Exposure Draft 85
October 2023
Comments due: December 18, 2023

IPSAS®

Proposed International Public Sector Accounting Standard®

Improvements to IPSAS, 2023

IPSASB International Public Sector Accounting Standards Board®

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

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

In meeting this objective, the IPSASB sets IPSAS® and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

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

REQUEST FOR COMMENTS

This Exposure Draft, *Improvements to IPSAS, 2023*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by December 18, 2023.**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

EXPOSURE DRAFT 85, IMPROVEMENTS TO IPSAS, 2023

CONTENTS

INTRODUCTION

1. Exposure Draft (ED) 85, *Improvements to IPSAS, 2023* deals with changes to accrual basis IPSAS that arise through publications of the International Accounting Standards Board (IASB)—see IFRS Alignment Improvements to IPSAS.

2. Regarding the IASB's projects, the IPSASB considered several IASB's publications during the development of this ED that were issued since the last Improvements to IPSAS cycle and that either have not been considered in another IPSASB's project or that have no equivalent IPSAS.

3. When assessing IASB's publications, the IPSASB considers whether there is a public sector specific reason that warrants departure from IFRS.

4. Table 1 identifies the IASB's publications, the subject of the amendment, and the IPSASB's rationale for not including them in this ED.

Table 1: IASB's Publications not Included in ED 85

IASB's Publication	***Subject of Amendment***	***Rationale for non-inclusion in ED 85***
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Issued in May 2021)	The amendments narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.	There is no equivalent IPSAS for IAS 12.
Initial Application of IFRS 17 and IFRS 9—Comparative Information (Issued in December 2021)	Reduce the accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on initial application of the two Standards.	There is no equivalent IPSAS for IFRS 17.
Disclosure of Accounting Policies, (Amendments to IAS 1 and IFRS Practice Statement 2) (Issued in February 2021)	Various amendments to IAS 1, Presentation of Financial Statements and Practice Statement 2 related to the IASB's ongoing disclosure initiative project.	These amendments are the second amendments to IAS 1 resulting from the ongoing IASB's disclosure initiative project. These amendments will be considered as part of the IPSASB's project on *Presentation of Financial Statements*.

IFRS Alignment Improvements to IPSAS

Objective

1. The objective of the Exposure Draft (ED) is to propose Improvements to IPSAS to align with amendments to International Financial Reporting Standards (IFRS) based on the International Accounting Standards Board's (IASB) *Narrow Scope Amendments* projects.

Request for Comments

2. The IPSASB welcomes comments on all the changes proposed in the ED. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

IPSAS Addressed

3. The Improvements project deals with non-substantive changes to IPSAS through a collection of amendments which are unrelated. Amendments arise through consideration of the narrow scope amendments projects of the IASB.

4. Table 2 sets out the IFRS alignment improvements to IPSAS, including the summary of proposed change in ED 85.

Table 2: IFRS Alignment Improvements to IPSAS proposed in ED 85:

IFRS	***Equivalent IPSAS***	***Summary of Proposed Change in ED 85***
Classification of Liabilities as Current or Non-current (Amendments to IAS 1) (Issued in January 2020) *Non-current Liabilities with Covenants* (Amendments to IAS 1) (Issued in October 2022)	IPSAS 1, *Presentation of Financial Statements*	The amendments clarify the principles related to: • The right to defer settlement for at least twelve months (with or without covenants); and • The meaning of 'settlement' when a liability is rolled over under and existing loan facility. (see **Part 1**)
Interest Rate Benchmark Reform—Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) (Issued in August 2020)	IPSAS 43, *Leases*	Practical expedient to account for lease modifications in IPSAS 43, *Leases* (see **Part 2**).
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) (Issued in September 2022)	IPSAS 43, *Leases*	Amendments require a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognize any gain or loss that relates to the right-of-use it retains (see **Part 3**).

Amendment: Part 1 – Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants

Amendments to IPSAS 1, Presentation of Financial Statements

Paragraphs 83A, 83B, 86A, 87A, 87B, 87C and 153S are added. Paragraphs 70, 80, 82, 84, 85, 87 are amended. New headings are inserted before paragraphs 81, 82, 83A, and 87A. Paragraphs 81, 83, 86 are not amended but have been included for ease of reference. New text is underlined and deleted text is struck through.

…

Structure and Content

…

Statement of Financial Position

…

Current/Non-current Distinction

70. **An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement of financial position in accordance with paragraphs 76–87<u>C</u>, except when a presentation based on liquidity provides information that is faithfully representative and is more relevant. When that exception applies, all assets and liabilities shall be presented broadly in order of liquidity.**

…

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~~ <u>the</u> right <u>at the end of the reporting date</u> 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.

<u>Normal Operating Cycle (paragraph 80(a))</u>

81. Some current liabilities, such as government transfers payable and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. Such operating items are classified as current liabilities even if they are due to be settled more than twelve months 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.

Held Primarily for the Purpose of Trading (paragraph 80(b) or Due to be Settled within Twelve Months (paragraph 80(c))

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 that meet the definition of held for trading in IPSAS 41, 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~~ 83A–86.

83. An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting date, even if:

(a) The original term was for a period longer than twelve months; and

(b) 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.

Right to Defer Settlement for at Least Twelve Months (paragraph 80(d))

83A. An entity's right to defer settlement of a liability for at least twelve months after the reporting date must have substance and, as illustrated in paragraphs 83B–86, must exist at the end of the reporting date.

83B. An entity's right to defer settlement of a liability arising from a loan arrangement for at least twelve months after the reporting date may be subject to the entity complying with conditions specified in that loan arrangement (hereafter referred to as 'covenants'). For the purposes of applying paragraph 80(d), such covenants:

(a) Affect whether that right exists at the end of the reporting date—as illustrated in paragraphs 85–86—if an entity is required to comply with the covenant on or before the end of the reporting date. Such a covenant affects whether the right exists at the end of the reporting date even if compliance with the covenant is assessed only after the reporting date (for example, a covenant based on the entity's financial position at the end of the reporting date but assessed for compliance only after the reporting date).

(b) Do not affect whether that right exists at the end of the reporting date if an entity is required to comply with the covenant only after the reporting date (for example, a covenant based on the entity's financial position six months after the end of the reporting date).

84. If an entity ~~expects, and~~ has the ~~discretion,~~ right, at the end of the reporting date, to ~~refinance or~~ roll over an obligation for at least twelve months after the reporting date under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. ~~However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no agreement to refinance)~~ If the entity has no such right, the entity does not consider the potential to refinance ~~is not considered~~ and classifies the obligation ~~is classified~~ as current.

85. When an entity breaches ~~an undertaking~~ a covenant ~~under~~ of a long-term loan agreement on or before the reporting date, with the effect that the liability becomes payable on demand, the liability is classified as current, even if the lender has agreed, after the reporting date and before the

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~~ the right to defer its settlement for at least twelve months after that date.

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

86A. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting date. If a liability meets the criteria in paragraph 80 for classification as non-current, it is classified as non-current even if management intends or expects the entity to settle the liability within twelve months after the reporting date, or even if the entity settles the liability between the end of the reporting date and the date the financial statements are authorised for issue. However, in either of those circumstances, the entity may need to disclose information about the timing of settlement to enable users of its financial statements to understand the impact of the liability on the entity's financial position (see paragraphs 29(c) and 87(d)).

87. ~~In respect of loans classified as current liabilities, if~~ 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 Date*:

(a) Refinancing on a long-term basis of a liability classified as current (see paragraph 83);

(b) Rectification of a breach of a long-term loan agreement classified as current (see paragraph 85); ~~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.~~ classified as current (see paragraph 86); and

(d) Settlement of a liability classified as non-current (see paragraph 86A).

Settlement (paragraphs 80(a), 80(c) and 80(d))

87A. For the purpose of classifying a liability as current or non-current, settlement refers to a transfer to the counterparty that results in the extinguishment of the liability. The transfer could be of:

(a) Cash or other resources—for example, goods or services; or

(b) The entity's own equity instruments, unless paragraph 87C applies.

87B. In applying paragraphs 80–86, an entity might classify liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting date (see paragraph 83B(b)). In such situations, the entity shall disclose information in the notes that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting date, including:

(a) Information about the covenants (including the nature of the covenants and when the entity is required to comply with them) and the carrying amount of related liabilities.

(b) Facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants—for example, the entity having acted during or after the reporting date to avoid or mitigate a potential breach. Such facts and circumstances could also include the fact that the entity would not have complied with the covenants if they were to be assessed for compliance based on the entity's circumstances at the end of the reporting date.

87C. Terms of a liability that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments do not affect its classification as current or non-current if, applying IPSAS 28 *Financial Instruments: Presentation*, the entity classifies the option as an equity instrument, recognizing it separately from the liability as an equity component of a compound financial instrument.

…

Effective Date and Transition

Effective Date

153S. **Paragraphs 83A, 83B, 86A, 87A, 87B, and 87C were added and paragraphs 70, 80, 82, 84, 85, and 87 were amended by [draft] *Improvements to IPSAS, 2023*, issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year] retrospectively in accordance with IPSAS 3. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

Basis for Conclusions

…

Revision of IPSAS 1 as a result of [draft] *Improvements to IPSAS, 2023*

BC39. The IPSASB reviewed the revisions to IAS 1, *Presentation* of *Financial Statements*, included in *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)* and *Non-current Liabilities with Covenants* issued by the IASB in January 2020 and in October 2022, respectively, and the IASB's rationale for making these amendments as set out in their Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting these amendments.

Amendment: Part 2 – Interest Rate Benchmark Reform—Phase 2

Amendments to IPSAS 43, *Leases*

Paragraphs 102A–102C, 103F, and 126A–126B are added. A new heading is inserted before paragraph 102A and a subheading is added before paragraph 126A. New text is underlined.

…

Temporary Exception Arising from Interest Rate Benchmark Reform

102A. A lessee shall apply paragraphs 102B–102C to all lease modifications that change the basis for determining future lease payments as a result of interest rate benchmark reform (see paragraphs 72B and 72D of IPSAS 41). These paragraphs apply only to such lease modifications. For this purpose, the term ‘interest rate benchmark reform’ refers to the market-wide reform of an interest rate benchmark as described in paragraph 155B of IPSAS 41.

102B. As a practical expedient, a lessee shall apply paragraph 43 to account for a lease modification required by interest rate benchmark reform. This practical expedient applies only to such modifications. For this purpose, a lease modification is required by interest rate benchmark reform if, and only if, both of these conditions are met:

(a) The modification is necessary as a direct consequence of interest rate benchmark reform; and

(b) The new basis for determining the lease payments is economically equivalent to the previous basis (i.e., the basis immediately preceding the modification).

102C. However, if lease modifications are made in addition to those lease modifications required by interest rate benchmark reform, a lessee shall apply the applicable requirements in this Standard to account for all lease modifications made at the same time, including those required by interest rate benchmark reform.

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Effective Date and Transition

...

Effective Date

…

103F. **Paragraphs 102A–102C and 126A–126B were added by [draft] *Improvements to IPSAS, 2023*, issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

…

Transition

...

Interest Rate Benchmark Reform—Phase 2

126A. An entity shall apply these amendments retrospectively in accordance with IPSAS 3, except as specified in paragraph 126B.

126B. An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. If an entity does not restate prior periods, the entity shall recognize any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening net assets/equity (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.

…

Basis for Conclusions

…

Revision of IPSAS 43 as a result of [draft] *Improvements to IPSAS, 2023*

BC105. The IPSASB reviewed the revisions to IFRS 16, *Leases*, included in *Interest Rate Benchmark Reform—Phase 2* (Amendments to IFRS 9, IAS 39, IFRS 4, and IFRS 16) issued by the IASB in August 2020, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting these amendments, henceforth labeled as *Interest Rate Benchmark Reform—Phase 2* amendments.

Amendment: Part 3 – Lease Liability in a Sale and Leaseback

Amendments to IPSAS 43, *Leases*

Paragraphs 101A, 103G, and 126C are added. Paragraph 106 is amended. New text is underlined and deleted text is struck through.

…

Assessing whether the Transfer of the Asset is a Sale

…

Transfer of the Asset is a Sale

…

101A. After the commencement date, the seller-lessee shall apply paragraphs 30–36 to the right-of-use asset arising from the leaseback and paragraphs 37–47 to the lease liability arising from the leaseback. In applying paragraphs 37–47, the seller-lessee shall determine 'lease payments' or 'revised lease payments' in a way that the seller-lessee would not recognize any amount of the gain or loss that relates to the right of use retained by the seller-lessee. Applying the requirements in this paragraph does not prevent the seller-lessee from recognizing in surplus or deficit any gain or loss relating to the partial or full termination of a lease as required by paragraph 47(a).

…

Effective Date and Transition

Effective Date

…

103G. **Paragraphs 101A and 126C were added, and paragraph 106 was amended by [draft] *Improvements to IPSAS, 2023*, issued in [Month] [Year]. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, [Year]. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

…

Transition

106. For the purposes of the requirements in paragraphs 103–~~123~~126C, the date of initial application is the beginning of the annual reporting period in which an entity first applies this Standard.

…

Lease Liability in a Sale and Leaseback

126C. A seller-lessee shall apply paragraphs 101A and 106 (see paragraph 103G) retrospectively in accordance with IPSAS 3 to sale and leaseback transactions entered into after the date of initial application.

Basis for Conclusions

…

BC106. The IPSASB reviewed the revisions to IPSAS 43, *Leases*, included in *Lease Liability in a Sale and Leaseback* (Amendments to IFRS 16) issued by the IASB in September 2022, and the IASB's rationale for making these amendments as set out in its Basis for Conclusions, and generally concurred that there was no public sector specific reason for not adopting these amendments, henceforth labeled as *Lease Liability in a Sale and Leaseback* amendments.

…

Amendments to the Illustrative Examples Accompanying IPSAS 43, *Leases*

Paragraph IE11 and Illustrative example 24 are amended. Paragraph IE12 and Illustrative Example 25 are added. New text is underlined and deleted text is struck through.

Sale and Leaseback Transactions (paragraphs 97–102)

IE11. Example 24 illustrates the application of the requirements in paragraphs ~~97~~98~~–102~~101 of IPSAS 43 for a seller-lessee and a buyer-lessor.

Example 24–Sale and Leaseback Transaction with fixed payments and above-market terms

An entity (Seller-lessee) sells a building to another entity (Buyer-lessor) for cash of CU2,000,000. Immediately before the transaction, the building is carried at a cost of CU1,000,000. At the same time, Seller-lessee enters into a contract with Buyer-lessor for the right to use the building for 18 years, with annual payments of CU120,000 payable at the end of each year. The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements ~~for determining when a performance obligation is satisfied in~~ of IPSAS 47, Revenue to be accounted for as a sale of the building*. Accordingly, Seller-lessee and Buyer-lessor account for the transaction as a sale and leaseback. ~~This example ignores any initial direct costs.~~*

The fair value of the building at the date of sale is CU1,800,000. Because the consideration for the sale of the building is not at fair value, Seller-lessee and Buyer-lessor make adjustments to measure the sale proceeds at fair value. Applying paragraph 100(b) of IPSAS 43, the~~*The*~~ *amount of the excess sale price of CU200,000 (CU2,000,000 – CU1,800,000) is recognized as additional financing provided by Buyer-lessor to Seller-lessee.*

The interest rate implicit in the lease is 4.5 per cent per annum, which is readily determinable by Seller-lessee. The present value of the annual payments (18 payments of CU120,000, discounted at 4.5 per cent per annum) ~~amounts to~~ is CU1,459,200, of which CU200,000 relates to the additional financing and CU1,259,200 relates to the lease—corresponding to 18 annual payments of CU16,447 and CU103,553, respectively.

Seller-lessee

Applying paragraph 99(a) of IPSAS 43, at~~At~~ the commencement date~~,~~ Seller-lessee measures the right-of-use asset arising from the leaseback of the building at the proportion of the previous carrying amount of the building that relates to the right of use retained by Seller-lessee, which is CU699,555. Seller-lessee calculates this amount~~This is calculated~~ as: CU1,000,000 (the carrying amount of the building) ~~÷ CU1,800,000 (the fair value of the building)~~ × CU1,259,200 (the discounted lease payments for the 18-year right-of-use asset) ÷ CU1,800,000 (the fair value of the building).

Seller-lessee recognizes only the amount of the gain that relates to the rights transferred to Buyer-lessor of CU240,355 calculated as follows. The gain on sale of the building amounts to CU800,000 (CU1,800,000 – CU1,000,000), of which:

(a) CU559,645 (CU800,000 ~~÷ CU1,800,000~~ × CU1,259,200 ÷ CU1,800,000) relates to the right to use the building retained by Seller-lessee; and

(b) CU240,355 (CU800,000 ~~÷ CU1,800,000~~ × (CU1,800,000 – CU1,259,200) ÷ CU1,800,000) relates to the rights transferred to Buyer-lessor.

At the commencement date, Seller-lessee accounts for the transaction as follows.

Cash	CU2,000,000	
Right-of-use asset	CU699,555	
Building		CU1,000,000
Lease liability		CU1,259,200
Financial liability		~~CU1,459,200~~
		CU200,000
Gain on rights transferred		CU240,355

Buyer-lessor

At the commencement date, Buyer-lessor accounts for the transaction as follows.

Building	CU1,800,000	
Financial asset	CU200,000 (18 payments of CU16,447, discounted at 4.5 per cent per annum)	
Cash		CU2,000,000

After the commencement date, Buyer-lessor accounts for the lease by treating CU103,553 of the annual payments of CU120,000 as lease payments. The remaining CU16,447 of annual payments received from Seller-lessee are accounted for as (a) payments received to settle the financial asset of CU200,000 and (b) interest revenue.

IE12. Example 25 illustrates the application of the requirements in paragraph 101A and paragraphs 30–47 of IPSAS 43 in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate.

Example 25–Subsequent measurement of a right-of-use asset and lease liability in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate

An entity (Seller-lessee) sells a building to another entity (Buyer-lessor) for cash of CU1,800,000 (the fair value of the building at the date of sale). Immediately before the transaction, the building is carried at a cost of CU1,000,000. At the same time, Seller-lessee enters into a contract with Buyer-lessor for the right to use the building for five years. Lease payments—payable annually—comprise fixed payments and variable payments that do not depend on an index or rate.

The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements of IPSAS 47 to be accounted for as a sale of the building. Accordingly, Seller-lessee accounts for the transaction as a sale and leaseback.

The interest rate implicit in the lease cannot be readily determined. Seller-lessee's incremental borrowing rate is 3 percent per annum.

Applying paragraph 99(a) of IPSAS 43, Seller-lessee determines the proportion of the building transferred to Buyer-lessor that relates to the right of use it retains as 25 percent.[(a)] Consequently, at the commencement date Seller-lessee accounts for the transaction as follows.

Dr Cash	*CU1,800,000*	
Dr Right-of-use asset (CU1,000,000 × 25 per cent)	*CU250,000*	
Cr Building		*CU1,000,000*
Cr Lease liability		*CU450,000*
Cr Gain on rights transferred ((CU1,800,000 – CU1,000,000) × 75 per cent)		*CU600,000*

Seller-lessee expects to consume the right-of-use asset's future economic benefits evenly over the lease term and, thus, depreciates the right-of-use asset on a straight-line basis.

In measuring the lease liability applying paragraphs 37–47 of IPSAS 43, Seller-lessee develops an accounting policy for determining 'lease payments' in a way that it would not recognize any amount of the gain that relates to the right of use it retains. Depending on the circumstances (including the method Seller-lessee used—applying paragraph 99(a) of IPSAS 43—for determining the measurement of the right-of-use asset and the gain recognized on the transaction at the commencement date), either Approach 1 or Approach 2 could meet the requirements in paragraph 101A.

Approach 1—Expected lease payments at the commencement date

Applying paragraph 101A of IPSAS 43, Seller-lessee determines 'lease payments' to reflect the expected lease payments at the commencement date that, when discounted using its incremental borrowing rate, result in the carrying amount of the lease liability at that date of CU450,000.

The lease liability and the right-of-use asset arising from the leaseback are:

	Lease liability				Right-of-use asset		
Year	**Beginning balance**	**Lease payments[b]**	**3 percent interest expense[c]**	**Ending balance**	**Beginning balance**	**Deprecia-tion charge**	**Ending balance**
	CU	**CU**	**CU**	**CU**	**CU**	**CU**	**CU**
1	**450,000**	(95,902)	13,500	**367,598**	**250,000**	(50,000)	**200,000**
2	**367,598**	(98,124)	11,028	**280,502**	**200,000**	(50,000)	**150,000**
3	**280,502**	(99,243)	8,415	**189,674**	**150,000**	(50,000)	**100,000**
4	**189,674**	(100,101)	5,690	**95,263**	**100,000**	(50,000)	**50,000**
5	**95,263**	(98,121)	2,858	**0**	**50,000**	(50,000)	**0**

In applying paragraph 101A and paragraph 39(b) of IPSAS 43, Seller-lessee recognizes in surplus or deficit the difference between the payments made for the lease and the lease payments that reduce the carrying amount of the lease liability. For example, if Seller-lessee pays CU99,321 for the use of the building in Year 2, it recognizes CU1,197 (CU99,321 – CU98,124) in surplus or deficit.

Approach 2—Equal lease payments over the lease term

Applying paragraph 101A of IPSAS 43, Seller-lessee determines 'lease payments' to reflect equal periodic payments over the lease term that, when discounted using its incremental borrowing rate, result in the carrying amount of the lease liability at the commencement date of CU450,000.

The lease liability and the right-of-use asset arising from the leaseback are:

	Lease liability				Right-of-use asset		
Year	**Beginning balance**	**Lease payments[d]**	**3 percent interest expense[c]**	**Ending balance**	**Beginning balance**	**Deprecia-tion charge**	**Ending balance**
	CU	**CU**	**CU**	**CU**	**CU**	**CU**	**CU**
1	**450,000**	(98,260)	13,500	**365,240**	**250,000**	(50,000)	**200,000**
2	**365,240**	(98,260)	10,957	**277,937**	**200,000**	(50,000)	**150,000**
3	**277,937**	(98,260)	8,338	**188,015**	**150,000**	(50,000)	**100,000**
4	**188,015**	(98,260)	5,640	**95,395**	**100,000**	(50,000)	**50,000**
5	**95,395**	(98,260)	2,865	**0**	**50,000**	(50,000)	**0**

In applying paragraph 101A and paragraph 39(b) of IPSAS 43, Seller-lessee recognizes in surplus or deficit the difference between the payments made for the lease and the lease payments that reduce the carrying amount of the lease liability. For example, if Seller-lessee pays CU99,321 for the use of the building in Year 2, it recognizes CU1,061 (CU99,321 – CU98,260) in surplus or deficit.

(a) Applying paragraph 99(a) of IPSAS 43, Seller-lessee determines the proportion of the building transferred to Buyer-lessor that relates to the right of use retained by comparing, at the commencement date, the right of use it retains via the leaseback to the rights comprising the entire building. Paragraph 99(a) does not prescribe a particular method for determining that proportion.

(b) Applying paragraph 101A and paragraph 37(b) of IPSAS 43, Seller-lessee reduces the carrying amount of the lease liability with ‘lease payments’ that reflect the expected lease payments estimated at the commencement date and, when discounted, result in the carrying amount of the lease liability at that date of CU450,000.

(c) Applying paragraph 101A and paragraph 37(a) of IPSAS 43, Seller-lessee increases the carrying amount of the lease liability to reflect interest on the lease liability using its incremental borrowing rate.

(d) Applying paragraph 101A and paragraph 37(b) of IPSAS 43, Seller-lessee reduces the carrying amount of the lease liability with ‘lease payments’ that reflect equal periodic payments over the lease term that, when discounted, result in the carrying amount of the lease liability at the commencement date of CU450,000.

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