

On the date of adoption of accrual basis IPSASs the cumulative actuarial gains and losses from defined benefit plans should not be separated into a recognized and unrecognized portion. All cumulative actuarial gains and losses should be recognized in opening accumulated surplus or deficit in the period in which the items are recognized and/or measured.

Presenting Comparative Information during the Period of Transition

ED 53 encourages, but does not require, a first-time adopter to provide comparative information in its transitional IPSAS financial statements, or its first IPSAS financial statements

If a first-time adopter elects to not present comparative information, the transitional IPSAS financial statements, or the first IPSAS financial statements, should include, as a minimum, one statement of financial position and an opening statement of financial position at the date of adoption of accrual basis IPSASs.

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

Comparative information should only be adjusted during the period of transition when information is available about the items that were recognized and/or measured during the transitional period.

Presentation and Disclosure

Disclosures should be made in the financial statements to assist users in tracking adoption progress and confirming a first-time adopter's accounting policies against the requirements in the applicable accrual basis IPSASs during the period of transition.

ED 53 requires a first-time adopter to disclose the date of adoption of accrual basis IPSASs, and information about its transition from the previous basis of accounting to accrual basis IPSASs.

A first-time adopter should also disclose:

- The extent to which it has taken advantage of the transitional exemptions that impact, and that do not impact, the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSASs;
- The nature of the balances, transactions, revenue and expenses that have been eliminated during the reporting period in presenting consolidated financial statements;
- Assets, liabilities, revenue and/or expenses that have not been recognized, measured, presented and/or disclosed in the previous reporting period, but which are now recognized and/or measured, and/or presented and/or disclosed;
- The nature and amount of any adjustments recognized during the reporting period.

Reconciliations

A first-time adopter will be required to present a reconciliation of the closing balances reported under its previous basis of accounting to its net assets/equity in the opening statement of financial position following the adoption of accrual basis IPSASs.

If a first-time adopter applied the cash basis of accounting prior to the adoption of accrual basis IPSASs, it would not be required to present a reconciliation in its first transitional IPSAS financial statements or its first IPSAS financial statements.

A reconciliation should be presented during the period of transition for items that have been recognized and/or measured where a first-time adopter has elected to take advantage of any transitional relief periods, as permitted.

Presenting a Segment Report

A first-time adopter may elect to not present a segment report, as required by IPSAS 18, for reporting periods beginning on a date within three years following the adoption of accrual basis IPSASs.

Next Steps:

The deadline for comments is February 15, 2014.

During the comment period, the IPSASB members are available to discuss the proposals with a wide range of parties.

How Can I Comment on the Proposals?

The ED includes Specific Matters for Comment (SMCs) on which the IPSASB is seeking views.

Respondents may choose to answer all SMCs or just a selected few. The IPSASB welcomes comments on any other matters respondents think we should consider in forming our views.

Comment letters will be posted on the IPSASB website.

The IPSASB will carefully consider all feedback and, as usual, discuss responses to the proposals at its public meetings after the comment period has ended.

The IPSASB plans to issue a final pronouncement on first-time adoption of accrual basis IPSASs, reflecting its actions to address respondents' comments, in late 2014.

Stay Informed

The IPSASB will announce on its website the dates and location of meetings to discuss feedback on this Exposure Draft.

To stay up to date about the project, please visit: [https://www.ifac.org/public-sector/projects/first-time adoption of accrual basis IPSASs](https://www.ifac.org/public-sector/projects/first-time-adoption-of-accrual-basis-IPSASs)