Improvements to IPSASs—2010
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IMPROVEMENTS TO IPSASs—2010

Acknowledgment

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Introduction

IN1. The annual improvements project provides a vehicle for making non-urgent but necessary amendments to IPSASs. This document sets out amendments to IPSASs and the related Bases for Conclusions, Comparisons with IFRSs/IASs and guidance.

IN2. Part I of this document contains amendments that are drawn from the IASB document, *Improvements to IFRSs* issued in April 2009. The IASB’s rationale for its amendments is documented in the related Bases for Conclusions in that IASB document. The effective date of each amendment is included in the IPSAS affected.

IN3. Part II contains amendments that relate to inconsistent references to standards, terminology and structure resulting from IPSASB’s general review of existing IPSASs. The effective date for these amendments is stated at the beginning of Part II.
IPSASs addressed

IN4. The following table shows the topics addressed by these amendments.

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PART I
Amendments to International Public Sector Accounting Standard 1, Presentation of Financial Statements

Paragraph 80 and Comparison with IAS 1 are amended (new text is underlined and deleted text is struck through). Paragraphs 153D, BC12, and an associated heading are added.

Structure and Content

Statement of Financial Position

Current Liabilities

80. A liability shall be classified as current when it satisfies any of the following criteria:

(a) It is expected to be settled in the entity’s normal operating cycle;
(b) It is held primarily for the purpose of being traded;
(c) It is due to be settled within twelve months 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 (see paragraph 84). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities shall be classified as non-current.

Effective Date

153D. Paragraph 80 was amended by Improvements to IPSASs issued in November 2010. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2012. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2012, it shall disclose that fact.

Basis for Conclusions

BC1–BC11

Revision of IPSAS 1 as a result of the IASB’s Improvements to IFRSs issued in 2009

BC12. The IPSASB reviewed the revisions to IAS 1 included in the Improvements to IFRSs issued by the IASB in April 2009 and generally concurred with the IASB’s reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendment.
Comparison with IAS 1

IPSAS 1 is drawn primarily from IAS 1 (2003) and includes amendments made to IAS 1 as part of the *Improvements to IFRSs* issued in May 2008 and April 2009 respectively.
Amendments to International Public Sector Accounting Standard 2, *Cash Flow Statements*

Paragraph 25 and Comparison with IAS 7 are amended (new text is underlined and deleted text is struck through). Paragraph 63B and a Basis for Conclusions section are added.

**Presentation of a Cash Flow Statement**

**Investing Activities**

25. The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which cash outflows have been made for resources which are intended to contribute to the entity’s future service delivery. Only cash outflows that result in a recognized asset in the statement of financial position are eligible for classification as investing activities. Examples of cash flows arising from investing activities are:

(a) …

**Effective Date**

63B. **Paragraph 25 was amended by Improvements to IPSASs issued in November 2010. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2012. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2012, it shall disclose that fact.**

**Basis for Conclusions**

Revision of IPSAS 2 as a result of the IASB’s *Improvements to IFRSs* issued in 2009

BC1. The IPSASB reviewed the revisions to IAS 7 included in the *Improvements to IFRSs* issued by the IASB in April 2009 and generally concurred with the IASB’s reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendment.

**Comparison with IAS 7**

IPSAS 2, *Cash Flow Statements*, is drawn primarily from IAS 7, *Cash Flow Statements* and includes an amendment made to IAS 7 as part of the *Improvements to IFRSs* issued in April 2009, …
Amendments to the Implementation Guidance to International Public Sector Accounting Standard 9, *Revenue from Exchange Transactions*

After the Interest, Royalties, and Dividends section of the Implementation Guidance to IPSAS 9, a heading and paragraphs IG32–IG34 are added.

**Recognition and Measurement**

*Determining whether an entity is acting as a principal or as an agent (2010 amendment)*

IG32. Paragraph 12 states that “in an agency relationship, the gross inflows of economic benefits or service potential include amounts collected on behalf of the principal and which do not result in increases in net assets/equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of any commission received or receivable for the collection or handling of the gross flows.” Determining whether an entity is acting as a principal or as an agent requires judgement and consideration of all relevant facts and circumstances.

IG33. An entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. Features that indicate that an entity is acting as a principal include:

(a) The entity has the primary responsibility for providing the goods or services to the customer or for fulfilling the order, for example by being responsible for the acceptability of the products or services ordered or purchased by the customer;

(b) The entity has inventory risk before or after the customer order, during shipping or on return;

(c) The entity has latitude in establishing prices, either directly or indirectly, for example by providing additional goods or services; and

(d) The entity bears the customer’s credit risk for the amount receivable from the customer.

IG34. An entity is acting as an agent when it does not have exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. One feature indicating that an entity is acting as an agent is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer.
Amendments to International Public Sector Accounting Standard 13, *Leases*

Paragraphs 19 and 20 are deleted and the Comparison with IAS 17 is amended (new text is underlined and deleted text is struck through). Paragraphs 20A, 84A, 85A, BC7, and associated headings are added.

**Classification of Leases**

19. [Deleted] Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets. However, a characteristic of land is that it normally has an indefinite economic life and, if title is not expected to pass to the lessee by the end of the lease term, the lessee normally does not receive substantially all of the risks and rewards incidental to ownership, in which case the lease of land will be an operating lease. A payment made on entering into or acquiring a leasehold that is accounted for as an operating lease represents pre-paid lease payments that are amortized over the lease term in accordance with the pattern of benefits provided.

20. [Deleted] The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. If title to both elements is expected to pass to the lessee by the end of the lease term, both elements are classified as a finance lease, whether analyzed as one lease or as two leases, unless it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership of one or both elements. When the land has an indefinite economic life, the land element is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term, in accordance with paragraph 19. The buildings element is classified as a finance or operating lease in accordance with paragraphs 12–18.

20A. When a lease includes both land and buildings elements, an entity assesses the classification of each element as a finance or an operating lease separately in accordance with paragraphs 12–18. In determining whether the land element is an operating or a finance lease, an important consideration is that land normally has an indefinite economic life.

**Transitional Provisions**

84A. An entity that has previously applied IPSAS 13 (2006) shall reassess the classification of land elements of unexpired leases at the date it adopts the amendments referred to in paragraph 85A on the basis of information existing at the inception of those leases. It shall recognize a lease newly classified as a finance lease retrospectively in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates*
and Errors. However, if an entity does not have the information necessary to apply the amendments retrospectively, it shall:

(a) Apply the amendments to those leases on the basis of the facts and circumstances existing on the date it adopts the amendments; and

(b) Recognize the asset and liability related to a land lease newly classified as a finance lease at their fair values on that date; any difference between those fair values is recognized in accumulated surplus or deficit.

Effective Date

85A. Paragraphs 19 and 20 were deleted, and paragraphs 20A and 84A were added by Improvements to IPSASs issued in November 2010. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2012. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2012, it shall disclose that fact.

Basis for Conclusions

Revision of IPSAS 13 as a result of the IASB’s General Improvements Project 2003

Background

BC1–BC6

Revision of IPSAS 13 as a result of the IASB’s Improvements to IFRSs issued in 2009

BC7. The IPSASB reviewed the revisions to IAS 17 included in the Improvements to IFRSs issued by the IASB in April 2009 and generally concurred with the IASB’s reasons for revising the standard. The IPSASB concluded that there was no public sector specific reason for not adopting the amendment.

Comparison with IAS 17

IPSAS 13, Leases, is drawn primarily from IAS 17, (revised 2003), Leases, and includes amendments made to IAS 17 as part of the Improvements to IFRSs issued in April 2009.
PART II

The amendments in Part II shall be applied for annual financial statements covering periods beginning on or after January 1, 2012. Earlier application is encouraged.
Amendment to International Public Sector Accounting Standard 2, Cash Flow Statements

Paragraph 30 is amended (new text is underlined and deleted text is struck through).

Reporting Cash Flows from Operating Activities

30. Under the indirect method, the net cash flow from operating activities is determined by adjusting net surplus or deficit from ordinary activities for the effects of:

(a) Changes during the period in inventories and operating receivables and payables;

(b) Noncash items such as depreciation, provisions, deferred taxes, unrealized foreign currency gains and losses, undistributed surpluses of associates, and minority interests; and

(c) All other items for which the cash effects are investing or financing cash flows; and

(d) The impact of any extraordinary items which are classified as operating cash flows.
Amendment to International Public Sector Accounting Standard 9, *Revenue from Exchange Transactions*

Paragraph 10 is amended (new text is underlined and deleted text is struck through).

**Scope**

10. This Standard does not deal with revenues arising from:

   (a) Addressed in other IPSASs, including those arising from:

      (ai) Lease agreements (see IPSAS 13, *Leases*);

      (bii) Dividends or similar distributions arising from investments which are accounted for under the equity method (see IPSAS 7, *Investments in Associates*); and

      (ciii) Gains from the sale of property, plant, and equipment (which are dealt with in IPSAS 17, *Property, Plant, and Equipment*);

   (db) Arising from insurance contracts of insurance entities within the scope of the relevant international or national accounting standard dealing with insurance contracts;

   (ge) Arising from changes in the fair value of financial assets and financial liabilities or their disposal (guidance on the recognition and measurement of financial instruments can be found in IPSAS 29);

   (fd) Arising from changes in the value of other current assets;

   (ge) Arising from initial recognition and from changes in the fair value of biological assets related to agricultural activity (see IPSAS 27, *Agriculture*);

   (geA) Arising from initial recognition of agricultural produce (see IPSAS 27); and

   (hf) Arising from the extraction of mineral ores.
Amendment to International Public Sector Accounting Standard 12, Inventories

Paragraph 15 is amended (new text is underlined).

Measurement of Inventories

15. Inventories shall be measured at the lower of cost and net realizable value, except where paragraph 16 or paragraph 17 applies.
### Amendment to the Illustrative Example to International Public Sector Accounting Standard 18, *Segment Reporting*

The table in the Illustrative Example to IPSAS 18 is amended (new text is underlined and deleted text is struck through).

#### Schedule A—Information about Segments (in millions of currency units)

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#### SEGMENT EXPENSE

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...
Amendment to International Public Sector Accounting Standard 20, *Related Party Disclosures*

Paragraph 24 is amended (deleted text is struck through).

**Disclosure**

24. Some IPSASs also require disclosure of transactions with related parties. For example, IPSAS 1 requires disclosure of amounts payable to and receivable from controlling entities, fellow controlled entities, associates and other related parties. IPSAS 6, *Consolidated and Separate Financial Statements* and IPSAS 7 require disclosure of a list of significant controlled entities and associates. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* requires disclosure of extraordinary items and items of revenue and expense within surplus or deficit from ordinary activities that are of such size, nature or incidence that their disclosure is relevant to explain the performance of the entity for the period.
Amendments to International Public Sector Accounting Standard 21, *Impairment of Non-Cash-Generating Assets*

Paragraphs 11 and 20 are amended (new text is underlined and deleted text is struck through). Paragraph 73A is added.

**Scope**

11. Consistent with the requirements of paragraph 4 above, items of property, plant and equipment that are classified as cash-generating assets including those that are carried at revalued amounts under the allowed alternative treatment in IPSAS 17, are dealt with under IAS 36—IPSAS 26.

**Definitions**

**Cash-Generating Assets**

20. In some cases it may not be clear whether the primary objective of holding an asset is to generate a commercial return. In such cases it is necessary to evaluate the significance of the cash flows. It may be difficult to determine whether the extent to which the asset generates cash flows is so significant that this Standard is applicable rather than IPSAS 26. Judgment is needed to determine which Standard to apply. An entity develops criteria so that it can exercise that judgment consistently in accordance with the definition of cash-generating assets and non-cash-generating assets and with the related guidance in paragraphs 16–20. Paragraph 72—73A requires an entity to disclose the criteria used in making this judgment. However, given the overall objectives of most public sector entities, other than GBEs, the presumption is that assets are non-cash-generating and, therefore, IPSAS 21 will apply.

**Disclosure**

73A. *An entity shall disclose the criteria developed by the entity to distinguish cash-generating assets from non-cash-generating assets.*
Terminology Changes

IPSAS 1, *Presentation of Financial Statements*

Paragraph 82 is amended as follows:

82. Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting date or held primarily for the purpose of being traded. Examples are some financial liabilities classified as held for trading in accordance with IPSAS 29, bank overdrafts, and the current portion of non-current financial liabilities, dividends or similar distributions payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (i.e., 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 85 and 86.

IPSAS 2, *Cash Flow Statements*

Paragraph 22 is amended as follows:

22. …

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss which is included in the determination of net-surplus or deficit. However, the cash flows relating to such transactions are cash flows from investing activities.

Paragraph 27 is amended as follows:

27. An entity shall report cash flows from operating activities using either:

   (a) The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or

   (b) The indirect method, whereby net-surplus or deficit is adjusted for the effects of transactions of a noncash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of revenue or expense associated with investing or financing cash flows.

Paragraph 30 is amended as follows:

30. Under the indirect method, the net cash flow from operating activities is determined by adjusting net-surplus or deficit from ordinary activities for the effects of:

   (a) …
Paragraph 40 is amended as follows:

**Interest and Dividends or Similar Distributions**

40. Cash flows from interest and dividends or similar distributions received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period as either operating, investing or financing activities.

Paragraph 42 is amended as follows:

42. Interest paid and interest and dividends or similar distributions received are usually classified as operating cash flows for a public financial institution. However, there is no consensus on the classification of these cash flows for other entities. Interest paid and interest and dividends or similar distributions received may be classified as operating cash flows because they enter into the determination of net surplus or deficit. Alternatively, interest paid and interest and dividends or similar distributions received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

Paragraph 43 is amended as follows:

43. Dividends or similar distributions paid may be classified as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, dividends or similar distributions paid may be classified as a component of cash flows from operating activities in order to assist users to determine the ability of an entity to make these payments out of operating cash flows.

Paragraph 47 is amended as follows:

47. When accounting for an investment in an associate or a controlled entity accounted for by use of the equity or cost method, an investor restricts its reporting in the cash flow statement to the cash flows between itself and the investee, for example, to dividends or similar distributions and advances.

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

The heading before Paragraph IN11 is amended as follows:

**Net Surplus or Deficit for the Period**

IN11. The Standard does not include…

**IPSAS 7, Investments in Associates**

Paragraph 12 is amended as follows:

12. The existence of significant influence by an investor is usually evidenced in one or more of the following ways:
(a) Representation on the board of directors or equivalent governing body of the investee;
(b) Participation in policy-making processes, including participation in decisions about dividends or similar other distributions;
(c) Material transactions between the investor and the investee;
(d) Interchange of managerial personnel; or
(e) Provision of essential technical information.

IPSAS 9, *Revenue from Exchange Transactions*

**Paragraph 1 is amended as follows:**

1. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for revenue arising from the following exchange transactions and events:

   (a) The rendering of services;
   (b) The sale of goods; and
   (c) The use by others of entity assets yielding interest, royalties and dividends or similar distributions.

**Paragraph 9 is amended as follows:**

9. The use by others of entity assets gives rise to revenue in the form of:

   (a) Interest—charges for the use of cash or cash equivalents or amounts due to the entity;
   (b) Royalties—charges for the use of long-term assets of the entity, for example, patents, trademarks, copyrights and computer software; and
   (c) Dividends or similar distributions—equivalents distributions of surpluses to holders of equity investments in proportion to their holdings of a particular class of capital.

**Paragraph 12 is amended as follows:**

12. Revenue includes only the gross inflows of economic benefits or service potential received and receivable by the entity on its own account. Amounts collected as an agent of the government or another government organization or on behalf of other third parties; for example, the collection of telephone and electricity payments by the post office on behalf of entities providing such services are not economic benefits or service potential that flow to the entity, and do not result in increases in assets or decreases in liabilities. Therefore, they are excluded from revenue. Similarly, in a custodial or an
agency relationship, the gross inflows of economic benefits or service potential include amounts collected on behalf of the principal that do not result in increases in net assets/equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of any commission received, or receivable, for the collection or handling of the gross flows.

Paragraph 33 is amended as follows:

**Interest, Royalties and Dividends or Similar Distributions**

33. Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions shall be recognized using the accounting treatments set out in paragraph 34 when:

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

(b) The amount of the revenue can be measured reliably.

Paragraph 34 is amended as follows:

34. Revenue shall be recognized using the following accounting treatments:

(a) Interest shall be recognized on a time proportion basis that takes into account the effective yield on the asset;

(b) Royalties shall be recognized as they are earned in accordance with the substance of the relevant agreement; and

(c) Dividends or similar distributions or their equivalents shall be recognized when the shareholder’s or the entity’s right to receive payment is established.

Paragraph 36 is amended as follows:

36. When unpaid interest has accrued before the acquisition of an interest-bearing investment, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; only the post-acquisition portion is recognized as revenue. When dividends or similar distributions on equity securities are declared from pre-acquisition net surplus, those dividends or similar distributions are deducted from the cost of the securities. If it is difficult to make such an allocation except on an arbitrary basis, dividends or similar distributions are recognized as revenue unless they clearly represent a recovery of part of the cost of the equity securities.

Paragraph 39 is amended as follows:

39. An entity shall disclose:
(a) The accounting policies adopted for the recognition of revenue including the methods adopted to determine the stage of completion of transactions involving the rendering of services;

(b) The amount of each significant category of revenue recognized during the period including revenue arising from:

(i) The rendering of services;

(ii) The sale of goods;

(iii) Interest;

(iv) Royalties; and

(v) Dividends or similar distributions or their equivalents; and

(c) The amount of revenue arising from exchanges of goods or services included in each significant category of revenue.

Paragraph IG1 of the Implementation Guidance is amended as follows:

Implementation Guidance

IG1. Public sector entities derive revenues from exchange or non-exchange transactions. This Standard deals only with revenue arising from exchange transactions. Revenue from exchange transactions is derived from:

(a) Sale of goods or provision of services to third parties;

(b) Sale of goods or provision of services to other government agencies; and

(c) The use by others of entity assets yielding interest, royalties and dividends or similar distributions.

The heading above paragraph IG29 of the Implementation Guidance is amended as follows:

Interest, Royalties and Dividends or Similar Distributions

License fees and royalties

…

IPSAS 10, Financial Reporting in Hyperinflationary Economies

Paragraph 28 is amended as follows:

Surplus or Deficit—Gain or Loss on Net Monetary Position

28. In a period of inflation, an entity holding an excess of monetary assets over monetary liabilities loses purchasing power and an entity with an excess of monetary liabilities over monetary assets gains purchasing power to the
extent the assets and liabilities are not linked to a price level. This surplus or
deficit gain or loss on the net monetary position may be derived as the
difference resulting from the restatement of non-monetary assets,
accumulated surpluses or deficits gains or losses and items in the statement
of financial performance and the adjustment of index linked assets and
liabilities. The surplus or deficit gain or loss may be estimated by applying
the change in a general price index to the weighted average for the period of
the difference between monetary assets and monetary liabilities.

Paragraph 29 is amended as follows:

29. The surplus or deficit gain or loss on the net monetary position is included
in the statement of financial performance. The adjustment to those assets
and liabilities linked by agreement to changes in prices made in accordance
with paragraph 16 is offset against the surplus or deficit gain or loss on net
monetary position. Other items in the statement of financial performance,
such as interest revenue and expense, and foreign exchange differences
related to invested or borrowed funds, are also associated with the net
monetary position. Although such items are separately disclosed, it may be
helpful if they are presented together with the surplus or deficit gain or loss
on net monetary position in the statement of financial performance.

IPSAS 12, Inventories

Paragraph 33 is amended as follows:

33. Specific identification of costs means that specific costs are attributed to
identified items of inventory. This is an appropriate treatment for items that
are segregated for a specific project, regardless of whether they have been
bought or produced. However, specific identification of costs is
inappropriate when there are large numbers of items of inventory which are
ordinarily interchangeable. In such circumstances, the method of selecting
those items that remain in inventories could be used to obtain predetermined
effects on the net surplus or deficit for the period.

IPSAS 13, Leases

Paragraph 40 is amended as follows:

40. Lessees shall disclose the following for finance leases:

…

(f) A general description of the lessee’s material leasing
arrangements including, but not limited to, the following:

(i) The basis on which contingent rent payable is determined;

(ii) The existence and terms of renewal or purchase options
and escalation clauses; and
(iii) Restrictions imposed by lease arrangements, such as those concerning return of net surplus, return of capital contributions, dividends or similar distributions, additional debt, and further leasing.

Paragraph 44 is amended as follows:

44. Lessees shall disclose the disclosures following for operating leases:

...  
(d) A general description of the lessee’s significant leasing arrangements including, but not limited to, the following:

(i) The basis on which contingent rent payments are determined;

(ii) The existence and terms of renewal or purchase options and escalation clauses; and

(iii) Restrictions imposed by lease arrangements, such as those concerning return of net surplus, return of capital contributions, dividends or similar distributions, additional debt, and further leasing.

IPSAS 25, Employee Benefits

Paragraph 10 is amended as follows:

10. ...  

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realized and unrealized gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

IPSAS 26, Impairment of Cash-Generating Assets

Paragraph 27 is amended as follows:

27. Evidence from internal reporting that indicates that an asset may be impaired includes the existence of:

(a) Cash flows for acquiring the asset, or subsequent cash needs for operating or maintaining it, that are significantly higher than those originally budgeted;

(b) Actual net cash flows or net surplus or deficit flowing from the asset that are significantly worse than those budgeted;
(c) A significant decline in budgeted net cash flows or surplus or a significant increase in budgeted loss, flowing from the asset; or

(d) Deficits or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future.